CARPENTER TECHNOLOGY CORP
Form DEF 14A
September 15, 2006
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PROXY STATEMENT PURSUANT TO SECTION 14(a)

OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

CARPENTER TECHNOLOGY CORPORATION

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x No Fee Required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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September 15, 2006

To Our Stockholders:

It is our pleasure to invite you to attend the 2006 Annual Meeting of Stockholders of Carpenter Technology Corporation, to be held at 11:00 a.m. on Monday, October 16, 2006. The meeting will be held at the Millennium Hotel New York Broadway, Millennium Conference Center, 145 West 44th Street, New York, New York.

Business scheduled for the Annual Meeting includes:

- The election of three directors to three-year terms expiring in 2009;
- Approval of the Stock-Based Compensation Plan for Non-Employee Directors, as amended;
- Approval of the Stock-Based Incentive Plan for Officers and Key Employees, as amended;
- Approval of the Executive Bonus Compensation Plan, as amended; and
- Approval of the appointment of PricewaterhouseCoopers LLP as Carpenter s independent registered public accounting firm to perform its integrated audit for fiscal year 2007.

Information concerning these matters is included in the enclosed Notice of Annual Meeting and Proxy Statement. Also, at the meeting, I will respond to questions concerning Carpenter s operations.

If you plan to attend the meeting, please bring the admission ticket attached to your proxy card with you. If you are receiving this proxy statement by e-mail and wish to attend the meeting, you should print out the admission ticket attached to the e-mail. If your shares are held in the name of a broker, bank, or other nominee, and you wish to attend the meeting, you should obtain a letter from your broker, bank, or other nominee indicating that you are the beneficial owner of a stated number of shares of Carpenter stock as of the record date, August 18, 2006.

If you do not attend the meeting, you may vote over the Internet, by telephone, or by returning your proxy card. To ensure proper representation of your shares at the meeting, please follow the voting instructions beginning on page 2 of the Proxy Statement. You may also mark your proxy card, then sign, date, and return it at your earliest convenience.

I look forward to seeing you at the meeting.

Sincerely,

/s/ ROBERT J. TORCOLINI
ROBERT J. TORCOLINI
Chairman, President and
Chief Executive Officer

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Notice of Annual Meeting of Stockholders

on

October 16, 2006

CARPENTER TECHNOLOGY CORPORATION will hold its 2006 Annual Meeting of Stockholders at the Millennium Hotel New York Broadway, Millennium Conference Center, 145 West 44th Street, New York, New York on Monday, October 16, 2006 at 11:00 a.m. We will vote on the following matters:

1. The election of three directors;
2. Approval of the Stock-Based Compensation Plan for Non-Employee Directors, as amended;
3. Approval of the Stock-Based Incentive Compensation Plan for Officers and Key Employees, as amended;
4. Approval of Executive Bonus Compensation Plan, as amended;
5. Approval of the appointment of PricewaterhouseCoopers LLP, as Carpenter s independent registered public accounting firm to perform its integrated audit for the fiscal year ending June 30, 2007; and
6. Any other business that is properly presented at the meeting.

Only stockholders who were record owners at the close of business on August 18, 2006, may vote at the meeting. A list of those stockholders will be available at the meeting and also during the ten days before the meeting at the office of the Corporate Secretary, 2 Meridian Boulevard, 3rd Floor, Wyomissing, Pennsylvania.

Regardless of the number of shares that you own, it is important that your shares be represented at the meeting. You are encouraged to take advantage of the easy and cost-effective Internet and telephone voting that Carpenter offers. Please see page 2 of the Proxy Statement for Internet and telephone voting instructions. You may also vote by completing and signing the proxy card and returning it in the enclosed postage pre-paid envelope as soon as possible.

You are cordially invited to attend the meeting. If you plan to attend the meeting, please use the admission ticket attached to your proxy card or included in the e-mail by which you received this Proxy Statement. Upon presentation of proper identification, you may attend the meeting without an admission ticket.

By Order of the Board of Directors,

/s/ DAVID A. CHRISTIANSEN

DAVID A. CHRISTIANSEN
Vice President,
General Counsel and Secretary

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September 15, 2006

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies for the Annual Meeting of Stockholders of Carpenter Technology Corporation on October 16, 2006, and any adjournment thereof. Selected information from Carpenter s 2006 Annual Report on Form 10-K, including financial statements, is being delivered along with this Notice and Proxy Statement, but is not incorporated as part of the Proxy Statement and is not to be considered part of the proxy solicitation material. These materials are being sent to stockholders on or about September 15, 2006. Carpenter Technology Corporation is referred to in this Proxy Statement as Carpenter or the Company .

Why Proxies are Being Solicited

Carpenter s Board of Directors is soliciting proxies so that every stockholder will have an opportunity to vote at the meeting, whether or not the stockholder attends the meeting in person. You are being asked to vote on five proposals:

- The election of three directors to three-year terms, which will expire in 2009;
- Approval of the Stock-Based Compensation Plan for Non-Employee Directors, as amended;
- Approval of the Stock-Based Incentive Compensation Plan for Officers and Key Employees, as amended;
- Approval of the Executive Bonus Compensation Plan, as amended; and
- Approval of the appointment of PricewaterhouseCoopers LLP as Carpenter s independent registered public accounting firm to perform its integrated audit for fiscal year 2007.

Cost of Solicitation

Carpenter will pay the cost of preparing, assembling, and delivering the Notice of Annual Meeting, Proxy Statement and proxy card. Directors, officers, and regular employees of Carpenter may solicit proxies in person or by telephone without additional compensation. Carpenter will reimburse brokerage houses and other nominees for their expenses in forwarding proxy material to beneficial owners of Carpenter stock. Carpenter has hired D. F. King to provide proxy solicitation services. Carpenter will pay D. F. King approximately $20,000 for these services plus costs and certain transaction related fees.

Who Can Vote

Stockholders who were record owners of Carpenter stock at the close of business on August 18, 2006, may vote at the meeting. On August 18, 2006, there were 25,520,721 shares of Carpenter common stock issued and outstanding and entitled to vote. Each share of common stock is entitled to one vote. There were also 289.75 shares of Carpenter s series A convertible preferred stock held by the trustee of the Carpenter Employee Stock Ownership Plan (ESOP). Under the ESOP, each share of preferred stock is convertible into at least 2,000 shares of common stock, with the equivalent of 1.3 votes for each share of common stock, subject to anti-dilution adjustments and to limitations under applicable securities laws and stock exchange regulations. The preferred stock and the common stock vote together as a single class on all matters submitted to holders of common stock.

1

Each participant in the ESOP may direct State Street Bank and Trust Company (State Street), as the trustee of the ESOP, how to vote the shares credited to the participant s account. State Street will vote the shares as directed and will treat any such directions it receives as confidential. State Street will vote any ESOP shares for which no proper direction is received and any ESOP shares that have not yet been allocated to participating employees accounts, in the same proportion and manner as the directed shares, unless to do so would be contrary to ERISA. Directions must be received by State Street no later than Wednesday, October 11, 2006.

Each participant in the Savings Plan of Carpenter Technology Corporation (Savings Plan) may direct The Vanguard Group, Inc. (Vanguard), as trustee of the Savings Plan, how to vote the shares credited to the participant s account. Vanguard will vote the shares as directed and will treat any such directions it receives as confidential. Vanguard will vote any blank proxies or any shares for which no direction is received in the same proportion or manner as the directed shares. Directions must be received by Vanguard no later than Wednesday, October 11, 2006.

How to Vote

You may vote in one of four ways:

Vote Over the Internet

If your shares are held in the name of a broker, bank or other nominee: Vote your Carpenter shares over the Internet by accessing the website given on the proxy card you received from such broker, bank, or other nominee. You will need the control number that appears on your proxy card when you access the web page.

If your shares are registered in your name: Vote your Carpenter shares over the Internet by accessing the website at *www.proxyvote.com* and following the on-screen instructions. You will need the control number that appears on your proxy card when you access the web page.

Vote by Telephone (Touch-Tone Phone Only)

If your shares are held in the name of a broker, bank, or other nominee: Vote your Carpenter shares over the telephone by following the telephone voting instructions, if any, provided on the proxy card you received from such broker, bank or other nominee.

If your shares are registered in your name: Vote your Carpenter shares over the telephone by accessing the telephone voting system toll-free at 1-800-690-6903 and following the telephone voting instructions. The telephone instructions will lead you through the voting process. You will need the control number that appears on your proxy card when you call.

Based on your Internet and telephone voting, the proxy holders will vote your shares according to your directions.

Vote by Returning Your Proxy Card

You may vote by signing and returning your proxy card. The proxy holders will vote your shares according to your directions. If you sign and return your proxy card without specifying choices, your shares will be voted as recommended by the Board of Directors. If you wish to give a proxy to someone other than those designated on the proxy card, you may do so by crossing out the names of the designated proxies and inserting the name of another person. The person representing you should then present your signed proxy card at the meeting.

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Vote by Ballot at the Meeting

You may also attend the meeting and vote by a ballot that you will receive at the meeting. Your admission ticket to the meeting is attached to your proxy card or in the e-mail by which you received this Proxy Statement.

If You Change Your Mind After Voting

You can revoke your proxy at any time before it is voted. Proxies are voted at the Annual Meeting. You can write to the Corporate Secretary, P.O. Box 14662, Reading, PA 19612-4662, stating that you wish to revoke your proxy and that you need another proxy card. More simply, you can vote again, either over the Internet or by telephone. Your last vote is the vote that will be counted. If you attend the meeting, you may vote by ballot, which will cancel your previous proxy vote.

Required Vote

Holders of a majority of the outstanding shares entitled to vote must attend or be represented by proxy at the Annual Meeting to constitute a quorum so that business may be conducted. Carpenter s By-Laws and Delaware law govern the vote needed to approve the proposals. Directors are elected by a plurality of the total votes cast. The affirmative vote of a majority of the votes cast is required to approve the amendment to the Stock-Based Incentive Compensation Plan for Officers and Key Employees, the Stock-Based Compensation Plan for Non-Employee Directors and the Executive Bonus Compensation Plan (together, the Plans) and approve the appointment of the independent registered public accounting firm.

Abstentions as to any matter, and votes withheld for directors, are counted in determining the presence of a quorum, but are not included in the vote count for that matter, and will have no impact on the outcome of the approval of those matters. In the absence of instruction from the customers who are the beneficial owners, brokers who hold shares in street name for customers have discretionary authority to vote on certain routine matters, such as the election of directors and approval of the independent registered public accounting firm. A broker non-vote occurs when brokers do not have such discretionary voting authority under the rules of the New York Stock Exchange (the NYSE), such as with respect to the approval of the amendments to the Plans. If shares are treated as a broker non-vote, such shares will be included in the number of shares represented for purposes of determining whether a quorum is present. However, a broker non-vote will have no effect on the outcome of any matter since a broker non-vote is not counted as present and entitled to be voted with respect to such matters as to which the broker s customer has not expressly voted.

Stockholder Nominations to the Board of Directors

As described in its written charter, the Corporate Governance Committee is a standing committee of the Board of Directors which is, among other things, responsible for identifying qualified individuals to become members of the Board of Directors and recommending that the Board of Directors elect or nominate such qualified individuals for election at annual meetings of stockholders. The nominees for election to the Board of Directors listed in this Proxy Statement were recommended and nominated by the Corporate Governance Committee. All members of the Corporate Governance Committee have been determined by the Board of Directors to be independent under the listing requirements of the NYSE.

The Corporate Governance Guidelines of Carpenter provide that board candidates are considered based upon various criteria, such as their broad general training and experience in business, science, engineering, finance or administration, and their personal integrity and judgment. In Carpenter s view, the foremost responsibility of a Carpenter director is to represent the interests of stockholders as a whole. To accomplish this, Carpenter believes that directors must have time available to devote to Board activities. Accordingly, Carpenter seeks to attract and retain highly qualified directors who have sufficient time to attend to their substantial duties and responsibilities to Carpenter. Recent developments in corporate governance and financial reporting have resulted in an increased demand for such highly qualified and productive public company directors. Carpenter believes that there should be a majority of independent directors on the Board, and it is Carpenter s policy to avoid the nomination of outside professionals, including, but not limited to, lawyers, investment bankers, or accountants, whose firms provide services to Carpenter. During the fiscal year ended 2006, Carpenter did not pay fees to any third parties to assist the Corporate Governance Committee in the process of identifying or evaluating candidates. In August 2006, the Corporate Governance Committee engaged Spencer Stuart for a fee of $100,000 per Director to identify one or more potential candidates for Board membership.

The Corporate Governance Committee will consider sound and meritorious nomination suggestions from stockholders and review such nominations pursuant to the same criteria applied to director-nominees nominated by the Corporate Governance Committee. Under Carpenter s By-Laws, all letters of recommendation for nomination at the 2007 Annual Meeting of Stockholders must be received by the Corporate Secretary at Carpenter s headquarters, P.O. Box 14662, Reading, PA 19612-4662, between July 18, 2007 and August 17, 2007. Your notice to the Corporate Secretary should contain your name, address, and number of shares of Carpenter stock you own, in addition to the following information:

For each person you propose to nominate for election or re-election as a director specify:

(i) name, age, business address, and residence address;

(ii) principal occupation or employment;

(iii) number of shares of Carpenter stock beneficially owned by the person; and

(iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Schedule 14A under the proxy rules.

A signed statement from the person recommended for nomination indicating that he or she consents to be considered as a nominee. Carpenter may require any proposed nominee to furnish other information reasonably necessary to determine the person s eligibility to serve as a director of Carpenter. Only individuals nominated in accordance with Carpenter s By-Laws and applicable Delaware law are eligible for election as a director.

2007 Stockholder Proposals

If you wish to include a proposal in the Proxy Statement for the 2007 Annual Meeting of Stockholders, your written proposal must be received by Carpenter no later than May 17, 2007. The proposal should be mailed by certified mail, return receipt requested, and must comply in all respects with applicable rules and regulations of the Securities and Exchange Commission (the SEC), the laws of the State of Delaware, and Carpenter s By-Laws. Stockholder proposals may be mailed to the Corporate Secretary, Carpenter Technology Corporation, P.O. Box 14662, Reading, PA 19612-4662.

Under Carpenter s By-Laws, stockholder proposals that are not included in the proxy materials may be presented at the 2007 Annual Meeting of Stockholders only if they meet the above requirements and the Corporate Secretary is notified in writing of the proposals between July 18, 2007 and August 17, 2007. For each matter that you wish to bring before the meeting, provide the following information:

(i) a brief description of the business and the reason for bringing it to the meeting;

(ii) your name and record address;

(iii) the number of shares of Carpenter stock which you own; and

(iv) any material interest (such as financial or personal interest) that you have in the matter.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Listed below are the only individuals and entities known by Carpenter to own more than 5% of the outstanding common stock of the company as of August 18, 2006 (assuming that their holdings have not changed from such other date as may be shown below):

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent [1] of Class
FMR Corp. (Fidelity Investments)	3,788,150(2)	14.5%
82 Devonshire Street		
Boston, MA 02109		
Friess Associates, LLC	1,375,000(3)	5.3%
115 E. Snow King Avenue		
Jackson, WY 83001		

(1) The percentages are calculated on the basis of the common stock outstanding plus the common stock that would be outstanding if the shares of convertible preferred stock in the ESOP were converted, using the conversion ratio of one preferred share equal to 2,000 shares of common stock.

(2) This information was supplied to Carpenter as of August, 2006 by FMR Corp (FMR). FMR is an investment advisor registered under the Federal Investment Advisors Act. It furnishes investment advice to investment companies and serves as investment manager to certain other investment vehicles, including commingled group trusts. In its role as investment advisor and investment manager, FMR possesses sole voting power and investment power over all of these shares of Carpenter stock. The investment companies and investment vehicles own all these shares of Carpenter stock. FMR disclaims beneficial ownership of these shares.

(3) This information was supplied to Carpenter as of June, 2006 by Friess Associates, LLC (Friess). Friess is an investment advisor registered under the Federal Investment Advisors Act. It furnishes investment advice to investment companies and serves as investment manager to certain other investment vehicles, including commingled group trusts. In its role as investment advisor and investment manager, Friess possesses sole voting power and investment power over all of these shares of Carpenter stock. The investment companies and investment vehicles own all these shares of Carpenter stock. Friess disclaims beneficial ownership of these shares.

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SECURITY OWNERSHIP OF MANAGEMENT

The following table shows the ownership of Carpenter common stock as of August 18, 2006, by each director, Carpenter s Chief Executive Officer and the other four most highly compensated executive officers during fiscal year 2006 (the Named Executive Officers) and the directors and executive officers as a group. Except as noted below, the directors and executive officers have sole voting and investment power over these shares of common stock.

Director and Executive Officer Stock Ownership

Name	Number of Shares Beneficially Owned(1)	Director Stock Units(2)	Shares and Units Beneficially Owned(1)	Percentage of Outstanding Shares(3)(4)
Anderson, Jr., C. G.	7,000	4,375	11,375	0.0
Fitzpatrick, J. M.	23,576	7,071	30,647	0.1
Hewson, M. A.	11,047	6,932	17,980	0.0
Inglis, I. M.	6,200	2,539	8,739	0.0
Pratt, G. A.	0	4,786	4,786	0.0
Stephans, P. N.	98,400(5)	2,539	100,939(5)	0.4
Torcolini, R. J.	125,268(5)(6)	n/a	125,268(5)(6)	0.5
Turner, K. C.	11,493	7,263	18,756	0.0
Wadsworth, J	0	466	466	0.0
Ward, Jr., S. M.	17,000	7,098	24,098	0.1
Christiansen, D. A.	27,984(6)	n/a	27,984(6)	0.1
Geremski, T. E.	40,021(6)(7)	n/a	40,021(6)	0.2
Oates, D. M.	53,462(6)	n/a	53,462(6)	0.2
Shor, M. L.	48,884(6)	n/a	48,884(6)	0.2
All directors and executive officers as a group (14 in all)	470,335(5)(6)	43,069	513,404(5)(6)	1.8

(1) The amounts include the following shares of common stock that the individuals have the right to acquire by exercising outstanding stock options within 60 days after August 18, 2006:

C. G. Anderson, Jr.	6,000	P. N. Stephans	0	D. A. Christiansen	8,000
J. M. Fitzpatrick	10,000	R. J. Torcolini	50,000	T. E. Geremski	16,667
M. A. Hewson	10,000	K. C. Turner	10,000	D. M. Oates	10,000
I. M. Inglis	6,000	J. Wadsworth	0	M. L. Shor	16,667
G. A. Pratt	0	S. M. Ward, Jr. .	14,000		

All directors and executive officers as a group (14 in all) 157,334

(2) These stock units convert to an equivalent number of shares of common stock upon the director s retirement or termination of service as allowed under the plan. The value of the stock units tracks the value of the common stock, but the units have no voting rights.

(3) Ownership is rounded to the nearest 0.1% and is less than 0.1% except where stated. Stock units are not included in the calculation of percentage of outstanding shares owned.

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(4) The percentages are calculated on the basis of the common stock outstanding plus the common stock that would be outstanding if the individual s options were exercised, plus the common stock that would be outstanding if the shares of convertible preferred stock in the ESOP were converted, using the conversion ratio of one preferred share equal to 2,000 shares of common stock.

(5) Voting and investment power is shared with respect to the following shares of common stock:

P. N. Stephans	98,400
R. J. Torcolini	29,150
All directors and executive officers as a group	127,550

(6) The amounts include the following shares of common stock held in the Savings Plan and the ESOP (as if the preferred stock actually held in the ESOP were converted into common stock using the ratio of one preferred share equal to 2,000 shares of common stock):

D. A. Christiansen	280
T. E. Geremski	110
D. M. Oates	58
M. L. Shor	332
R. J. Torcolini	333
All executive officers as a group	1,113

(7) Mr. Geremski retired from his employment with Carpenter effective August 1, 2006.

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The following table shows securities authorized for issuance under equity compensation plans as of June 30, 2006.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	285,698	$ 22.40	380,020(1)
Equity compensation plans not approved by security holders	0	$ 0	0
Total	285,698	$ 22.40	380,020(1)

(1) Includes 278,178 shares available for issuance under the Stock-Based Incentive Compensation Plan for Officers and Key Employees (which provides for the issuance of stock options, stock appreciation rights, restricted stock, performance shares and performance units) and 101,842 shares available under the Stock-Based Compensation Plan for Non-Employee Directors (which provides for the issuance of stock options, stock appreciation rights, stock units and performance units). Column (c) does not include securities that will become available for future issuance effective as of June 29, 2006 under amendments to Carpenter s equity compensation plans that are being submitted to the stockholders for approval pursuant to this Proxy Statement. As amended, the plans will permit awards of stock options, restricted stock and restricted stock units.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

Carpenter s Board of Directors consists of ten directors serving in three classes. Each class of directors serves for a period of three years. The term of office of one class of directors expires each year at the Annual Meeting.

Messrs. Anderson, Torcolini and Wadsworth have been nominated for election at the 2006 Annual Meeting of Stockholders. If elected, their terms will expire at the 2009 Annual Meeting. The biographical summaries of the nominees and the remaining seven directors whose terms are continuing appear below. Unless otherwise directed by the stockholders, the shares represented by the proxies will be voted for the three nominees. Each nominee has consented to being nominated as a director and, as far as the Board and Management are aware, will serve as a director if elected.

The Board of Directors recommends that you vote FOR the election of Messrs. Anderson, Torcolini and Wadsworth.

Nominees Terms to Expire 2009

CARL G. ANDERSON, JR., age 61, is Chairman, President and Chief Executive Officer of Arrow International, Inc., a leading manufacturer of medical devices. Prior to his current position, Mr. Anderson served as Vice-Chairman of the Board of Directors and General Manager of Arrow s Critical Care Business. From 1997 to 2002, he was President and Chief Executive Officer of ABC School Supply Inc., a manufacturer and marketer of educational products. Prior to joining ABC School Supply in May 1997, Mr. Anderson served as Vice President General Manager of the Retail Consumer Products Division of James River Corporation from 1994 to 1997 and as Vice President of Marketing from May 1992 to August 1994. He was Vice President and General Manager at Nestle Foods Corporation from 1984 to 1992 and a marketing executive at Procter & Gamble from 1972 to 1984. Mr. Anderson serves as a director of Arrow International, Inc. (which is listed on NASDAQ and is subject to the periodic reporting requirements of the Exchange Act) and as a trustee of Lafayette College. Mr. Anderson has been a director of Carpenter since 2003 and is a member of the Audit/Finance Committee.

ROBERT J. TORCOLINI, age 55, is Chairman, President and Chief Executive Officer and a director of Carpenter Technology Corporation. Prior to his current position, Mr. Torcolini was President and Chief Operating Officer from June 2002 to June 2003, and Senior Vice President-Engineered Products Operations from February 2000 to June 2002. Mr. Torcolini was President of Dynamet, Incorporated, a subsidiary of Carpenter, from March 1997 through January 2000 and Vice President Manufacturing Operations Steel Division from January 1993 through February 1997. He is a member of the American Iron and Steel Institute and the American Society for Metals International. Mr. Torcolini has been a director of Carpenter since 2002. Mr. Torcolini has publicly announced his intention to retire from his employment with Carpenter at such time as the Board of Directors identifies and approves his successor.

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DR. JEFFREY WADSWORTH, age 55, is Director of Oak Ridge National Laboratory and Chief Executive Officer and President of UT-Battelle LLC, which is the operating contractor for the Laboratory. He is also Senior Vice President for U.S. Department of Energy Science Programs at Battelle, a global science and technology enterprise, headquartered in Columbus, Ohio. Previously, he was director of Homeland Security Programs at Battelle and part of the White House Transition Planning Office for the newly formed U.S. Department of Homeland Security. From 1992 to 2002, Dr. Wadsworth was at the Lawrence Livermore National Laboratory in Livermore, California and from 1995 he was deputy director for Science and Technology. Prior to that, he was with Lockheed Missiles and Space Company, Research and Development Division. He was elected to the National Academy of Engineering in 2005, and has been elected Fellow of several technical societies. Dr. Wadsworth holds a bachelor s degree in metallurgy, Ph.D., D.Met and D.Eng. degrees from Sheffield University, England. Dr. Wadsworth has been a director of Carpenter since January 2006.

Incumbent Directors to Continue in Office

The following are the other directors whose terms continue after the Annual Meeting, as indicated:

Terms to Expire 2007

I. MARTIN INGLIS, age 55, is Executive Vice President and Chief Financial Officer of Battelle, a $3.7 billion Research and Development enterprise headquartered in Columbus, Ohio. Previously, he had retired as Group Vice President, Business Strategy for Ford Motor Company. He joined Ford of Europe in London in 1971 and held various finance and operations positions in international and domestic markets during his career. Mr. Inglis was named head, Global Products and Business Strategy and elected a corporate Vice President in 1996; President, Ford South America in 1999; head, Ford North America in 2000; Chief Financial Officer in 2001; and Group Vice President, Business Strategy in 2002. Mr. Inglis also serves on the Advisory Board of three venture funds (Fletcher Spaght, Reservoir Ventures, and Battelle Ventures) and is the Audit Chairman of Brookhaven Science Associates LLC; Battelle Energy Associates LLC; and UT-B LLC. He holds a bachelor s degree in business economics from Strathclyde University, Glasgow, Scotland. Mr. Inglis has been a director of Carpenter since 2003 and is a member of the Audit/Finance Committee.

PETER N. STEPHANS, age 63, is Chairman and Chief Executive Officer of Trigon Holding, Inc., parent company for its subsidiary manufacturing forged and machined components for aerospace and medical applications and its subsidiary that designs, develops and markets orthopedic implants. Prior to Trigon Incorporated, Mr. Stephans served as President and Chief Operating Officer of Dynamet Incorporated, a privately-held titanium processor that Carpenter purchased in 1997. He was appointed Vice President and Technical Director in October 1972 and Executive Vice President in October 1982. He began his career at IBM Corporation, ultimately serving as Manufacturing Manager for one of the company s divisions in New York. Mr. Stephans holds a bachelor s and master s degree in electrical engineering from the South Dakota School of Mines and Technology. He also serves on the Boards of Directors/Trustees of Washington and Jefferson College and World Affairs Council of Pittsburgh. Mr. Stephans has been a director of Carpenter since 2003 and is a member of the Corporate Governance and Human Resources Committees.

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KATHRYN C. TURNER, age 59, is Chairperson, Chief Executive Officer and President of Standard Technology, Inc. Ms. Turner founded Standard Technology, Inc., a management and technology solutions firm with a focus in the healthcare sector, in 1985. Standard Technology, Inc. is headquartered in Falls Church, VA, with employees in approximately 12 states. Ms. Turner also serves on the Board of Directors of Conoco Phillips, and Schering-Plough Corporation (which are listed on the NYSE and are subject to the periodic reporting requirements of the Exchange Act), the National Capital Area Council of the Boy Scouts of America and Children s Hospice International and she has served as a director for the Urban League (Northern Virginia Chapter). In 1994, she received a Presidential appointment to serve on the President s Export Council, after serving a one-year term on the ExIm Bank Advisory Committee. In 1993, she was appointed to the Commission on the Future of Worker-Management Relations, a joint commission of the Departments of Labor and Commerce, established by President Clinton. In 1992, she was the first woman appointed by Secretary Cheney to the Defense Policy Advisory Committee on Trade (DPACT). Ms. Turner is the 1998 Black Engineer Entrepreneur of the Year, a 1994 recipient of the Northern Virginia Urban League s Shining Star Award, and a 1994 recipient of the National Association of Black Telecommunications Professionals, Inc. s Granville T. Woods Award. Ms. Turner has been a director of Carpenter since 1994, is a member of the Human Resources Committee, and its Compensation Subcommittee and chairs the Corporate Governance Committee.

STEPHEN M. WARD, JR., age 51, is the retired President and Chief Executive Officer of Lenovo Corporation, the international PC company formed by the acquisition of IBM s PC business by Lenovo of China. Prior to joining Lenovo, he was senior vice president and general manager of IBM s Personal Systems Group, responsible for the Personal Computing Division, the Retail Store Solutions Division and the Printing Systems Division. In his 26-year career with IBM, Mr. Ward also served as IBM s chief information officer and vice president, Business Transformation, directing business process and information technology investments. Mr. Ward was also general manager of IBM s Global Industrial Sector, responsible for the marketing, sales, and service of IBM e-business solutions. In the mid-1990 s, he served as vice president, Information Technology and was later named general manager, IBM ThinkPad, in the IBM Personal Computer Company. He first joined IBM in Tucson, Arizona as an engineer in the Storage Products Division. He held various management positions in manufacturing, production control and project development for disk drive, tape and optical storage projects and software development, and was also an assistant to the IBM chairman at company headquarters in Armonk, New York. He holds a B.S. degree in mechanical engineering from California Polytechnic State University at San Luis Obispo. Mr. Ward is also a member of the Board of eZopen where he serves on the Audit Committee. Mr. Ward has been a director of Carpenter since 2001, and is a member of the Audit/Finance Committee.

Terms to Expire 2008

J. MICHAEL FITZPATRICK, age 59, is the Vice Chairman of Carpenter Technology Corporation since February 2006. He is the former President and Chief Operating Officer and was a director of Rohm and Haas Company, a specialty chemicals company. Dr. Fitzpatrick was elected Vice President and Director of Research of Rohm and Haas in 1993 and served as Vice President and Chief Technology Officer from 1995 through 1998. He is also a director of McCormick & Company, Incorporated, and the Green Chemistry Institute, and a director of the American Cancer Society. McCormick & Company, Incorporated is listed on the NYSE and is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act). Dr. Fitzpatrick has been a director of Carpenter since 1997.

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GREGORY A. PRATT, age 57, is Vice Chairman and a director of OAO Technology Solutions, Inc. (OAOT), an information technology and professional services company. He joined OAOT in 1998 as President and CEO after OAOT acquired Enterprise Technology Group, Inc., a software engineering firm founded by Mr. Pratt. Mr. Pratt served as President and COO of Intelligent Electronics, Inc. from 1991 through 1996, and was co-founder, and served variously as CFO and President of Atari Corporation from 1984 through 1991. He also serves as a director and audit committee chairman of AmeriGas Propane, Inc. AmeriGas Propane, Inc. is listed on the NYSE and is subject to the periodic reporting requirements of the Exchange Act. Mr. Pratt has been a director of Carpenter since 2002, is a member of the Human Resources Committee, and its Compensation Subcommittee and chairs the Audit/Finance Committee.

MARILLYN A. HEWSON, age 52, is President of Kelly Aviation Center, L.P., a joint venture between Lockheed Martin Aircraft and Logistics Centers, GE-Aviation, and Rolls-Royce, and a center of excellence for military engine maintenance, repair, and overhaul. Since joining the corporation in 1983, Ms. Hewson has served in a number of executive positions for Lockheed Martin Corporation, including senior vice president of Corporate Shared Services, corporate vice president of Global Supply Chain Management, and corporate vice president of Internal Audit. She was elected an officer of the Lockheed Martin Corporation in January 1999. Ms. Hewson has been a director of Carpenter since 2002, is a member of the Corporate Governance Committee, and chairs the Human Resources Committee and its Compensation Subcommittee.

CORPORATE GOVERNANCE

In accordance with the General Corporation Law of the State of Delaware and Carpenter s Certificate of Incorporation and By-Laws, Carpenter s business, property and affairs are managed under the direction of the Board of Directors. Although Carpenter s directors are not involved in day-to-day operating details, they are kept informed of Carpenter s business through written reports and documents provided to them regularly, as well as by operating, financial and other reports presented by Carpenter s officers at meetings of the Board of Directors and its various committees.

Meetings of the Board of Directors

The Board of Directors held eleven meetings during fiscal year 2006. In addition, there were twenty-two committee meetings. The policy of Carpenter is to require attendance and active participation by directors at Board and committee meetings. The average attendance for Carpenter s directors at these meetings was over 90%. Each director attended at least 75% of the total number of meetings of the Board and the Committees on which the director served during fiscal year 2006. Directors are encouraged to attend the Annual Meeting of Stockholders, and all of Carpenter s directors attended the 2005 annual meeting.

Meetings of the Non-Management Directors

Pursuant to Carpenter s Corporate Governance Guidelines and the Corporate Governance Standards of the NYSE, the non-management directors of the Board meet in an executive session at least twice per year to: (a) review the performance of the Chief Executive Officer, and (b) address any other matters affecting Carpenter that may concern individual directors. In fiscal year 2006, the non-management directors met in executive session seven times. When meeting in executive session, the senior person present who was the chair of a standing committee was chosen to preside over these sessions. In most executive sessions, this person was Kathryn C. Turner.

Communication with the Board of Directors

Stockholders may communicate with the full Board of Directors by sending a letter to Carpenter Technology Board of Directors, c/o Corporate Secretary, P.O. Box 14662, Reading, PA 19612-4662. Carpenter s Corporate Secretary will review the correspondence and forward it to the Chair of the appropriate committee or to

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any individual director or directors to whom the communication is directed, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to Carpenter or its business, or is similarly inappropriate. In addition, interested parties may contact the non-management directors as a group by sending a written communication to the Corporate Secretary as directed above. Such communication should be clearly addressed to the non-management directors. Stockholders and other interested parties may also communicate with the Audit/Finance Committee by sending an e-mail to boardauditcommittee@cartech.com.

Independence of the Board of Directors

The Board of Directors is composed of a majority of directors who qualify as independent directors (Independent Directors) pursuant to the rules adopted by the SEC, the corporate governance standards promulgated by the NYSE, and the regulations adopted by the Internal Revenue Service. The board committee structure includes Audit/Finance, Human Resources and Corporate Governance committees consisting entirely of Independent Directors as required by the Corporate Governance Standards of the NYSE. On May 30, 2006, the Human Resources Compensation Subcommittee was established to administer compensation for the Company s Named Executive Officers and other senior corporate officers and for the administration of the Company s incentive stock and employee benefit plans (as they relate to such Officers). The Compensation Subcommittee operates under a separate charter.

In determining independence pursuant to the Corporate Governance Standards of the NYSE, each year the Board affirmatively determines whether directors have a material relationship with Carpenter. When assessing the materiality of a director s relationship with Carpenter, the Board considers all relevant facts and circumstances, not merely from the director s standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm s length in the ordinary course of business and whether the services are being provided substantially on the same terms to Carpenter as those prevailing at the time from unrelated parties for comparable transactions.

Applying these standards, the Board has determined that the following directors are independent: Anderson, Hewson, Inglis, Pratt, Turner and Ward. Mr. Stephans is considered independent for all purposes except participation on the Human Resources Compensation Subcommittee.

Independence of the Audit/Finance Committee Members

Directors on Carpenter s Audit/Finance Committee must satisfy the requirements of the Corporate Governance Standards of the NYSE and the independence requirements promulgated under the Exchange Act, in addition to the more general independence requirements. In determining whether a director is independent for purposes of each of the above stated guidelines, the Board must affirmatively determine that the directors on the Audit/Finance Committee do not, among other things, accept any consulting, advisory, or other compensatory fee from Carpenter.

Applying these standards, the Board has determined that all of the directors on the Audit/Finance Committee are independent.

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Code of Ethics

The Board of Directors adopted a Code of Ethics for the Chief Executive Officer and Senior Financial Officers of Carpenter Technology Corporation. There were no waivers of the Code in fiscal year 2006 or through the date of this Proxy Statement.

Director Training and Education

All of the members of the Board of Directors attended eight hours of educational seminars presented by the Directors Institute of the Conference Board which qualify for certification by Institutional Shareholders Services.

Committees of the Board

The Board of Directors has three standing Committees: Audit/Finance, Corporate Governance and Human Resources. No member of any committee may be an employee or former employee of Carpenter. Additionally, as of May 30, 2006, the Human Resources Committee has a Compensation Subcommittee, which maintains responsibility for all items relating to compensation of the Company s Named Executive Officers and other senior corporate officers and for the administration of the Company s incentive stock and employee benefit plans (as they relate to such Officers).

Corporate Governance Guidelines and Charters

Carpenter s Corporate Governance Guidelines, as well as the charters for all the Board committees and the Company s Code of Ethics and any information regarding any waivers of the Code, are available on Carpenter s website at www.cartech.com. Copies will also be mailed to stockholders upon written request to the Corporate Secretary, Carpenter Technology Corporation, P.O. Box 14662, Reading, PA 19612-4662.

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BOARD COMMITTEES

Committee and Members	Selected Functions of the Committee	2006 Meetings
Audit/Finance Committee Gregory A. Pratt, Chairperson Carl G. Anderson, Jr. I. Martin Inglis Stephen M. Ward, Jr.	Reviews the adequacy of Carpenter s financial reporting, accounting systems and controls Exercises sole authority regarding the appointment, compensation and termination of the independent registered public accounting firm Pre-approves all audit and permissible non-audit services performed by the independent registered public accounting firm Recommends and oversees the independent registered public accounting firm for integrated audits Reviews Carpenter s internal and external auditing procedures and security of information systems Reviews Carpenter s environmental and legal compliance activities Maintains a direct line of communication with the independent registered public accounting firm and the Director-Internal Audit and reviews audit issues and management responses Reviews and recommends actions to the Board of Directors relating to Carpenter s capital structure, pension fund asset management, and dividend policy Reviews and approves Carpenter s annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm Reviews and approves earnings press releases and financial information and earnings guidance, if any, provided to analysts and rating agencies	10

Establishes procedures for the receipt and treatment of reports received from employees of Carpenter or others regarding compliance with legal or ethical requirements, violations of Carpenter s codes of conduct, questionable accounting, internal accounting controls, or auditing matters

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Committee and Members	Selected Functions of the Committee	2006 Meetings
Corporate Governance Committee Kathryn C. Turner, Chairperson Marillyn A. Hewson Peter N. Stephans Jeffrey Wadsworth*	Reviews and recommends proposed changes to the Certificate of Incorporation and By-Laws Reviews stockholder proposals Recommends Board size, composition, and committee structure Reviews, evaluates, and recommends nominees for election or re-election to the Board and assignment to the Committees Applies the standards for independence imposed by Carpenter s listing agreement with the NYSE and all applicable laws in connection with the director process Maintains guidelines for directors duties and obligations Develops and recommends to the Board of Directors a set of corporate governance principles applicable to the corporation Oversees the evaluation of the Board and committees Reviews succession planning for the Chief Executive Officer Reviews directors compensation	4
Human Resources Committee Marillyn A. Hewson, Chairperson Gregory A. Pratt	Oversees Carpenter s various benefit and pension plans Reviews officers succession and development plans Administers stock and stock option plans	5

Peter N. Stephans Kathryn C. Turner Jeffrey Wadsworth*	Reviews Carpenter s progress on equal opportunity matters, employee health and safety, and workers compensation costs	
Human Resources Compensation Subcommittee Marillyn A. Hewson, Chairperson Gregory A. Pratt Kathryn C. Turner Jeffrey Wadsworth*	Reviews and establishes the salary and compensation package of the CEO and other executive officers; approves salary and other compensation of other corporate officers	3

* As of August 2006, Dr. Wadsworth was no longer a member of any of the standing committees of the Board of Directors or the Compensation Subcommittee because the Board of Directors determined that he did not meet the independence criteria of the NYSE.

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Director Compensation Program

No director who is an employee of Carpenter is compensated as a member of the Board. Compensation for non-employee directors consists of an annual retainer of $90,000, plus travel expenses, where appropriate, for attending all Board of Directors and committee meetings. Each Committee Chairperson receives an additional annual retainer of $10,000. At least 50% of the $90,000 annual retainer for Board service is paid in stock units that convert to an equivalent number of shares of common stock following retirement or termination of service as allowed under the plan. The value of these stock units will vary depending on the fair market value of the shares of Carpenter s common stock. At the director s election, the remaining 50% of the retainer is paid in cash or deferred and paid in either cash or stock units at the time of distribution.

Each non-employee director who joins the Board is entitled to receive options to purchase 2,000 shares of common stock. In addition, following each annual meeting, each non-employee director is entitled to receive options to purchase 4,000 shares of common stock. These options permit the director, after one year of service following the grant, to purchase shares of common stock at the stock s fair market value on the date of grant. The options expire ten years from the date of grant. In acknowledgment of the increase in cash and equity compensation in fiscal year 2005, each of the directors waived his or her right to receive options for fiscal year 2006.

AUDIT/FINANCE COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that Carpenter specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

The Board of Directors has charged the Audit/Finance Committee with a number of responsibilities, including review of the adequacy of Carpenter s financial reporting and internal controls over financial reporting, the integrity of the financial statements of the Company and the independence and performance of Carpenter s independent registered public accounting firm. Management is responsible for the preparation, presentation and integrity of Carpenter s financial statements; accounting and financial reporting principles; establishing and maintaining disclosure controls and procedures; establishing and maintaining internal control over financial reporting; evaluating the effectiveness of disclosure controls and procedures; evaluating the effectiveness of internal control over financial reporting; and evaluating any change in internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. The independent registered public accounting firm is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles, as well as expressing an opinion on (i) management s assessment of the effectiveness of internal control over financial reporting and (ii) the effectiveness of internal control over financial reporting.

The Committee has a direct line of communication with Carpenter s independent registered public accounting firm and the Director-Internal Audit. The Board has affirmatively determined that each of the members of the Committee is independent pursuant to the Corporate Governance Standards of the NYSE and the rules of the SEC. Furthermore, the Board has affirmatively determined that all members of the Audit/Finance Committee have no material relationship with Carpenter and are financially literate pursuant to the requirements of the NYSE. Messrs. Pratt, Inglis and Anderson each qualify as an audit committee financial expert under the standards promulgated under the Exchange Act. The Board has adopted a written Audit/Finance Committee Charter, and this report is made pursuant to that Charter. A copy of the Charter is posted on Carpenter s website at www.cartech.com. The Audit/Finance Committee appoints the independent registered public accounting firm to be retained to audit Carpenter s consolidated financial statements, and once retained, the independent registered public accounting firm reports directly to the Audit/Finance Committee. The Audit/Finance Committee is responsible for approving both audit and non-audit services to be provided by the independent registered public accounting firm.

In the discharge of its responsibilities, the Audit/Finance Committee has reviewed and discussed with management and the independent registered public accounting firm Carpenter s audited financial statements for fiscal year 2006. In addition, the Committee has discussed with the independent registered public accounting firm matters such as the quality (in addition to acceptability), clarity, consistency, and completeness of Carpenter s financial reporting, as required by U.S. Auditing Standards Section AU380, Communication with Audit Committees.

The Audit/Finance Committee met with management periodically during fiscal year 2006 to consider the adequacy of Carpenter s internal controls, and discussed these matters and the overall scope and plans for the audit of Carpenter with Carpenter s independent registered public accounting firm, PricewaterhouseCoopers LLP. The Audit/Finance Committee also discussed with senior management and PricewaterhouseCoopers LLP Carpenter s disclosure controls and procedures and the certifications by Carpenter s Chief Executive Officer and Chief Financial Officer, which are required by the SEC under the Sarbanes-Oxley Act of 2002 for certain of Carpenter s filings with the SEC. In particular, the Audit/Finance Committee was kept apprised by senior management of the progress of the evaluation of Carpenter s system of internal control over financial reporting and provided oversight and advice to management during the process. In connection with this oversight, the Audit/Finance Committee received periodic updates provided by senior management and PricewaterhouseCoopers LLP at several committee meetings during the year. At the conclusion of the process, senior management provided the Audit/Finance Committee with, and the Audit/Finance Committee reviewed, a report on the effectiveness of Carpenter s internal control over financial reporting. The Audit/Finance Committee also reviewed the report of PricewaterhouseCoopers LLP related to (i) the consolidated financial statements and financial statement schedule, (ii) management s assessment of the effectiveness of internal control over financial reporting, and (iii) the effectiveness of internal control over financial reporting.

The Audit/Finance Committee has considered the compatibility of the provision of non-audit services with the independent registered public accounting firm s maintenance of independence and has received from PricewaterhouseCoopers LLP written disclosures and a letter concerning the independent registered public accounting firm s independence from Carpenter, as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. These disclosures have been reviewed by the Audit/Finance Committee and discussed with PricewaterhouseCoopers LLP.

Based on these reviews and discussions, the Committee has recommended to the Board that the audited financial statements be included in Carpenter s 2006 Annual Report on Form 10-K, for filing with the SEC.

SUBMITTED BY THE AUDIT/FINANCE COMMITTEE OF THE BOARD OF DIRECTORS

Gregory A. Pratt, Chairperson	I. Martin Inglis
Carl G. Anderson, Jr.	Stephen M. Ward, Jr.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Human Resources Compensation Subcommittee reviews and determines compensation arrangements for Carpenter s Chief Executive Officer and its other executive officers and administers the equity compensation plans. All members of the Human Resources Compensation Subcommittee are independent directors.

No member of the Human Resources Compensation Subcommittee during fiscal year 2006 was an officer or employee of Carpenter or any of its subsidiaries or was formerly an officer of Carpenter or any of its subsidiaries. No member of the Human Resources Compensation Subcommittee had any relationship requiring disclosure by Carpenter under the proxy rules promulgated under the Exchange Act.

HUMAN RESOURCES COMPENSATION SUBCOMMITTEE REPORT

The Human Resources Compensation Subcommittee of the Board of Directors is composed entirely of independent directors. The Compensation Subcommittee is responsible for the establishment and oversight of Carpenter s executive compensation programs.

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The Board has adopted a written charter for the Human Resources Committee and the Compensation Subcommittee. Copies of the Charters have been posted on Carpenter s website at www.cartech.com. The Charter for the Compensation Subcommittee delegates sole authority to the Compensation Subcommittee to the extent it is constituted from time to time to establish the salary and other elements of compensation for the CEO and other executive officers.

Compensation Philosophy

Carpenter s executive compensation programs are designed to fulfill the following objectives:

- Attract, retain, and motivate highly effective executives and promote long-term career commitment;
- Link executive reward with enhanced stockholder value and profitability;
- Reward sustained corporate, functional, and/or individual performance with an appropriate base salary and incentive opportunity;
- Link pay to Carpenter s financial performance and the achievement of Carpenter s strategic business objectives; and
- Stimulate and sustain significant management ownership in Carpenter.

This philosophy remained unchanged in 2006 and continues to serve as the foundation for executive compensation policy and program application.

The Compensation Subcommittee reviewed all elements of compensation paid to each executive officer in order to assure that the Compensation Subcommittee members developed a comprehensive picture of each officer s overall compensation. Carpenter targets pay at market competitive (median) levels for achievement of expected levels of performance. The Compensation Subcommittee worked with a nationally recognized, independent consulting firm to review the competitiveness of the executive compensation program. The analysis compared Carpenter s pay levels to the pay levels of a broad sample of companies and a specific group of industrial companies of similar size. These companies reflect the labor pool for executive talent generally rather than the labor pool specifically available to Carpenter or its competitors.

Compensation of executives at Carpenter is primarily composed of three parts base salary, annual incentives and long-term incentives and is closely linked to the Company s financial performance. Carpenter s poor performance in the early 2000 s resulted in executive pay being well below competitive levels. The Company s improved financial results beginning in fiscal year 2004 and continuing throughout fiscal years 2005 and 2006 led the Committee to adjust executive pay for most of the executives to competitive levels over the three-year period.

Base Salary

In general, base salaries are targeted around the market 50th percentile and adjusted by the Compensation Subcommittee to recognize each executive s experience, responsibility and value to the organization. Base salary increases were not granted in the years immediately prior to fiscal year 2005, resulting in compensation for Carpenter executives that was significantly below market level. The Compensation Subcommittee granted base salary increases in fiscal years 2005 and 2006 to bring salaries more in line with market levels and to reflect the Company s improved performance.

Annual Incentives

In 2006, the Executive Annual Compensation Plan (EACP) provided short-term variable cash compensation for the Named Executive Officers and other eligible executives with payments based on combinations

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of corporate and business unit financial performance. This portion of the Executive Officers cash compensation was wholly dependent upon the Company s financial results and highly leveraged to ensure below market total compensation when financial goals were not achieved and above market total compensation only when the annual financial results were superior. For fiscal year 2006, the Human Resources Committee established earnings per share (EPS) and Return On Net Assets (RONA) as the key corporate measures for the EACP. In addition, business unit RONA and operating income were established as additional components for Messrs. Oates and Shor. The Company s financial performance in 2006 resulted in EACP payouts at the maximum of 200% of target level for each executive officer except Mr. Shor who earned 170% of his target level. The EACP has been revised and is now named the Executive Bonus Compensation Plan (EBCP). This revised Plan is being submitted for stockholder approval at the Annual Meeting.

Long-Term Incentives

Carpenter continues to deliver a significant portion of an executive s total pay opportunity in the form of long-term, equity based, incentive compensation. Long-term, equity based, incentives are viewed to be a key program element, given the Committee s desire to reinforce connections among sustainable financial performance, stockholder value creation and executive pay.

For fiscal year 2006, the Company delivered long-term incentives in the form of restricted stock. There were no stock option awards issued in fiscal year 2006. Restricted stock awards were granted to Named Executive Officers in the form of performance based restricted shares which were earned upon achievement of the corporate RONA target and which will vest ratably over fiscal years 2007 and 2008. Mr. Torcolini was also granted time vested restricted shares that vest in full five years after the end of the fiscal year (June 30, 2011), if he is then still a Carpenter employee. The number of time vested restricted shares were granted based upon an evaluation of Mr. Torcolini s individual performance. In 2006, grants of restricted shares were divided equally between time vested shares and performance shares to be earned at target. The Company s financial performance in 2006 resulted in performance shares being earned at the maximum 200% of target level for each executive officer.

Stock Ownership Guidelines

Carpenter introduced stock ownership guidelines in 1997 to further its objective of increasing management s ownership stake. Over time, executives are expected to achieve and maintain ownership of certain amounts of common stock. The Chief Executive Officer is expected to own 3 times his base salary in Carpenter stock. Senior Vice Presidents and Vice Presidents are expected to own 1.5 times their base salaries in Carpenter stock and other covered executives are expected to own Carpenter stock in the amount of their base salaries. The primary intent of these guidelines is to increase significantly the extent to which each executive s personal assets are directly linked to the performance of Carpenter s common stock. All of the Named Executive Officers own Carpenter stock well in excess of their respective stock ownership guidelines.

Policy with Respect to the $1 Million Deduction Limit

Section 162(m) of the Internal Revenue Code generally limits the corporate tax deduction for compensation paid to certain individuals, including the Named Executive Officers, to $1 million, unless certain requirements are met. Carpenter s bonus and long-term incentive arrangements to the extent based upon achieving performance targets are intended to conform with Internal Revenue Code deductibility requirements. The Compensation Subcommittee may determine from time to time that it is appropriate to pay some portion of an executive s compensation in a manner and amount that may not be deductible for tax purposes, if it is in the best interest of the Company to do so. Grants of restricted stock made in 2006 that vest solely upon the passage of time and not on achievement of performance targets do not qualify as deductible compensation under Section 162(m). In addition, cash bonus payments under EACP are not deductible because the EACP plan was not approved by stockholders. As a result, during fiscal year 2006, Messrs. Torcolini, Geremski, Oates and Shor received compensation in excess of $1 million that was not deductible for tax purposes. The revised Executive Bonus Compensation Plan is being submitted to stockholders for approval at the Annual Meeting.

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CEO Compensation

For fiscal year 2006, the Human Resources Committee set the salary of the CEO as well as the salaries of the other Named Executive Officers. During fiscal year 2005, the financial performance of the Company significantly exceeded expectations. Management s actions have established a solid base for continued superior performance by the Company in the future. In accordance with the market data and the Company s strong financial performance, the Compensation Subcommittee maintained the CEO s salary and his annual incentive opportunity, and granted restricted stock in fiscal year 2006 and provided further adjustments effective for fiscal year 2007 as noted below. The Compensation Subcommittee recognized that Mr. Torcolini had publicly announced his intent to retire at such time as the Board of Directors designates his successor.

Annual Base Salary

Mr. Torcolini s salary was increased from fiscal year 2005 to fiscal year 2006 to $850,000. Since this salary is in the mid-range of the comparative group of CEOs reviewed by the Compensation Subcommittee and in light of Mr. Torcolini s announced retirement, his base salary for fiscal year 2007 was not changed.

Annual Incentives

In fiscal year 2006, Mr. Torcolini received a cash bonus payment under the EACP of $1,659,616. Upon achievement of specified EPS and RONA performance targets in fiscal year 2007, Mr. Torcolini is eligible for a cash bonus under the EBCP ranging from 0 200% of his base salary.

Long-Term Incentives

In fiscal year 2006, Mr. Torcolini earned 14,000 restricted shares based on achieving the corporate RONA target. These earned shares vest at the rate of 50% (7,000 shares) after one year (June 30, 2007) and the remaining 50% (7,000 shares) after two years (June 30, 2008). Mr. Torcolini was also granted 5,250 restricted shares that will vest after five years (June 30, 2011). In fiscal year 2007, Mr. Torcolini can earn from 0 21,000 shares of restricted stock dependent upon achievement of the corporate RONA performance target.

SUBMITTED BY THE HUMAN RESOURCES COMPENSATION SUBCOMMITTEE OF THE BOARD OF DIRECTORS

Marillyn A. Hewson, Chairperson

Gregory A. Pratt

Kathryn C. Turner

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EXECUTIVE COMPENSATION

The following table contains information concerning the compensation paid by Carpenter for services rendered during the fiscal years ended June 30, 2006, 2005 and 2004 by Carpenter s Chief Executive Officer and each of the other Named Executive Officers.

Summary Compensation Table - FISCAL YEAR 2006

		Annual Compensation (1)		Long Term Compensation Awards		
Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Restricted Stock (2) ($)	Securities Underlying Options (#)	All Other Compensation(1)(3)(4)(5) ($)
Robert J. Torcolini	2006	829,808	1,659,616	2,223,375	0	31,906
Chairman, President and	2005	491,924	786,616	1,165,000	0	18,486
Chief Executive Officer	2004	360,000	0	1,758,600	0	32,507(6)
Dennis M. Oates	2006	357,981	501,173	693,000	0	11,417
Senior Vice President	2005	322,404	386,970	492,100	0	11,515
Specialty Alloys Operations	2004	198,155	0	1,123,900	30,000	8,248
Michael L. Shor	2006	347,980	413,902	693,000	0	17,597
Senior Vice President -	2005	313,846	376,564	492,100	0	11,275
Engineered Products Operations	2004	295,000	0	1,016,700	0	12,600
Terrence E. Geremski	2006	338,559	473,982	693,000	0	10,805
Senior Vice President -	2005	313,846	376,564	492,100	0	15,003
Finance and Chief Financial Officer	2004	295,000	0	1,016,700	0	20,557
David A. Christiansen	2006	237,693	237,693	288,750	0	13,566
Vice President, General	2005	198,847	198,811	221,445	0	7,556
Counsel and Secretary	2004	180,001	0	491,925	0	6,182

(1) The column for Other Annual Compensation has been omitted. The value of above-market interest payments accrued upon deferred compensation and amounts reimbursed for the payment of taxes for the Named Executive Officers has been included in the All Other Compensation column. There were no above-market interest payments for fiscal 2006. For fiscal year 2005, the value of the above-market

portion of the interest paid on deferred compensation was as follows: Mr. Torcolini - $52; Mr. Oates - $1; Mr. Shor - $20; Mr. Geremski - $378; and Mr. Christiansen - $0. For fiscal year 2004, the value of the above-market portion of the interest paid on deferred compensation was as follows: Mr. Torcolini - $18; Mr. Oates - $0; Mr. Shor - $7; Mr. Geremski - $111; and Mr. Christiansen - $0. The amounts reimbursed for payment of taxes are described in footnotes 5 and 6.

(2) In fiscal year 2006, Messrs. Torcolini, Oates, Shor, Geremski and Christiansen earned restricted stock awards as a result of meeting Carpenter performance targets based on return on net assets. The awards consisted of the following numbers of shares of restricted stock: Mr. Torcolini 14,000;

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Mr. Oates 6,000; Mr. Shor 6,000; Mr. Geremski 6,000; and Mr. Christiansen 2,500. The restricted stock awards will vest over a two-year period with 50% vesting at the end of fiscal year 2007 (June 30, 2007) and 50% vesting at the end of fiscal year 2008 (June 30, 2008). In June, 2006 the Compensation Subcommittee determined that Mr. Geremski s restricted stock earned from meeting performance targets all should vest upon the date of his retirement on August 1, 2006.

In fiscal year 2006, Mr. Torcolini, was granted a separate restricted stock award of 5,250 shares. This restricted stock award will vest all at one time on the fifth anniversary of the end of fiscal year 2006 (June 30, 2011) provided he remains an employee of Carpenter and subject to other conditions established by the Compensation Subcommittee.

In July 2006, Messrs. Oates, Shor and Christiansen were granted separate restricted stock awards. The awards will vest all at one time on June 30, 2009, provided the Named Executive Officer remains an employee of Carpenter and subject to other conditions established by the Compensation Subcommittee. The awards consisted of the following number of shares of restricted stock: Mr. Oates - 2,250; Mr. Shor - 2,250; and Mr. Christiansen - 938. These awards will be reflected in the compensation for these Named Executive Officers in fiscal year 2007.

Messrs. Torcolini, Oates, Shor, Geremski and Christiansen earned restricted stock awards in fiscal year 2005, as a result of meeting Carpenter performance targets based on earnings per share and return on net assets. The awards consisted of the following numbers of shares of restricted stock: Mr. Torcolini 12,000; Mr. Oates 5,000; Mr. Shor 5,000; Mr. Geremski 5,000; and Mr. Christiansen 2,400. The restricted stock awards will vest over a two-year period with 50% vesting on June 30, 2006 and 50% vesting at the end of fiscal year 2007 (June 30, 2007). In June 2006, the Compensation Subcommittee determined the outstanding performance-based restricted stock held by Mr. Geremski should vest upon the date of his retirement on August 1, 2006.

In fiscal year 2005, Messrs. Torcolini, Oates, Shor, Geremski and Christiansen were granted a separate restricted stock award. This restricted stock award will vest all at one time on the fifth anniversary of the end of fiscal year 2005 (June 30, 2010) provided the Named Executive Officer remains an employee of Carpenter and subject to certain other conditions. The awards consisted of the following numbers of shares of restricted stock: Mr. Torcolini 10,500; Mr. Oates 4,500; Mr. Shor 4,500; Mr. Geremski 4,500; and Mr. Christiansen 1,875. In July, 2006 the Compensation Subcommittee determined that these shares of restricted stock held by Mr. Geremski should vest on the original vesting date on June 30, 2010 and would be unaffected by his retirement on August 1, 2006.

In fiscal year 2004, Messrs. Torcolini, Oates, Shor, Geremski and Christiansen earned restricted stock awards, as a result of meeting Carpenter performance targets based on earnings per share and return on net assets. The awards consisted of the following numbers of shares of restricted stock: Mr. Torcolini 42,000; Mr. Oates 26,000; Mr. Shor 26,000; Mr. Geremski 26,000; and Mr. Christiansen - 13,000. The restricted stock awards were earned and granted effective as of June 30, 2004. Fifty percent of the award vested at the end of fiscal year 2005 (June 30, 2005) and 50% vested at the end of fiscal year 2006 (June 30, 2006).

In fiscal year 2004, Messrs. Torcolini, Oates, Shor, Geremski and Christiansen were granted a separate restricted stock award. This restricted stock award will vest all at one time five years after the date of grant (June 23, 2009) provided the Named Executive Officer remains an employee of Carpenter and subject to certain other conditions. The awards consisted of the following numbers of shares of restricted stock: Mr. Torcolini 10,000; Mr. Oates 4,000; Mr. Shor 4,000; Mr. Geremski 4,000; and Mr. Christiansen 1,500. In July, 2006 the Compensation Subcommittee determined that these shares of restricted stock held by Mr. Geremski should vest on the original vesting date on June 23, 2009 and would be unaffected by his retirement on August 1, 2006. Mr. Oates received a grant of 5,000 shares of restricted stock upon commencement of his employment which will vest all at one time after five years of employment (September 30, 2008).

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At the end of fiscal year 2006, the aggregate restricted stock holdings of Messrs. Torcolini, Oates, Shor, Geremski and Christiansen was each valued, respectively, at $5,284,125; $2,541,000; $1,963,500; $1,963,500; and $817,163 based on the June 30, 2006 closing price of $115.50. Carpenter pays dividend equivalents on restricted stock.

(3) Amounts include contributions by Carpenter for fiscal years 2006, 2005 and 2004, for the Named Executive Officers under the Savings Plan, the Deferred Compensation Plan for Officers and Key Employees and the ESOP (ESOP units contributed because of dividend equivalents on the ESOP account balance are not included). Due to the timing of contributions on a fiscal year basis, some of the amounts contributed under the Savings Plan exceed the IRS calendar year limit. For fiscal year 2006, these contributions were as follows:

Savings Plan:	
Torcolini	$ 6,600
Oates	$ 6,825
Shor	$ 6,825
Geremski	$ 6,675
Christiansen	$ 6,900
Deferred Compensation Plan:	
Torcolini	$ 18,294
Oates	$ 3,914
Shor	$ 3,614
Geremski	$ 3,482
Christiansen	$ 231

ESOP: 24.1587 units (exclusive of amounts for dividend equivalents) of preferred stock were allocated on December 31, 2005 to each of the accounts of Messrs. Torcolini, Oates, Shor, Geremski and Christiansen. At that time, each unit was valued at $70.47.

(4) Amounts include premiums paid by Carpenter on term life insurance policies for the Named Executive Officers. For fiscal year 2006, these premiums were as follows: Mr. Torcolini - $1,337; Mr. Oates - $678; Mr. Shor - $658; Mr. Geremski - $648; and Mr. Christiansen - $435. For fiscal year 2005, these premiums were as follows: Mr. Torcolini - $929; Mr. Oates - $659; Mr. Shor - $668; Mr. Geremski - $668; and Mr. Christiansen - $415. For fiscal year 2004, these premiums were as follows: Mr. Torcolini - $868; Mr. Oates - $675; Mr. Shor - $712; Mr. Geremski - $712; and Mr. Christiansen - $391.

(5) Amounts include financial planning and tax services paid by Carpenter for the Named Executive Officers. For fiscal year 2006, these amounts were as follows: Mr. Torcolini - $5,675; Mr. Oates - $0; Mr. Shor - $6,500; Mr. Geremski - $0; and Mr. Christiansen- $6,000. For fiscal year 2005, these amounts were as follows: Mr. Torcolini - $1,575; Mr. Oates - $0; Mr. Shor - $0; Mr. Geremski - $3,605; and Mr. Christiansen - $0. For fiscal year 2004, these amounts were as follows: Mr. Torcolini - $1,500; Mr. Oates - $0; Mr. Shor - $0; Mr. Geremski - $8,200; and Mr. Christiansen - $0.

(6) Amounts include $15,168 for fiscal year 2004 paid by Carpenter for expenses, including relocation and temporary living expenses, incurred by Mr. Torcolini in connection with his move from Washington, PA to Reading, PA. This amount includes $4,558 for fiscal year 2004 for the reimbursement of taxes paid.

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Stock Options

The Stock Option Grant table has been omitted since there were no stock option grants to the Named Executive Officers in fiscal year 2006.

Stock Option Exercises and Fiscal Year-End Holdings

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert J. Torcolini	68,900	$ 2,854,460	50,000	0	$ 4,969,000	$ 0
Dennis M. Oates	15,000	$ 587,110	0	10,000	$ 0	$ 940,600
Michael L. Shor	27,967	$ 1,210,048	16,667	0	$ 1,656,366	$ 0
Terrence E. Geremski	16,666	$ 771,608	16,667	0	$ 1,656,366	$ 0
David A. Christiansen	12,500	$ 485,001	8,000	0	$ 795,040	$ 0

(1) Based on June 30, 2006 closing price of $115.50 per share.

Special Severance Agreements

Carpenter has Special Severance Agreements in place with its executive officers. Under these agreements, if the officer s employment is terminated following a change in control of Carpenter, the officer will receive his (1) full salary and all bonuses, (2) pension and other benefits through the termination date and (3) the vesting of all restricted stock and stock options, and the ability to exercise all other grants. In addition, if the termination is by Carpenter, other than for cause, or by the officer for good reason, the officer will receive (1) a lump sum payment equal to three years salary and full annual bonus (computed without regard to actual attainment of relevant performance goals) and (2) an enhanced pension benefit either paid as a lump sum from general assets or under the Supplemental Retirement Plan for Executives (SERP). In addition, under similar circumstances, the agreements provide continuation of all other active benefits for three years, tax and financial planning for three years, outplacement services, company payment of any federal excise tax created by the agreement and reimbursement of any legal fees for enforcing or defending the agreement. Messrs. Torcolini, Oates, Shor, Geremski, Christiansen, Barry J. Chapman, Vice President-Human Resources and M. David Kornblatt, Senior Vice President-Finance and Chief Financial Officer, all have entered into Special Severance Agreements in the form described above. The Special Severance Agreements are currently in effect and automatically renew for three-year periods on an evergreen basis.

Savings Plan of Carpenter Technology Corporation

The Savings Plan is a profit sharing and employee stock ownership plan established pursuant to Sections 401(a), 401(k) and 4975(e) of the Internal Revenue Code. Carpenter contributes 3% of the eligible pay of each eligible employee (including officers) to the Plan. Eligible pay under the Savings Plan is the total straight-time wages paid to each eligible employee and does not include bonus compensation. Carpenter s contribution is invested, as the employee selects, into one or more pre-established investment funds. If Carpenter s contribution for an employee under the Savings Plan is limited by the Internal Revenue Code, the employee will receive these lost

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Savings Plan contributions under the Deferred Compensation Plan for Officers and Key Employees. In addition, an employee may authorize Carpenter to make contributions, including salary deferrals, limited to 35% of eligible pay. Amounts in the Summary Compensation Table include amounts deferred.

Employee Stock Ownership Plan

The Carpenter Technology Corporation Employee Stock Ownership Plan (ESOP) was established in 1991. The trustee of the ESOP, State Street Bank and Trust Company, purchased 461.5384615 shares of series A convertible preferred stock from Carpenter at a price of $65,000 per share, or an aggregate purchase price of approximately $30 million, for a 15-year note issued by the trustee to Carpenter and a small amount of cash.

Each share of preferred stock is convertible, at the trustee s option, into at least 2,000 shares of common stock at a conversion price of $32.50 per share of common stock. The preferred shares are divided into 2,000 equal units. Each eligible employee was allocated one unit on the effective date of the ESOP, September 6, 1991. Additional units are allocated to employees as the loan is repaid. Generally, only those employees actively employed on the last day of the plan year, December 31, will receive an allocation for that year. The funds used by the ESOP to repay the loan come from contributions by Carpenter and dividends on the ESOP shares.

Retirement Benefits

The General Retirement Plan for Employees of Carpenter Technology Corporation provides retirement benefits to employees, including the Named Executive Officers, at age 65 (with five years of service), or as early as age 55 (with ten years of service); or at any age with 30 years of service. Such benefits are based on either: (1) a fixed monthly rate for each year of service; or (2) the product of 1.3% times each of the first 20 years of service, plus 1.4% times each year of service over 20, multiplied by the individual s highest average earnings. This average is calculated from the highest five annual periods (during the last ten years of service) that end on the individual s retirement anniversary. For pension purposes, earnings include all salaries, bonuses, and extra compensation.

Carpenter has two plans for those participants in the General Retirement Plan whose benefits are reduced by limitations of the Internal Revenue Code: the Benefit Equalization Plan and the Earnings Adjustment Plan. These two plans will restore amounts lost under the General Retirement Plan because of Code limitations. In general, benefits under these plans are subject to the same administrative rules as the General Retirement Plan.

Certain executives, including the Named Executive Officers, have been designated by the Board of Directors as participants under the SERP. This supplemental benefit is payable for a fixed term of 15 years or as an actuarially equivalent life annuity, commencing in the month following retirement (unless a disabled participant elects a later date). The total benefits a participant will receive from these retirement plans, plus primary Social Security will be approximately 60% of the participant s average earnings (as calculated under the General Retirement Plan) when retirement occurs with 30 years of service. The cash equivalent of restricted shares awarded in place of fiscal year 2004 bonus will be included for purposes of determining average earnings under the General Retirement Plan or the SERP. In addition, Mr. Geremski will receive a minimum benefit equal to 50% of his average earnings upon completion of five years of service. Mr. Geremski retired from his employment effective August 1, 2006 and qualified for the minimum benefit.

The Officers Supplemental Retirement Plan provides supplemental pension benefits to participants who have benefits reduced under the General Retirement Plan because of amounts deferred under the Deferred Compensation Plan. The Officers Supplemental Retirement Plan restores reductions that occur under the General Retirement Plan as a result of these deferrals, without regard to any limitations of the Internal Revenue Code. Benefits under this Plan are subject to the same administrative rules as the General Retirement Plan.

The following table illustrates the total annual retirement benefits payable under the retirement plans described in this section. A participant may receive less than the maximum benefit dependent upon age and the date on which he or she was granted SERP participation.

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Average Annual Earnings[1] for the Applicable Years of Service Period Preceding Retirement	Annual Gross Benefits from all Pension Plans for Years of Service Shown [2][3]					
	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years
$ 150,000	$ 75,000	$ 84,750	$ 90,000	$ 90,000	$ 90,000	$ 91,875
$ 175,000	$ 87,500	$ 98,875	$ 105,000	$ 105,000	$ 105,000	$ 107,188
$ 200,000	$ 100,000	$ 113,000	$ 120,000	$ 120,000	$ 120,000	$