CARPENTER TECHNOLOGY CORP
Form 10-Q
February 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

or

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

For the transition period from to

Commission File Number 1-5828

CARPENTER TECHNOLOGY CORPORATION
(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	23-0458500 (I.R.S. Employer Identification No.)
P.O. Box 14662 Reading, Pennsylvania (Address of principal executive offices)	19610 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files. Yes x No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares outstanding of the issuer's common stock as of January 27, 2016 was 46,833,874.

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PART I
Item 1. Financial Statements

CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in millions, except share data)

	December 31, 2015	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$21.1	$70.0
Accounts receivable, net	268.4	304.1
Inventories	687.7	655.8
Deferred income taxes	11.4	3.3
Other current assets	47.6	37.2
Total current assets	1,036.2	1,070.4
Property, plant and equipment, net	1,366.9	1,397.0
Goodwill	257.2	257.4
Other intangibles, net	67.6	71.6
Other assets	112.7	109.5
Total assets	$2,840.6	$2,905.9
LIABILITIES		
Current liabilities:		
Short-term debt	$39.5	$—
Accounts payable	140.2	169.5
Accrued liabilities	155.6	152.6
Total current liabilities	335.3	322.1
Long-term debt	608.4	607.1
Accrued pension liabilities	343.6	334.1
Accrued postretirement benefits	108.5	111.2
Deferred income taxes	154.7	146.5
Other liabilities	62.1	59.0
Total liabilities	1,612.6	1,580.0
Contingencies and commitments (see Note 9)		
STOCKHOLDERS' EQUITY		
Common stock — authorized 100,000,000 shares; issued 55,242,681 shares at December 31, 2015 and 55,234,942 shares at June 30, 2015; outstanding 47,605,180 shares at December 31, 2015 and 50,318,244 shares at June 30, 2015	276.2	276.2
Capital in excess of par value	271.4	266.6
Reinvested earnings	1,334.9	1,332.4
Common stock in treasury (7,637,501 shares and 4,916,698 shares at December 31, 2015 and June 30, 2015, respectively), at cost	(316.9)	(221.1)
Accumulated other comprehensive loss	(337.6)	(328.2)
Total stockholders' equity	1,228.0	1,325.9
Total liabilities and stockholders' equity	$2,840.6	$2,905.9

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in millions, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Net sales	$443.8	$548.4	$899.4	$1,098.2
Cost of sales	377.5	463.4	764.5	944.1
Gross profit	66.3	85.0	134.9	154.1
Selling, general and administrative expenses	44.5	40.0	87.8	86.9
Restructuring charges	—	—	0.4	—
Operating income	21.8	45.0	46.7	67.2
Interest expense	(7.0)	(6.8)	(13.6)	(13.8)
Other income (expense), net	0.3	—	(1.9)	4.8
Income before income taxes	15.1	38.2	31.2	58.2
Income tax expense	3.6	14.1	10.8	20.6
Net income	$11.5	$24.1	$20.4	$37.6
EARNINGS PER COMMON SHARE:				
Basic	$0.23	$0.45	$0.41	$0.70
Diluted	$0.23	$0.45	$0.41	$0.70
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	48.8	53.4	49.3	53.5
Diluted	48.9	53.6	49.4	53.7
Cash dividends per common share	$0.18	$0.18	$0.36	$0.36

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
($ in millions)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Net income	$11.5	$24.1	$20.4	$37.6
Other comprehensive income (loss), net of tax				
Pension and postretirement benefits, net of tax of $(2.3), $(1.9), $(4.6) and $(3.7), respectively	3.7	2.9	7.4	5.9
Net loss on derivative instruments, net of tax of $3.4, $4.3, $6.8 and $15.3, respectively	(5.7)	(7.3)	(11.2)	(25.5)
Foreign currency translation	(2.3)	(10.1)	(5.6)	(18.0)
Other comprehensive loss	(4.3)	(14.5)	(9.4)	(37.6)
Comprehensive income	$7.2	$9.6	$11.0	$—

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
($ in millions)

	Six Months Ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$20.4	$37.6
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	60.3	60.6
Deferred income taxes	2.5	69.5
Net pension expense	26.9	23.0
Share-based compensation expense	4.9	2.2
Net loss on disposal of property and equipment	0.1	0.4
Changes in working capital and other:		
Accounts receivable	33.4	22.7
Inventories	(34.8)	(62.2)
Other current assets	(8.2)	(61.4)
Accounts payable	(17.6)	(28.0)
Accrued liabilities	(11.3)	(25.0)
Pension plan contributions	—	(3.9)
Other postretirement plan contributions	(6.1)	(6.7)
Other, net	1.1	(1.3)
Net cash provided from operating activities	71.6	27.5
INVESTING ACTIVITIES		
Purchases of property, equipment and software	(49.5)	(127.4)
Proceeds from disposals of property and equipment	0.3	0.1
Other	4.0	—
Net cash used for investing activities	(45.2)	(127.3)
FINANCING ACTIVITIES		
Net change in short-term debt	39.5	37.0
Dividends paid	(17.9)	(19.3)
Purchase of treasury stock	(96.3)	(10.0)
Payments on seller financed debt related to purchase of software	(2.5)	—
Tax benefits on share-based compensation	—	0.6
Proceeds from stock options exercised	0.2	0.7
Net cash (used for) provided from financing activities	(77.0)	9.0
Effect of exchange rate changes on cash and cash equivalents	1.7	(0.4)
DECREASE IN CASH AND CASH EQUIVALENTS	(48.9)	(91.2)
Cash and cash equivalents at beginning of period	70.0	120.0
Cash and cash equivalents at end of period	$21.1	$28.8
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash investing activities:		
Acquisition of property, equipment and software	$5.7	$7.6
Non-cash financing activities:		
Seller financed debt related to purchase of software	$—	$4.9

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015 AND 2014
(Unaudited)
($ in millions, except per share data)

	Common Stock					
	Par Value Of $5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balances at June 30, 2015	$276.2	$266.6	$1,332.4	$(221.1)	$ (328.2)	$1,325.9
Net income			20.4			20.4
Pension and postretirement benefits gain, net of tax					7.4	7.4
Net loss on derivative instruments, net of tax					(11.2)	(11.2)
Foreign currency translation					(5.6)	(5.6)
Cash Dividends:						0
Common @ $0.36 per share			(17.9)			(17.9)
Purchase of treasury stock				(96.3)		(96.3)
Share-based compensation plans		4.7		0.5		5.2
Stock options exercised		0.2				0.2
Tax shortfall on share-based compensation		(0.1)				(0.1)
Balances at December 31, 2015	$276.2	$271.4	$1,334.9	$(316.9)	$ (337.6)	$1,228.0

	Common Stock					
	Par Value Of $5	Capital in Excess of Par Value	Reinvested Earnings	Common Stock in Treasury	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balances at June 30, 2014	$275.8	$263.5	$1,311.6	$(101.4)	$ (245.2)	$1,504.3
Net income			37.6			37.6
Pension and postretirement benefits gain, net of tax					5.9	5.9
Net loss on derivative instruments, net of tax					(25.5)	(25.5)
Foreign currency translation					(18.0)	(18.0)
Cash Dividends:						0
Common @ $0.36 per share			(19.3)			(19.3)
Purchase of treasury stock				(10.0)		(10.0)
Share-based compensation plans		(4.3)		4.0		(0.3)
Stock options exercised	0.2	0.5				0.7
Tax windfall on share-based compensation		0.6				0.6
Balances at December 31, 2014	$276.0	$260.3	$1,329.9	$(107.4)	$ (282.8)	$1,476.0

See accompanying notes to consolidated financial statements.

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CARPENTER TECHNOLOGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, considered necessary for a fair statement of the results are reflected in the interim periods presented. The June 30, 2015 consolidated balance sheet data was derived from audited financial statements, but does not include all of the disclosures required by U.S. generally accepted accounting principles. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Carpenter's annual report on Form 10-K for the year ended June 30, 2015 (the "2015 Form 10-K"). Operating results for the three and six months ended December 31, 2015 are not necessarily indicative of the operating results for any future period.

Certain amounts in the consolidated financial statements and notes to the consolidated financial statements for prior year periods have been reclassified to conform to the current period's presentation.

As used throughout this report, unless the context requires otherwise, the terms "Carpenter", the "Company", "Registrant", "Issuer", "we" and "our" refer to Carpenter Technology Corporation.

2. Restructuring Charges

During fiscal year 2015, the Company initiated a restructuring plan, which was substantially concluded during the first quarter of fiscal year 2016. The plan focused on position eliminations, site closures and exiting a material development program.

Activity and reserve balances for restructuring charges at December 31, 2015 were as follows:

($ in millions)	Reserve Balance
Reserve balance at June 30, 2015	$2.3
Cash payments	(1.3)
Restructuring charges	0.4
Other	(0.4)
Reserve balance at December 31, 2015	$1.0

The remaining reserve is expected to be substantially paid in cash during fiscal year 2016.

3. Earnings per Common Share

The Company calculates basic and diluted earnings per share using the two class method. Under the two class method, earnings are allocated to common stock and participating securities (nonvested restricted shares and units that receive non-forfeitable dividends) according to their participation rights in dividends and undistributed earnings. The earnings available to each class of stock are divided by the weighted average number of outstanding shares for the period in each class. Diluted earnings per share assumes the issuance of common stock for all potentially dilutive share

equivalents outstanding.

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CARPENTER TECHNOLOGY CORPORATION
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(Unaudited)

The calculations of basic and diluted earnings per common share for the three and six months ended December 31, 2015 and 2014 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in millions, except per share data)	2015	2014	2015	2014
Net income	$11.5	$24.1	$20.4	$37.6
Less: earnings and dividends allocated to participating securities	—	—	(0.1)	(0.1)
Earnings available for common stockholders used in calculation of basic earnings per common share	$11.5	$24.1	$20.3	$37.5
Weighted average number of common shares outstanding, basic	48.8	53.4	49.3	53.5
Basic earnings per common share	$0.23	$0.45	$0.41	$0.70
Net income	$11.5	$24.1	$20.4	$37.6
Less: earnings and dividends allocated to participating securities	—	—	(0.1)	(0.1)
Earnings available for common stockholders used in calculation of diluted earnings per common share	$11.5	$24.1	$20.3	$37.5
Weighted average number of common shares outstanding, basic	48.8	53.4	49.3	53.5
Effect of shares issuable under share-based compensation plans	0.1	0.2	0.1	0.2
Weighted average number of common shares outstanding, diluted	48.9	53.6	49.4	53.7
Diluted earnings per common share	$0.23	$0.45	$0.41	$0.70

The following awards issued under share-based compensation plans were excluded from the above calculations of diluted earnings per share because their effects were anti-dilutive:

	Three Months Ended December 31,		Six Months Ended December 31,	
(in millions)	2015	2014	2015	2014
Stock options	1.5	0.7	1.4	0.6

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(Unaudited)

4. Inventories

Inventories consisted of the following components as of December 31, 2015 and June 30, 2015:

($ in millions)	December 31, 2015	June 30, 2015
Raw materials and supplies	$158.6	$121.7
Work in process	312.3	346.1
Finished and purchased products	216.8	188.0
Total inventory	$687.7	$655.8

Inventories are valued at the lower of cost or market. Cost for inventories is principally determined using the last-in, first-out (“LIFO”) method. The Company also uses the first-in, first-out (“FIFO”) and average costs methods.

5. Book Overdrafts

Checks outstanding in excess of bank balances create net book overdrafts, which are recorded in accounts payable in the consolidated balance sheets and are reflected as an operating activity in the consolidated statements of cash flows. As of December 31, 2015 and June 30, 2015, the Company had net book overdrafts in certain banks of $8.1 million and $0.0 million, respectively.

6. Accrued Liabilities

Accrued liabilities consisted of the following as of December 31, 2015 and June 30, 2015:

($ in millions)	December 31, 2015	June 30, 2015
Derivative financial instruments	$49.7	$32.7
Accrued compensation and benefits	40.3	44.3
Accrued postretirement benefits	14.0	14.0
Accrued interest expense	11.2	11.2
Accrued pension liabilities	3.4	3.3
Accrued income taxes	1.8	8.7
Other	35.2	38.4
Total accrued liabilities	$155.6	$152.6

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(Unaudited)

7. Pension and Other Postretirement Benefits

The components of the net periodic benefit cost related to the Company's pension and other postretirement benefits for the three and six months ended December 31, 2015 and 2014 were as follows:

Three months ended December 31,	Pension Plans		Other Postretirement Plans	
($ in millions)	2015	2014	2015	2014
Service cost	$7.8	$8.0	$0.8	$1.1
Interest cost	14.4	13.5	2.5	3.0
Expected return on plan assets	(16.4)	(17.2)	(1.7)	(1.7)
Amortization of net loss	6.8	4.2	0.7	0.5
Amortization of prior service cost (benefit)	0.1	0.1	(1.6)	—
Net periodic benefit costs	$12.7	$8.6	$0.7	$2.9
Six months ended December 31,	Pension Plans		Other Postretirement Plans	
($ in millions)	2015	2014	2015	2014
Service cost	$15.6	$16.0	$1.7	$2.2
Interest cost	28.8	27.0	5.2	5.9
Expected return on plan assets	(32.9)	(34.4)	(3.5)	(3.3)
Amortization of net loss	13.7	8.4	1.4	1.0
Amortization of prior service cost (benefit)	0.2	0.2	(3.3)	—
Net periodic benefit costs	$25.4	$17.2	$1.5	$5.8

During the six months ended December 31, 2015 and 2014, the Company made $0 million and $3.9 million, respectively, of contributions to its qualified defined benefit pension plans. The Company currently expects to make no contributions to its qualified defined benefit pension plans during the remainder of fiscal year 2016.

8. Debt

The Company's $500.0 million syndicated credit facility ("Credit Agreement") extends to June 2018. Interest on the borrowings under the Credit Agreement accrue at variable rates, based upon LIBOR or a defined "Base Rate," both determined based upon the rating of the Company's senior unsecured long-term debt (the "Debt Rating"). The applicable margin to be added to LIBOR ranges from 0.75% to 1.90% (1.25% as of December 31, 2015), and for Base Rate-determined loans, from 0.00% to 0.90% (0.25% as of December 31, 2015). The Company also pays a quarterly commitment fee ranging from 0.075% to 0.375% (0.150% as of December 31, 2015), determined based upon the Debt Rating, of the unused portion of the $500.0 million commitment under the Credit Agreement. In addition, the Company must pay certain letter of credit fees, ranging from 0.75% to 1.90% (1.25% as of December 31, 2015), with respect to letters of credit issued under the Credit Agreement. The Company has the right to voluntarily prepay and reborrow loans and to terminate or reduce the commitments under the facility. As of December 31, 2015, the Company had $7.6 million of issued letters of credit and $39.5 million of short-term borrowings under the Credit Agreement, with the balance of $452.9 million available to the Company.

The Company is subject to certain financial and restrictive covenants under the Credit Agreement, which, among other things, require the maintenance of a minimum interest coverage ratio of 3.50 to 1.00. The interest coverage ratio is defined in the Credit Agreement as, for any period, the ratio of consolidated earnings before interest, taxes, depreciation and amortization and non-cash net pension expense ("EBITDA") to consolidated interest expense for such

period. The Credit Agreement also requires the Company to maintain a debt to capital ratio of less than 55 percent. The debt to capital ratio is defined in the Credit Agreement as the ratio of consolidated indebtedness, as defined therein, to consolidated capitalization, as defined therein. As of December 31, 2015 and June 30, 2015, the Company was in compliance with all of the covenants of the Credit Agreement.

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CARPENTER TECHNOLOGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Long-term debt outstanding as of December 31, 2015 and June 30, 2015 consisted of the following:

($ in millions)	December 31, 2015	June 30, 2015
Medium-term notes, Series B at 6.97% to 7.10% due from April 2018 to May 2018 (face value of $55.0 million at December 31, 2015 and June 30, 2015)	$55.0	$55.0
Senior unsecured notes, 5.20% due July 2021 (face value of $250.0 million at December 31, 2015 and June 30, 2015)	253.7	252.5
Senior unsecured notes, 4.45% due March 2023 (face value of $300.0 million at December 31, 2015 and June 30, 2015)	299.7	299.6
Total	608.4	607.1
Less: amounts due within one year	—	—
Long-term debt, net of current portion	$608.4	$607.1

For the three months ended December 31, 2015 and 2014, interest costs totaled $7.5 million and $7.5 million, respectively, of which $0.5 million and $0.7 million, respectively, were capitalized as part of the cost of property, plant, equipment and software. For the six months ended December 31, 2015 and 2014, interest costs totaled $14.7 million and $15.1 million, respectively, of which $1.1 million and $1.3 million, respectively, were capitalized as part of the cost of property, plant, equipment and software.

9. Contingencies and Commitments

Environmental

The Company is subject to various federal, state, local and international environmental laws and regulations relating to pollution, protection of public health and the environment, natural resource damages and occupational safety and health. Although compliance with these laws and regulations may affect the costs of the Company's operations, compliance costs to date have not been material. The Company has environmental remediation liabilities at some of its owned operating facilities and has been designated as a potentially responsible party ("PRP") with respect to certain third party Superfund waste-disposal sites and other third party-owned sites. The Company accrues amounts for environmental remediation costs that represent management's best estimate of the probable and reasonably estimable future costs related to environmental remediation. During the six months ended December 31, 2015, the Company increased the liability for a company-owned former operating site by $0.1 million. The liabilities recorded for environmental remediation costs at Superfund sites, other third party-owned sites and Carpenter-owned current or former operating facilities remaining at December 31, 2015 and June 30, 2015 were $16.0 million and $15.9 million, respectively. Additionally, the Company has been notified that it may be a PRP with respect to other Superfund sites as to which no proceedings have been instituted against the Company. Neither the exact amount of remediation costs nor the final method of their allocation among all designated PRP's at these Superfund sites have been determined. Accordingly, at this time, the Company cannot reasonably estimate expected costs for such matters. The liability for future environmental remediation costs that can be reasonably estimated is evaluated by management on a quarterly basis.

Other

The Company is defending various routine claims and legal actions that are incidental to its business and common to its operations, including those pertaining to product claims, commercial disputes, patent infringement, employment actions, employee benefits, compliance with domestic and foreign laws, personal injury claims and tax issues. Like many other manufacturing companies in recent years, the Company, from time to time, has been named as a defendant in lawsuits alleging personal injury as a result of exposure to chemicals and substances in the workplace such as asbestos. The Company provides for costs relating to these matters when a loss is probable and the amount of the loss is reasonably estimable. The effect of the outcome of these matters on the Company’s future results of operations and liquidity cannot be predicted because any such effect depends on future results of operations and the amount and timing (both as to recording future charges to operations and cash expenditures) of the resolution of such matters. While it is not feasible to determine the outcome of these matters, management believes that the total liability from these matters will not have a material effect on the Company’s financial position, results of operations or cash flows over the long-term. However, there can be no assurance that an increase in the scope of pending matters or that any future lawsuits, claims, proceedings or investigations will not be material to the Company’s financial position, results of operations or cash flows in a particular future quarter or year.

10. Share Repurchase Program

In October 2014, the Company’s Board of Directors authorized a share repurchase program. The program authorizes the purchase of up to $500.0 million of the Company’s outstanding common stock over two years. The shares may be repurchased from time to time at the Company's discretion based on capital needs of the business, general market conditions and the market price of the stock. The share repurchase program may be discontinued at any time. During the six months ended December 31, 2015, the Company purchased 2,730,183 of its common stock on the open market for an aggregate of $96.3 million. As of December 31, 2015, $279.2 million remains available for future purchases.

11. Fair Value Measurements

The fair value hierarchy has three levels based on the inputs used to determine fair value. Level 1 refers to quoted prices in active markets for identical assets or liabilities. Level 2 refers to observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3 refers to unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. Currently, the Company does not use Level 1 and 3 inputs.

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CARPENTER TECHNOLOGY CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy:

December 31, 2015	Fair Value Measurements Using Input Type
($ in millions)	Level 2
Assets:	
Marketable securities	
Municipal auction rate securities	$5.0
Derivative financial instruments	6.8
Total assets	$11.8
Liabilities:	
Derivative financial instruments	$73.3

June 30, 2015	Fair Value Measurements Using Input Type
($ in millions)	Level 2
Assets:	
Marketable securities	
Municipal auction rate securities	$5.0
Derivative financial instruments	4.4
Total assets	$9.4
Liabilities:	
Derivative financial instruments	$53.5

The Company's derivative financial instruments consist of commodity forward contracts, foreign currency forward contracts and interest rate swaps. These instruments are measured at fair value using the market method valuation technique. The inputs to this technique utilize information related to foreign exchange rates, commodity prices and interest rates published by third party leading financial news and data providers. This is observable data; however, the valuation of these instruments is not based on actual transactions for the same instruments and, as such, they are classified as Level 2. The Company's use of derivatives and hedging policies are more fully discussed in Note 12.

The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States of America.

The carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of these items. The carrying amounts and estimated fair values of the Company's financial instruments not recorded at fair value in the financial statements were as follows:

	December 31, 2015		June 30, 2015	
($ in millions)	Carrying	Fair	Carrying	Fair

	Value	Value	Value	Value
Long-term debt	$608.4	$598.4	$607.1	$628.6
Company-owned life insurance	$13.0	$13.0	$13.0	$13.0

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The carrying amount of company-owned life insurance reflects cash surrender values based upon the market values of underlying securities, using Level 2 inputs, net of any outstanding policy loans. The carrying value associated with the cash surrender value of these policies is recorded in other assets in the accompanying consolidated balance sheets.

The fair values of long-term debt as of December 31, 2015 and June 30, 2015 were determined by using current interest rates for debt with terms and maturities similar to the Company's existing debt arrangements and accordingly would be classified as Level 2 inputs in the fair value hierarchy.

12. Derivatives and Hedging Activities

The Company uses commodity forwards, interest rate swaps, forward interest rate swaps and foreign currency forwards to manage risks generally associated with commodity price, interest rate and foreign currency rate fluctuations. The following explains the various types of derivatives and includes a recap about the impact the derivative instruments had on the Company's financial position, results of operations and cash flows.

Cash Flow Hedging — Commodity forward contracts: The Company enters into commodity forward contracts to fix the price of a portion of anticipated future purchases of certain critical raw materials and energy to manage the risk of cash flow variability associated with volatile commodity prices. The commodity forward contracts have been designated as cash flow hedges. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in accumulated other comprehensive income (loss) ("AOCI") to the extent effective, and reclassified to cost of sales in the period during which the hedged transaction affects earnings or it becomes probable that the forecasted transaction will not occur. As of December 31, 2015, the Company had forward contracts to purchase 25.0 million pounds of certain raw materials with settlement dates through December 2020.

Cash Flow Hedging — Forward interest rate swaps: Historically, the Company has entered into forward interest rate swap contracts to manage the risk of cash flow variability associated with fixed interest debt expected to be issued. The forward interest rate swaps were designated as cash flow hedges. The qualifying hedge contracts were marked-to-market at each reporting date and any unrealized gains or losses were included in AOCI to the extent effective, and reclassified to interest expense in the period during which the hedged transaction affected earnings or it became probable that the forecasted transaction would not occur. Upon the issuance of the fixed rate debt, the forward interest rate swap contracts were terminated. The realized gains at the time the interest rate swap contracts were terminated are being amortized over the term of the underlying debt. For the three months ended December 31, 2015 and 2014, net gains of $0.1 million and $0.1 million, respectively, related to the previously terminated contracts were recorded as a reduction to interest expense. For the six months ended December 31, 2015 and 2014, net gains of $0.2 million and $0.2 million, respectively, related to the previously terminated contracts were recorded as a reduction to interest expense.

Cash Flow Hedging — Foreign currency forward contracts: The Company uses foreign currency forward contracts to hedge a portion of anticipated future sales denominated in foreign currencies, principally the Euro and Pound Sterling, in order to offset the effect of changes in exchange rates. The qualifying hedge contracts are marked-to-market at each reporting date and any unrealized gains or losses are included in AOCI to the extent effective, and reclassified to net sales in the period during which the transaction affects earnings or it becomes probable that the forecasted transaction will not occur.

The Company also uses foreign currency forward contracts to protect certain short-term asset positions denominated in foreign currencies against the effect of changes in exchange rates. These positions do not qualify for hedge accounting and accordingly are marked-to-market at each reporting date through charges to other income and expense. As of December 31, 2015 and June 30, 2015, the fair value of the outstanding foreign currency forwards not designated as hedging instruments and the charges to income for changes in fair value for these contracts were not material.

Fair Value Hedging - Interest rate swaps: The Company uses interest rate swaps to achieve a level of floating rate debt relative to fixed rate debt where appropriate. The Company has designated fixed to floating interest rate swaps as fair value hedges. Accordingly, the changes in the fair value of these instruments are immediately recorded in earnings. The mark-to-market values of both the fair value hedging instruments and the underlying debt obligations are recorded as equal and offsetting gains and losses in interest expense in the consolidated statements of income. As of December 31, 2015 and June 30, 2015, the total notional amount of floating interest rate contracts was $150.0 million. For the three months ended December 31, 2015 and 2014, net gains of $0.6 million and $0.9 million, respectively, were recorded as a reduction to interest expense. For the six months ended December 31, 2015 and 2014, net gains of $1.3 million and $1.2 million, respectively, were recorded as a reduction to interest expense.

The fair value and location of outstanding derivative contracts recorded in the accompanying consolidated balance sheets were as follows as of December 31, 2015 and June 30, 2015:

December 31, 2015 ($ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Other current assets	$1.2	$0.9	$0.7	$2.8
Other assets	4.0	—	—	4.0
Total asset derivatives	$5.2	$0.9	$0.7	$6.8
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Accrued liabilities	$—	$—	$49.7	$49.7
Other liabilities	—	—	23.6	23.6
Total liability derivatives	$—	$—	$73.3	$73.3

June 30, 2015 ($ in millions)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Total Derivatives
Asset Derivatives:				
Derivatives designated as hedging instruments:				
Other current assets	$1.5	$0.2	$—	$1.7
Other assets	2.7	—	—	2.7
Total asset derivatives	$4.2	$0.2	$—	$4.4
Liability Derivatives:				
Derivatives designated as hedging instruments:				
Accrued liabilities	$—	$—	$32.7	$32.7
Other liabilities	—	—	20.8	20.8
Total liability derivatives	$—	$—	$53.5	$53.5

Substantially all of the derivative contracts are subject to master netting arrangements, or similar agreements with each counterparty, which provide for the option to settle contracts on a net basis when they settle on the same day and in the same currency. In addition, these arrangements provide for a net settlement of all contracts with a given counterparty in the event that the arrangement is terminated due to the occurrence of default or a termination event.

The Company presents the outstanding derivative contracts on a net basis by counterparty in the consolidated balance sheets. If the Company had chosen to present the derivative contracts on a gross basis, the total asset derivatives would have been $8.6 million and total liability derivatives would have been $75.1 million as of December 31, 2015.

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According to the provisions of the Company's derivative arrangements, in the event that the fair value of outstanding derivative positions with certain counterparties exceeds certain thresholds, the Company may be required to issue cash collateral to the counterparties. As of December 31, 2015 and June 30, 2015, the Company had $0.7 million and $0.0 million cash collateral held by counterparties, respectively.

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

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings or it becomes probable the forecasted transactions will not occur. The following is a summary of the (losses) gains related to cash flow hedges recognized during the three and six months ended December 31, 2015 and 2014:

($ in millions)	Amount of (Loss) Gain Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended December 31, 2015	2014	Six Months Ended December 31, 2015	2014
Derivatives in Cash Flow Hedging Relationship:				
Commodity contracts	$(20.2)	$(14.8)	$(38.7)	$(43.2)
Foreign exchange contracts	0.3	0.5	0.5	2.1
Total	$(19.9)	$(14.3)	$(38.2)	$(41.1)

($ in millions)	Location of (Loss) Gain Reclassified from AOCI into Income	Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) Three Months Ended December 31, 2015	2014	Amount of (Loss) Gain Reclassified from AOCI into Income (Ineffective Portion) Three Months Ended December 31, 2015	2014
Derivatives in Cash Flow Hedging Relationship:					
Commodity contracts	Cost of sales	$(11.1)	$(3.5)	$1.0	$(0.6)
Foreign exchange contracts	Net sales	0.2	0.7	—	—
Forward interest rate swaps	Interest expense	0.1	0.1	—	—
Total		$(10.8)	$(2.7)	$1.0	$(0.6)

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($ in millions)	Location of (Loss) Gain Reclassified from AOCI into Income	Amount of (Loss) Gain Reclassified from AOCI into Income (Effective Portion) Six Months Ended December 31,		Amount of (Loss) Gain Reclassified from AOCI into Income (Ineffective Portion) Six Months Ended December 31,	
		2015	2014	2015	2014
Derivatives in Cash Flow Hedging Relationship:					
Commodity contracts	Cost of sales	$(20.5)	$(1.5)	$1.0	$(0.2)
Foreign exchange contracts	Net sales	0.1	1.0	—	—
Forward interest rate swaps	Interest expense	0.2	0.2	—	—
Total		$(20.2)	$(0.3)	$1.0	$(0.2)

The Company estimates that $26.6 million of net derivative losses included in AOCI as of December 31, 2015 will be reclassified into earnings within the next 12 months. No significant cash flow hedges were discontinued during the three and six months ended December 31, 2015.

13. Other Income (Expense), Net