
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2016**

or

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

For the transition period from to

Commission File Number: **001-33288**

HAYNES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1185400
(I.R.S. Employer Identification No.)

1020 West Park Avenue, Kokomo, Indiana
(Address of principal executive offices)

46904-9013
(Zip Code)

Registrant's telephone number, including area code **(765) 456-6000**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of August 4, 2016, the registrant had 12,491,149 shares of Common Stock, \$.001 par value, outstanding.

QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Unaudited Condensed Consolidated Financial Statements</u> <u>Haynes International, Inc. and Subsidiaries:</u>
	<u>Unaudited Consolidated Balance Sheets as of September 30, 2015 and June 30, 2016</u>
	3
	<u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2015 and 2016</u>
	4
	<u>Unaudited Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended June 30, 2015 and 2016</u>
	5
	<u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2015 and 2016</u>
	6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>
	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	28
<u>Item 4.</u>	<u>Controls and Procedures</u>
	28
<u>PART II</u>	<u>OTHER INFORMATION</u>
<u>Item 6.</u>	<u>Exhibits</u>
	29
	<u>Signatures</u>
	30
	<u>Index to Exhibits</u>
	31

PART 1 FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands, except share and per share data)

	September 30, 2015	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,045	\$ 44,418
Restricted cash (Note 16)	—	9,200
Accounts receivable, less allowance for doubtful accounts of \$869 and \$757 at September 30, 2015 and June 30, 2016, respectively	75,593	67,261
Inventories	247,836	245,626
Income taxes receivable	3,699	7,949
Deferred income taxes—current portion	6,295	—
Other current assets	2,974	3,052
Total current assets	385,442	377,506
Property, plant and equipment, net	185,351	192,129
Deferred income taxes—long term portion	53,958	53,906
Prepayments and deferred charges	1,877	1,933
Goodwill	4,789	4,789
Other intangible assets, net	6,774	6,399
Total assets	\$ 638,191	\$ 636,662
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 29,386	\$ 30,884
Accrued expenses	16,576	12,303
Accrued pension and postretirement benefits	4,965	4,965
Deferred revenue—current portion	2,500	13,751
Total current liabilities	53,427	61,903
Long-term obligations (less current portion)	4,574	4,575
Deferred revenue (less current portion)	25,329	23,454
Deferred income taxes	—	1,707
Accrued pension benefits (less current portion)	107,208	103,381
Accrued postretirement benefits (less current portion)	105,664	104,714
Total liabilities	296,202	299,734
Commitments and contingencies (Note 6)	—	—
Stockholders' equity:		
Common stock, \$0.001 par value (40,000,000 shares authorized, 12,467,498 and 12,520,608 shares issued and 12,446,000 and 12,491,149 outstanding at September 30, 2015 and June 30, 2016, respectively)	12	12
Preferred stock, \$0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding)	—	—
Additional paid-in capital	244,488	246,081
Accumulated earnings	186,533	180,151
Treasury stock, 21,498 shares at September 30, 2015 and 29,159 shares at June 30, 2016	(1,091)	(1,380)
Accumulated other comprehensive loss	(87,953)	(87,936)
Total stockholders' equity	341,989	336,928
Total liabilities and stockholders' equity	\$ 638,191	\$ 636,662

The accompanying notes are an integral part of these financial statements.

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Net revenues	\$ 121,270	\$ 101,255	\$ 370,634	\$ 298,836
Cost of sales	97,119	87,990	298,375	264,578
Gross profit	24,151	13,265	72,259	34,258
Selling, general and administrative expense	12,412	9,211	31,767	29,011
Research and technical expense	878	916	2,691	2,744
Operating income	10,861	3,138	37,801	2,503
Interest income	(21)	(29)	(64)	(74)
Interest expense	36	138	68	415
Income before income taxes	10,846	3,029	37,797	2,162
Provision for income taxes	4,244	237	13,095	304
Net income	<u>\$ 6,602</u>	<u>\$ 2,792</u>	<u>\$ 24,702</u>	<u>\$ 1,858</u>
Net income per share:				
Basic	<u>\$ 0.53</u>	<u>\$ 0.22</u>	<u>\$ 1.99</u>	<u>\$ 0.15</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.22</u>	<u>\$ 1.98</u>	<u>\$ 0.15</u>
Dividends declared per common share	<u>\$ 0.22</u>	<u>\$ 0.22</u>	<u>\$ 0.66</u>	<u>\$ 0.66</u>

The accompanying notes are an integral part of these financial statements.

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Net income	\$ 6,602	\$ 2,792	\$ 24,702	\$ 1,858
Other comprehensive income (loss), net of tax:				
Pension and postretirement	1,255	1,976	3,762	5,928
Foreign currency translation adjustment	3,381	(3,745)	(1,864)	(5,911)
Other comprehensive income (loss)	4,636	(1,769)	1,898	17
Comprehensive income	<u>\$ 11,238</u>	<u>\$ 1,023</u>	<u>\$ 26,600</u>	<u>\$ 1,875</u>

The accompanying notes are an integral part of these financial statements.

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	<u>Nine Months Ended June 30,</u>	
	<u>2015</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 24,702	\$ 1,858
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	13,898	15,316
Amortization	385	375
Pension and post-retirement expense - U.S. and U.K.	9,591	14,394
Change in long-term obligations	(778)	38
Stock compensation expense	1,609	1,432
Excess tax expense from restricted stock vesting	52	149
Deferred revenue	(1,875)	9,376
Deferred income taxes	624	4,007
Loss on disposition of property	180	213
Change in assets and liabilities:		
Restricted cash	—	(9,200)
Accounts receivable	(2,341)	5,830
Inventories	(7,742)	(2,133)
Other assets	389	(144)
Accounts payable and accrued expenses	4,028	(1,718)
Income taxes	269	(3,653)
Accrued pension and postretirement benefits	(4,112)	(9,794)
Net cash provided by operating activities	<u>38,879</u>	<u>26,346</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(14,049)	(22,102)
Acquisition of Leveltek - LaPorte assets	(14,600)	—
Net cash used in investing activities	<u>(28,649)</u>	<u>(22,102)</u>
Cash flows from financing activities:		
Dividends paid	(8,214)	(8,240)
Proceeds from exercise of stock options	—	310
Payment for purchase of treasury stock	(251)	(289)
Excess tax expense from restricted stock vesting	(52)	(149)
Payments on long-term obligation	—	(37)
Net cash used in financing activities	<u>(8,517)</u>	<u>(8,405)</u>
Effect of exchange rates on cash	(349)	(466)
Increase (decrease) in cash and cash equivalents:	1,364	(4,627)
Cash and cash equivalents:		
Beginning of period	45,871	49,045
End of period	<u>\$ 47,235</u>	<u>\$ 44,418</u>
Supplemental disclosures of cash flow information:		
Interest (net of capitalized interest)	<u>\$ 19</u>	<u>\$ 366</u>
Income taxes paid (net of refunds)	<u>\$ 12,189</u>	<u>\$ (48)</u>
Capital expenditures incurred but not yet paid	<u>\$ 1,269</u>	<u>\$ 2,521</u>
Capital lease obligation incurred	<u>\$ 4,500</u>	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share and per share data)

Note 1. Basis of Presentation

Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, and such principles are applied on a basis consistent with information reflected in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC related to interim financial statements. In the opinion of management, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments, which are necessary for a fair presentation of results for the respective interim periods. The results of operations for the three and nine months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full fiscal year ending September 30, 2016 or any interim period.

Principles of Consolidation

The consolidated financial statements include the accounts of Haynes International, Inc. and its directly and indirectly wholly-owned subsidiaries (collectively, the "Company"). All intercompany transactions and balances are eliminated.

Note 2. New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The objective of the update is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the methods of adoption allowed by the new standard and the effect, if any, on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. The objective of this update was to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. It is effective for annual reporting periods beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2017. The adoption of these changes is not expected to have a material impact to the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-15, *Interest – Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. In August 2015, the FASB clarified ASU 2015-15 to address presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. This amendment allows for the reporting entity to defer and present debt issuance costs as an asset and subsequently amortize the debt issuance costs over the term of the line-of-credit agreement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement, including interim periods within that reporting period. It is effective for fiscal 2017, including interim periods, and is not expected to result in a material impact to the Company's consolidated financial statements or the related disclosures.

In February, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new guidance will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for fiscal years beginning after December 18, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The objective of this update was to simplify the accounting for share-based payment transactions, including the income tax consequences of awards as either equity or liabilities, and classification on the statement of cash flows. The new share-based compensation accounting requirements are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Note 3. Inventories

The following is a summary of the major classes of inventories:

	September 30, 2015	June 30, 2016
Raw Materials	\$ 27,152	\$ 21,975
Work-in-process	117,601	109,668
Finished Goods	101,731	112,680
Other	1,352	1,303
	<u>\$ 247,836</u>	<u>\$ 245,626</u>

Note 4. Income Taxes

Income tax expense for the three and nine months ended June 30, 2015 and 2016 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes, differing tax rates on foreign earnings and discrete tax items that impacted income tax expense in these periods. The effective tax rate for the three months ended June 30, 2016 was 7.8% compared to 39.1% in the same period of fiscal 2015. The effective tax rate for the nine months ended June 30, 2016 was 14.0% compared to 34.6% in the same period of fiscal 2015. The lower effective tax rate for the third quarter and the first nine months of fiscal 2016 is primarily attributable to a research and development tax credit that was recognized in the third quarter of fiscal 2016, which decreased tax expense by approximately \$800.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The objective of this update was to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent on the Consolidated Balance Sheet. The Company chose to adopt this standard change prospectively beginning in the first quarter of fiscal 2016.

Note 5. Pension and Post-retirement Benefits

Components of net periodic pension and post-retirement benefit cost for the three and nine months ended June 30, 2015 and 2016 were as follows:

	Three Months Ended June 30,				Nine Months Ended June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2015	2016	2015	2016	2015	2016	2015	2016
Service cost	\$ 975	\$ 1,020	\$ 84	\$ 58	\$ 2,924	\$ 3,060	\$ 253	\$ 174
Interest cost	2,787	2,549	1,097	1,149	8,010	8,262	3,289	3,447
Expected return	(3,761)	(2,978)	—	—	(10,807)	(9,753)	—	—
Amortizations	1,381	2,320	608	706	4,097	7,086	1,825	2,118
Net periodic benefit cost	<u>\$ 1,382</u>	<u>\$ 2,911</u>	<u>\$ 1,789</u>	<u>\$ 1,913</u>	<u>\$ 4,224</u>	<u>\$ 8,655</u>	<u>\$ 5,367</u>	<u>\$ 5,739</u>

The Company contributed \$4,500 to Company-sponsored domestic pension plans, \$4,569 to its other post-retirement benefit plans and \$651 to the U.K. pension plan for the nine months ended June 30, 2016. The Company presently expects future contributions of \$1,500 to its U.S. pension plan, \$1,250 to its other post-retirement benefit plan, and \$200 to the U.K. pension plan for the remainder of fiscal 2016.

Note 6. Legal, Environmental, and Other Contingencies

The Company is regularly involved in litigation, both as a plaintiff and as a defendant, relating to its business and operations, including environmental, commercial, employment and federal and/or state Equal Employment Opportunity Commission administrative actions. Future expenditures for environmental, employment, intellectual property and other legal matters cannot be determined with any degree of certainty; however, based on the facts presently known, management does not believe that such costs will have a material effect on the Company's financial position, results of operations or cash flows.

The Company is currently, and has in the past been, subject to claims involving personal injuries allegedly relating to its products and processes. For example, the Company is presently involved in two actions involving welding rod-related injuries, which were filed in California state court against numerous manufacturers, including the Company, in May 2006 and February 2007, respectively, alleging that the welding-related products of the defendant manufacturers harmed the users of such products through the inhalation of

[Table of Contents](#)

welding fumes containing manganese. The Company is also involved in three actions related to asbestos in its facilities, which were filed in 2012 and 2014. The Company believes that it has defenses to these lawsuits and that, if the Company were to be found liable, the cases would not have a material effect on its financial position, results of operations or liquidity.

The Company has received permits from the Indiana Department of Environmental Management, or IDEM, to close and to provide post-closure monitoring and care for certain areas at the Kokomo facility previously used for the storage and disposal of wastes, some of which are classified as hazardous under applicable regulations. Closure certification was received in fiscal 1988 for the South Landfill at the Kokomo facility, and post-closure monitoring and care is ongoing there. Closure certification was received in fiscal 1999 for the North Landfill at the Kokomo facility, and post-closure monitoring and care are permitted and ongoing there. The Company also has a single post-closure permit applicable to both the North and South Landfills, which contains monitoring and post-closure care requirements. In addition, IDEM required that a Resource Conservation and Recovery Act, or RCRA, Facility Investigation, or RFI be conducted in order to further evaluate one additional area of concern and one additional solid waste management unit. The RFI commenced in fiscal 2008 and is ongoing. Based on preliminary results, the Company has determined that additional testing and further source remediation are necessary.

The Company has also received permits from the North Carolina Department of Environment and Natural Resources, or NCDENR, to close and provide post-closure monitoring and care for the hazardous waste lagoon at its Mountain Home, North Carolina facility. The lagoon area has been closed and is currently undergoing post-closure monitoring and care. The Company is required to monitor groundwater and to continue post-closure maintenance of the former disposal areas at each site. As a result, the Company is aware of elevated levels of certain contaminants in the groundwater, and additional corrective action by the Company could be required.

On August 3, 2012, the Company received an information request from the United States Environmental Protection Agency, or EPA, relating to the Company's compliance with laws relating to air quality. The Company responded to the request, and there has been no further action by the EPA.

As of September 30, 2015 and June 30, 2016, the Company has accrued \$749 for post-closure monitoring and maintenance activities, of which \$662 is included in long-term obligations as it is not due within one year. Accruals for these costs are calculated by estimating the cost to monitor and maintain each post-closure site and multiplying that amount by the number of years remaining in the post-closure monitoring.

Expected expenditures for post-closure monitoring and maintenance activities (discounted) included in long-term obligations were as follows at June 30, 2016.

2016	\$	—
2017		73
2018		77
2019		58
2020		49
2021 and thereafter		405
	\$	<u>662</u>

Note 7. Deferred Revenue

On November 17, 2006, the Company entered into a twenty-year agreement to provide conversion services to Titanium Metals Corporation ("TIMET") for up to ten million pounds of titanium metal annually. TIMET paid the Company a \$50,000 up-front fee and will also pay the Company for its processing services during the term of the agreement at prices established by the terms of the agreement. TIMET may exercise an option to have ten million additional pounds of titanium converted annually, provided that it offers to loan up to \$12,000 to the Company for certain capital expenditures which may be required to expand capacity. In addition to the volume commitment, the Company has granted TIMET a first priority security interest in its four-high Steckel rolling mill, along with rights of access if the Company enters into bankruptcy or defaults on any financing arrangements. The Company has agreed not to manufacture titanium products (other than cold reduced titanium tubing). The Company has also agreed not to provide titanium hot-rolling conversion services to any entity other than TIMET for the term of the agreement. The agreement contains certain default provisions which could result in contract termination and damages, including liquidated damages of \$25,000 and the Company being required to return the unearned portion of the up-front fee. The Company considered each provision and the likelihood of the occurrence of a default that would result in liquidated damages. Based on the nature of the events that could trigger the liquidated damages clause, and the availability of the cure periods set forth in the agreement, the Company determined and continues to believe that none of these circumstances are reasonably likely to occur. Therefore, events resulting in liquidated damages have not been factored in as a reduction to the amount of revenue recognized over the life of the contract. The cash received of \$50,000 is recognized in income on a straight-

[Table of Contents](#)

line basis over the 20-year term of the agreement. If an event of default occurred and was not cured within any applicable grace period, the Company would recognize the impact of the liquidated damages in the period of default and re-evaluate revenue recognition under the contract for future periods. The portion of the up-front fee not recognized in income is shown as deferred revenue on the consolidated balance sheet.

In the first nine months of fiscal 2016, the Company received advance payments of \$16,069 related to special projects of which \$4,818 was recognized as revenue upon shipment, during the three month period ended June 30, 2016. The remaining amount of \$11,251 will be recognized as revenue when product ships to the customer.

Note 8. Goodwill and Other Intangible Assets, Net

The Company has goodwill, patents, trademarks, customer relationships and other intangibles. As the patents and customer relationships have a definite life, they are amortized over lives ranging from two to sixteen years. The company reviews patents and customer relationships for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of the asset to the discounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset.

Goodwill and trademarks (indefinite lived) are tested for impairment at least annually as of January 31 for goodwill and August 31 for trademarks (the annual impairment testing dates), or more frequently if impairment indicators exist. If the carrying value of a trademark exceeds its fair value (determined using an income approach, based upon a discounted cash flow of an assumed royalty rate), impairment of the trademark may exist resulting in a charge to earnings to the extent of the impairment. The impairment test for goodwill is performed using a two-step approach. The first step is the estimation of the fair value of the relevant reporting unit, which is compared to its carrying value. No impairment was recognized in the period ended June 30, 2016 because the fair value of the Company's reporting unit accounting for the Company's goodwill (as described below) exceeded its carrying value.

On January 7, 2015, the Company acquired the assets and operations of Leveltek Processing, LLC in LaPorte, Indiana for \$14,600 in cash (See Note 14, Acquisition). In connection with the acquisition, the Company recorded goodwill of \$4,789 and customer relationships intangible assets of \$2,100. As the customer relationships have a definite life, the Company amortizes them over a period of 16 years under an accelerated method and tests them for impairment at least annually as of August 31 (the annual impairment testing date).

The following represents the changes in the carrying value of goodwill for the nine month period ended June 30, 2016:

Goodwill at September 30, 2015	\$	4,789
Adjustments		—
Goodwill at June 30, 2016	\$	4,789

Amortization of customer relationships, patents, non-competes and other intangibles was \$144 and \$124 for the three-month periods ended June 30, 2015 and 2016, respectively, and \$385 and \$375 for the nine-month periods ended June 30, 2015 and 2016, respectively.

[Table of Contents](#)

The following represents a summary of intangible assets at September 30, 2015 and June 30, 2016:

September 30, 2015	Gross Amount	Accumulated Amortization	Carrying Amount
Patents	\$ 4,030	\$ (3,091)	\$ 939
Trademarks	3,800	—	3,800
Customer relationships	2,100	(119)	1,981
Other	330	(276)	54
	<u>\$ 10,260</u>	<u>\$ (3,486)</u>	<u>\$ 6,774</u>

June 30, 2016	Gross Amount	Accumulated Amortization	Carrying Amount
Patents	\$ 4,030	\$ (3,300)	\$ 730
Trademarks	3,800	—	3,800
Customer relationships	2,100	(236)	1,864
Other	330	(325)	5
	<u>\$ 10,260</u>	<u>\$ (3,861)</u>	<u>\$ 6,399</u>

Estimated future Aggregate Amortization Expense:**Year Ended September 30,**

2016	115
2017	431
2018	427
2019	245
2020	140
Thereafter	1,241

Note 9. Net Income (Loss) Per Share

The Company accounts for earnings per share using the two-class method. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to participation rights in undistributed earnings. Non-vested restricted stock awards that include non-forfeitable rights to dividends are considered participating securities. Per share amounts are computed by dividing net income attributable to common stockholders by the weighted average shares outstanding during each period. Basic earnings per share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding for the period. The computation of diluted earnings per share is similar to basic earnings per share, except the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Table of Contents

The following table sets forth the computation of basic and diluted earnings (losses) per share:

(in thousands, except share and per share data)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2015	2016	2015	2016
<i>Numerator: Basic and Diluted</i>				
Net income	\$ 6,602	\$ 2,792	\$ 24,702	\$ 1,858
Dividends paid	(2,738)	(2,748)	(8,214)	(8,240)
Undistributed income (loss)	3,864	44	16,488	(6,382)
Percentage allocated to common shares	99.1 %	99.0 %	99.1 %	99.0 %
Undistributed income (loss) allocated to common shares	3,829	44	16,339	(6,321)
Dividends paid on common shares outstanding	2,713	2,721	8,140	8,160
Net income available to common shares	6,542	2,765	24,479	1,839
<i>Denominator: Basic and Diluted</i>				
Weighted average common shares outstanding	12,333,550	12,370,039	12,330,994	12,358,609
Adjustment for dilutive potential common shares	13,244	2,278	12,678	4,761
Weighted average shares outstanding - Diluted	12,346,794	12,372,317	12,343,672	12,363,370
Basic net income per share	\$ 0.53	\$ 0.22	\$ 1.99	\$ 0.15
Diluted net income per share	\$ 0.53	\$ 0.22	\$ 1.98	\$ 0.15
Number of stock option shares excluded as their effect would be anti-dilutive	290,255	383,202	290,255	380,302
Number of restricted stock shares excluded as their effect would be anti-dilutive	112,450	121,010	112,550	121,243
(a) Percentage allocated to common shares - Weighted average				
Common shares outstanding	12,333,550	12,370,039	12,330,994	12,358,609
Unvested participating shares	112,450	121,010	112,550	121,243
	12,446,000	12,491,049	12,443,544	12,479,852

Note 10. Stock-Based Compensation

Restricted Stock Plan

On February 23, 2009, the Company adopted a restricted stock plan that reserved 400,000 shares of common stock for issuance. Grants of restricted stock are grants of shares of the Company's common stock subject to transfer restrictions, which vest in accordance with the terms and conditions established by the Compensation Committee. The Compensation Committee may set vesting requirements based on the achievement of specific performance goals or the passage of time. After November 24, 2015, the Company is no longer granting awards from this plan.

Restricted shares are subject to forfeiture if employment or service terminates prior to the vesting date or if any applicable performance goals are not met. The Company will assess, on an ongoing basis, the probability of whether the performance criteria will be achieved. The Company will recognize compensation expense over the performance period if it is deemed probable that the goals will be achieved. The fair value of the Company's restricted stock is determined based upon the closing price of the Company's common stock on the grant date. The plan provides for the adjustment of the number of shares covered by an outstanding grant and the maximum number of shares for which restricted stock may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event.

On November 24, 2015, the Company granted 54,210 shares of restricted stock to certain key employees and non-employee directors. The time-based shares of restricted stock granted to employees will vest on the third anniversary of their grant date if the recipient is still an employee of the Company on such date. The performance-based shares will vest in equal installments on the first, second and third anniversaries of their grant date provided that (a) the recipient is still an employee of the Company on such date and (b) the Company has met annual net income performance goals set by the Company's Compensation Committee, provided that, if the Company has exceeded a total net income performance goal for the three year period, restricted shares that did not vest due to the Company's failure to meet the annual net income performance goals will vest at the end of such three year period. The shares of restricted stock granted to non-employee directors will vest on the earlier of (a) the first anniversary of the date of grant or (b) the failure

[Table of Contents](#)

of such non-employee director to be re-elected at an annual meeting of the stockholders of the Company as a result of such non-employee director being excluded from the nominations for any reason other than cause. The fair value of the grants was \$37.75 per share, the closing price of the Company's common stock on the trading day immediately preceding the day of the applicable grant.

The following table summarizes the activity under the restricted stock plan for the nine months ended June 30, 2016:

	Number of Shares	Weighted Average Fair Value At Grant Date
Unvested at September 30, 2015	111,450	\$ 49.07
Granted	54,210	\$ 37.75
Forfeited / Canceled	(11,400)	\$ 48.05
Vested	(33,250)	\$ 47.56
Unvested at June 30, 2016	121,010	\$ 44.51
Expected to vest	94,660	\$ 43.12

Compensation expense related to restricted stock for the three months ended June 30, 2015 and 2016 was \$442 and \$411, respectively and for the nine months ended June 30, 2015 and 2016 was \$1,211 and \$1,045, respectively. The remaining unrecognized compensation expense related to restricted stock at June 30, 2016 was \$2,006, to be recognized over a weighted average period of 0.73 years. During the first quarter of fiscal 2016, the Company repurchased 7,661 shares of stock from employees at an average purchase price of \$37.72 to satisfy required withholding taxes upon vesting of restricted stock-based compensation.

Stock Option Plans

The Company has two stock option plans that authorize the granting of non-qualified stock options to certain key employees and non-employee directors for the purchase of a maximum of 1,500,000 shares of the Company's common stock. The first option plan was adopted in August 2004 and provides for the grant of options to purchase up to 1,000,000 shares of the Company's common stock. In January 2007, the Company's Board of Directors adopted a second option plan that provides for options to purchase up to 500,000 shares of the Company's common stock. Each plan provides for the adjustment of the maximum number of shares for which options may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event. Unless the Compensation Committee determines otherwise, options granted under the option plans are exercisable for a period of ten years from the date of grant and vest 33 1/3% per year over three years from the grant date. The amount of compensation cost recognized in the financial statements is measured based upon the grant date fair value. After November 24, 2015, the Company is no longer granting awards from these plans.

The fair value of option grants is estimated as of the date of the grant. The Company has elected to use the Black-Scholes option pricing model, which incorporates various assumptions including volatility, expected life, risk-free interest rates, expected forfeitures and dividend yields. The volatility is based on historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the stock option granted. The Company uses historical volatility because management believes such volatility is representative of prospective trends. The expected term of an award is based on historical exercise data. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the awards. The expected forfeiture rate is based upon historical experience. The dividend yield assumption is based on the Company's history and expectations regarding dividend payouts at the time of the grant. Valuation of future grants under the Black-Scholes model will include a dividend yield. The following assumptions were used for grants in the first quarter of fiscal 2016:

<u>Grant Date</u>	<u>Fair Value</u>	<u>Dividend Yield</u>	<u>Risk-free Interest Rate</u>	<u>Expected Volatility</u>	<u>Expected Life</u>
November 24, 2015	\$ 8.37	2.33 %	1.70 %	30 %	5 years

On November 24, 2015, the Company granted 79,800 options at an exercise price of \$37.75, the fair market value of the Company's common stock the day of the grant. During the first nine months of fiscal 2016, 10,000 options were exercised.

The stock-based employee compensation expense for stock options for the three months ended June 30, 2015 and 2016 was \$136 and \$127, respectively and for the nine months ended June 30, 2015 and 2016 was \$398 and \$387, respectively. The remaining unrecognized compensation expense at June 30, 2016 was \$891 to be recognized over a weighted average vesting period of 1.34 years.

[Table of Contents](#)

The following tables summarize the activity under the stock option plans for the nine months ended June 30, 2016 and provide information regarding outstanding stock options:

	Number of Shares	Aggregate Intrinsic Value (000s)	Weighted Average Exercise Prices	Weighted Average Remaining Contractual Life
Outstanding at September 30, 2015	358,601		\$ 50.37	
Granted	79,800		\$ 37.75	
Exercised	(10,000)		\$ 31.00	
Canceled	—		\$ —	
Outstanding at June 30, 2016	<u>428,401</u>	\$ 172	\$ 48.47	5.73 yrs.
Vested or expected to vest	399,336	\$ 172	\$ 48.70	5.59 yrs.
Exercisable at June 30, 2016	279,453	\$ 172	\$ 51.64	4.07 yrs.

Grant Date	Exercise Price Per Share	Remaining Contractual Life in Years	Outstanding Number of Shares	Exercisable Number of Shares
March 30, 2007	72.93	0.75	45,500	45,500
March 31, 2008	54.00	1.75	55,500	55,500
October 1, 2008	46.83	2.25	20,000	20,000
March 31, 2009	17.82	2.75	12,084	12,084
January 8, 2010	34.00	3.50	12,400	12,400
November 24, 2010	40.26	4.42	19,667	19,667
November 25, 2011	55.88	5.42	19,700	19,700
November 20, 2012	47.96	6.42	35,600	35,600
December 10, 2012	48.39	6.42	1,800	1,800
November 26, 2013	52.78	7.42	45,250	30,168
November 25, 2014	46.72	8.42	81,100	27,034
November 24, 2015	37.75	9.42	79,800	—
			<u>428,401</u>	<u>279,453</u>

2016 Incentive Compensation Plan

On March 1, 2016, the Company adopted the 2016 Incentive Compensation Plan which provides for grants of restricted stock, restricted stock units, performance shares, stock options and stock appreciation rights. Up to 275,000 shares of restricted stock, restricted stock units and performance shares may be granted in the aggregate under the plan. Up to 425,000 stock options and stock appreciation rights may be granted in the aggregate under the plan. The plan provides for adjustment of the maximum number of awards to be granted under certain circumstances, including in the event of a merger, reorganization, stock split or similar recapitalization event. Grants may be subject to performance goals or may be time-based. Awards may be subject to forfeiture if employment or service terminates prior to the end of the vesting period or if any applicable performance goals are not met. The Company will assess, on an ongoing basis, the probability of whether performance goals will be achieved. The Company will recognize compensation expense over the performance period if it is deemed probable that the goals will be achieved. The fair value of the grants is determined based upon the closing price of the Company's common stock on the grant date.

Note 11. Dividend

In the third quarter of fiscal 2016, the Company declared and paid a quarterly cash dividend. The dividend of \$0.22 per outstanding share of the Company's common stock was paid June 15, 2016 to stockholders of record at the close of business on June 1, 2016. The dividend cash pay-out was \$2,748 for the quarter based on the number of shares outstanding.

On August 4, 2016, the Company announced that the Board of Directors declared a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend is payable September 15, 2016 to stockholders of record at the close of business on September 1, 2016.

Note 12. Fair Value Measurements

The fair value hierarchy has three levels based on the inputs used to determine fair value.

- Level 1 — Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 — Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

When available, the Company uses unadjusted quoted market prices to measure fair value and classifies such items within Level 1. If quoted market prices are not available, fair value is based upon internally-developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally-generated models are classified according to the lowest level input or value driver that is significant to the valuation. If quoted market prices are not available, the valuation model used depends on the specific asset or liability being valued. Money market funds included in cash and cash equivalents of \$49,045 and \$44,418 as of September 30, 2015 and June 30, 2016, respectively, are considered Level 1.

Note 13. Changes in Accumulated Other Comprehensive Income (Loss) by Component

Comprehensive income (loss) includes changes in equity that result from transactions and economic events from non-owner sources. Comprehensive income (loss) consists of net income and other comprehensive income (loss) items, including pension and foreign currency translation adjustments, primarily caused by the strengthening of the US dollar against the British pound sterling, net of tax when applicable.

[Table of Contents](#)

Accumulated Other Comprehensive Income (Loss)

	Three Months Ended June 30, 2015			
	Pension	Postretirement	Foreign	Total
	Plan	Plan	Exchange	
Accumulated other comprehensive loss as of March 31, 2015	\$ (41,058)	\$ (19,235)	\$ (4,273)	\$ (64,566)
Other comprehensive income before reclassifications	—	—	3,381	3,381
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items ^(a)	202	—	—	202
Actuarial losses ^(a)	1,182	608	—	1,790
Tax benefit	(513)	(224)	—	(737)
Net current-period other comprehensive income	871	384	3,381	4,636
Accumulated other comprehensive loss as of June 30, 2015	\$ (40,187)	\$ (18,851)	\$ (892)	\$ (59,930)

	Three Months Ended June 30, 2016			
	Pension	Postretirement	Foreign	Total
	Plan	Plan	Exchange	
Accumulated other comprehensive loss as of March 31, 2016	\$ (59,926)	\$ (20,880)	\$ (5,361)	\$ (86,167)
Other comprehensive loss before reclassifications	—	—	(3,745)	(3,745)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items ^(a)	202	—	—	202
Actuarial losses ^(a)	2,218	707	—	2,925
Tax benefit	(891)	(260)	—	(1,151)
Net current-period other comprehensive income (loss)	1,529	447	(3,745)	(1,769)
Accumulated other comprehensive loss as of June 30, 2016	\$ (58,397)	\$ (20,433)	\$ (9,106)	\$ (87,936)

	Nine Months Ended June 30, 2015			
	Pension	Postretirement	Foreign	Total
	Plan	Plan	Exchange	
Accumulated other comprehensive income (loss) as of September 30, 2014	\$ (42,800)	\$ (20,000)	\$ 972	\$ (61,828)
Other comprehensive loss before reclassifications	—	—	(1,864)	(1,864)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items ^(a)	606	—	—	606
Actuarial losses ^(a)	3,545	1,825	—	5,370
Tax benefit	(1,538)	(676)	—	(2,214)
Net current-period other comprehensive income (loss)	2,613	1,149	(1,864)	1,898
Accumulated other comprehensive loss as of June 30, 2015	\$ (40,187)	\$ (18,851)	\$ (892)	\$ (59,930)

	Nine Months Ended June 30, 2016			
	Pension	Postretirement	Foreign	Total
	Plan	Plan	Exchange	
Accumulated other comprehensive loss as of September 30, 2015	\$ (62,985)	\$ (21,773)	\$ (3,195)	\$ (87,953)
Other comprehensive loss before reclassifications	—	—	(5,911)	(5,911)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items ^(a)	606	—	—	606
Actuarial losses ^(a)	6,653	2,119	—	8,772
Tax benefit	(2,671)	(779)	—	(3,450)
Net current-period other comprehensive income (loss)	4,588	1,340	(5,911)	17
Accumulated other comprehensive loss as of June 30, 2016	\$ (58,397)	\$ (20,433)	\$ (9,106)	\$ (87,936)

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

Note 14. Acquisition

On January 7, 2015, the Company acquired the assets and operations of Leveltek Processing, LLC located in LaPorte, Indiana for \$14,600 in cash. The acquisition of the LaPorte assets provides the Company control of sheet stretching, leveling, slitting and cut-to-length operations that were previously outsourced functions. Acquisition costs incurred in the first quarter of fiscal 2015 were not significant. The acquired business is being operated by LaPorte Custom Metal Processing, LLC (LCMP), a wholly-owned subsidiary of the Company.

[Table of Contents](#)

The following is a summary of the purchase price allocation in connection with the LCMP acquisition. The determination of fair value for acquired assets includes the use of Level 3 inputs, such as the condition and utilization of the property, plant and equipment acquired, management's projected financial results for LCMP, and the discount rate used to determine the present value of anticipated future cash flows.

	Purchase Price
	Allocation
Property, plant and equipment, net	\$ 7,563
Customer relationships	2,100
Inventory	148
Total identifiable net assets	9,811
Goodwill	4,789
Total purchase price	<u>\$ 14,600</u>

The goodwill recognized in connection with the Leveltek-LaPorte assets consists of the value associated with the addition of the stretching and leveling capabilities as well as increased capacity in slitting and cut-to-length operations to meet customer demand and is tax deductible. The complementary asset capabilities are expected to lead to operating cost synergies as well as expand the Company's commercial offerings.

Note 15. Capital Lease Obligation

On January 1, 2015, the Company entered into a capital lease agreement for the building that houses the assets and operations of LCMP. The capital asset and obligation are recorded at the present value of the minimum lease payments. The asset is included in property, plant and equipment, net on the Consolidated Balance Sheet and is depreciated over the 20 year lease term. The long-term component of the capital lease obligation is included in long-term obligations.

As of June 30, 2016, future minimum lease rental payments during each fiscal year applicable to the capital lease were as follows.

2016 (remainder of fiscal year)	\$ 89
2017	534
2018	538
2019	545
2020	550
Thereafter	8,100
Total minimum capital lease payments	10,356
Less amounts representing interest	(6,012)
Present value of net minimum capital lease payments	4,344
Less current obligation	(431)
Total long term capital lease obligation	<u>\$ 3,913</u>

The capital lease obligation is included in long-term obligations (less current portion) on the Consolidated Balance Sheet.

	September 30,	June 30,
	2015	2016
Future capital lease rental payments	\$ 4,380	\$ 4,344
Environmental post-closure monitoring and maintenance activities	749	749
Less amounts due within one year	(555)	(518)
Long-term obligations (less current portion)	<u>\$ 4,574</u>	<u>\$ 4,575</u>

Note 16. Restricted Cash

In the first nine months of fiscal 2016, the Company received advance payments of \$16,069 related to special projects. Of this amount, the Company is restricted from having access to \$9,200 until such time as the Company delivers product to the customer. As the Company begins to fulfill the order, the restricted cash will become unrestricted on a pro-rata basis based upon the percentage fulfillment of the order. In July 2016, \$2,481 of cash that was restricted as of June 30, 2016, became unrestricted as a result of June shipments.

Note 17. Expansion of LaPorte, Indiana Operations

The Company announced on May 2, 2016 its decision to expand and streamline its distribution footprint by investing in new plant and equipment at its processing facility located in LaPorte, Indiana. In connection with the expansion, the Company plans to relocate its service center operations in Lebanon, Indiana to LaPorte. The project is expected to begin in the fourth quarter of calendar 2016 and be completed by the end of calendar 2017.

Costs associated with the project are estimated to consist of approximately \$1,800 to \$2,500 relating to equipment relocation and approximately \$500 to \$1,100 in other costs, including one-time termination benefits, relocation expenses and lease termination costs, for a total of approximately \$2,300 to \$3,600 in total costs relating to the move. Approximately \$340 of these costs were expensed in the third quarter of fiscal 2016, and the remainder will be recorded as incurred over the project period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

References to years or portions of years in Management's Discussion and Analysis of Financial Condition and Results of Operations refer to the Company's fiscal years ended September 30, unless otherwise indicated.

This Quarterly Report on Form 10-Q (this "Form 10-Q") contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, each as amended. All statements other than statements of historical fact, including statements regarding market and industry prospects and future results of operations or financial position, made in this Form 10-Q are forward-looking. In many cases, you can identify forward-looking statements by terminology, such as "may", "should", "expects", "intends", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of such terms and other comparable terminology. The forward-looking information may include, among other information, statements concerning the Company's outlook for fiscal 2016 and beyond, overall volume and pricing trends, cost reduction strategies and their anticipated results, capital expenditures and dividends. There may also be other statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, many of which are beyond the Company's control.

The Company has based these forward-looking statements on its current expectations and projections about future events. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based upon those assumptions also could be incorrect. Risks and uncertainties may affect the accuracy of forward-looking statements. Some, but not all, of these risks are listed in Item 1A. of Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Overview

Haynes International, Inc. ("Haynes" or "the Company") is one of the world's largest producers of high-performance nickel and cobalt based alloys in sheet, coil and plate forms. The Company is focused on developing, manufacturing, marketing and distributing technologically advanced, high-performance alloys, which are sold primarily in the aerospace, chemical processing and land-based gas turbine industries. The Company's products consist of high-temperature resistant alloys, or HTA products, and corrosion-resistant alloys, or CRA products. HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines, gas turbine engines, and industrial heating and heat treatment equipment. CRA products are used in applications that require resistance to very corrosive media found in chemical processing, power plant emissions control and hazardous waste treatment. Management believes Haynes is one of the principal producers of high-performance alloy flat products in sheet, coil and plate forms, and sales of these forms, in the aggregate, represented approximately 60% of net product revenues in fiscal 2015. The Company also produces its products as seamless and welded tubulars, and in slab, bar, billet and wire forms.

The Company has manufacturing facilities in Kokomo, Indiana; Arcadia, Louisiana; and Mountain Home, North Carolina. The Kokomo facility specializes in flat products, the Arcadia facility specializes in tubular products, and the Mountain Home facility specializes in wire products. The Company's products are sold primarily through its direct sales organization, which includes 14 service and/or sales centers in the United States, Europe and Asia. All of these centers are Company operated.

Dividends Paid and Declared

In the third quarter of fiscal 2016, the Company declared and paid a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend was paid on June 15, 2016 to stockholders of record at the close of business on June 1, 2016. The dividend cash pay-out in the third quarter was approximately \$2.7 million based on the number of shares outstanding and equal to approximately \$11.0 million on an annualized basis.

On August 4, 2016, the Company announced that the Board of Directors declared a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend is payable September 15, 2016 to stockholders of record at the close of business on September 1, 2016.

Capital Spending

The Company has made progress on the capital projects to increase sheet manufacturing capacity in the Kokomo operations in order to help keep pace with anticipated growth in the aerospace market. In order to respond to expected continued demand, total planned capital expenditures of \$30.0 million in fiscal 2016 include investments in the heat treating and cold rolling areas, where the

[Table of Contents](#)

Company is currently constrained, of approximately \$16.6 million and the manufacturing phase of the Company's IT systems upgrade of approximately \$1.7 million. The remaining \$11.7 million of planned spending throughout the Company's manufacturing facilities is considered a maintenance level of spending. Capital investment in the first nine months of fiscal 2016 was \$22.1 million

Volumes, Competition and Pricing

In the third quarter of fiscal 2016, the Company benefitted from increased volumes of project-oriented specialty application business utilizing proprietary alloys as compared to the lower levels in the first and second quarters. These projects are included in results for the Company's chemical processing market, where the average selling price per pound increased sequentially from \$20.20 per pound in the second quarter of fiscal 2016 to \$27.48 per pound in the third quarter. Volumes of these specialty application projects are expected to continue at a similar level in the fourth quarter as well. These specialty projects provide an offset to lower base-volume levels in certain of the Company's markets with global macro-economic headwinds in the industrial sector. The Company has experienced increased competition in certain markets as producers are dealing with lower utilization rates. Management expects base-volumes and prices to continue to be challenged in the fourth quarter due to, among other factors, lowered demand, the continued strong dollar and uncertainties in the global macro-economic and political environment.

The market price of nickel moderately increased over the third quarter of fiscal 2016 after being relatively stable over the second quarter of fiscal 2016. However, the significant decline in market price over fiscal 2015 and the first quarter of fiscal 2016 continues to have an unfavorable impact on the Company's financial results. Falling nickel prices create compression on gross margins due to pressure on selling prices, combined with higher cost of sales, as the Company ships higher-cost inventory acquired in prior periods with higher nickel prices. Compression was significant in the third quarter of fiscal 2016, but is expected to decrease in the fourth quarter. The Company values inventory utilizing the first-in, first-out ("FIFO") inventory costing methodology. In a period of decreasing raw material costs, the FIFO inventory valuation method normally results in higher costs of sales as compared to the last-in, first-out method.

Set forth below are selected data relating to the Company's net revenues, gross profit, backlog, the 30-day average nickel price per pound as reported by the London Metals Exchange and a breakdown of net revenues, shipments and average selling prices to the markets served by the Company for the periods shown. The data should be read in conjunction with the consolidated financial statements and related notes thereto and the remainder of "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-Q.

Net Revenue and Gross Profit Margin Performance:

(dollars in thousands)	Comparison by Quarter of Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2015 and 2016						
	Quarter Ended						
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
Net Revenues	\$ 110,676	\$ 138,688	\$ 121,270	\$ 117,001	\$ 95,070	\$ 102,511	\$ 101,255
Gross Profit Margin	\$ 20,271	\$ 27,837	\$ 24,151	\$ 21,405	\$ 12,088	\$ 8,905	\$ 13,265
Gross Profit Margin %	18.3 %	20.1 %	19.9 %	18.3 %	12.7 %	8.7 %	13.1 %

During the third quarter of fiscal 2016, gross profit margin and gross profit margin percentage improved sequentially. Gross profit margin percentage was 13.1% in the third quarter of fiscal 2016 compared to 8.7% in the second quarter of fiscal 2016. The increased levels of specialty application projects utilizing proprietary alloys contributed to this improvement. However, the price of nickel as well as the strong U.S. dollar and higher levels of competition continue to unfavorably impact margins.

Backlog

	Quarter Ended						
	December 31,	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,
	2014	2015	2015	2015	2015	2016	2016
Backlog⁽¹⁾							
Dollars (in thousands)	\$ 215,529	\$ 220,406	\$ 192,894	\$ 185,784	\$ 204,713	\$ 193,538	\$ 187,215
Pounds (in thousands)	8,032	7,335	6,492	6,598	6,445	6,248	6,281
Average selling price per pound	\$ 26.83	\$ 30.05	\$ 29.71	\$ 28.16	\$ 31.76	\$ 30.98	\$ 29.81
Average nickel price per pound							
London Metals Exchange ⁽²⁾	\$ 7.22	\$ 6.23	\$ 5.80	\$ 4.49	\$ 3.94	\$ 3.95	\$ 4.04

- (1) The Company defines backlog to include firm commitments from customers for delivery of product at established prices. Approximately 30% of the orders in the backlog at any given time include prices that are subject to adjustment based on changes in raw material costs. Historically, approximately 75% of the backlog orders have shipped within nine months and approximately 90% have shipped within 12 months. The backlog figures do not reflect that portion of the business conducted at service and sales centers on a spot or “just-in-time” basis.
- (2) Represents the average price for a cash buyer as reported by the London Metals Exchange for the 30 days ending on the last day of the period presented.

Backlog was \$187.2 million at June 30, 2016, a decrease of approximately \$6.3 million, or 3.3%, from \$193.5 million at March 31, 2016. The backlog dollars decreased during the third quarter of fiscal 2016 due to a 3.8% decrease in the average selling price per pound partially offset by a 0.5% increase in pounds. The decrease in average selling price per pound reflects a change in product mix in the backlog.

Quarterly Market Information

	Quarter Ended						
	December 31,	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,
	2014	2015	2015	2015	2015	2016	2016
Net revenues (in thousands)							
Aerospace	\$ 43,255	\$ 60,320	\$ 56,484	\$ 55,003	\$ 47,535	\$ 52,342	\$ 47,039
Chemical processing	30,753	35,575	24,159	21,112	16,200	13,108	20,469
Land-based gas turbines	17,533	19,858	17,616	19,449	16,997	18,960	16,117
Other markets	14,100	16,566	14,496	14,632	9,474	12,304	10,789
Total product revenue	105,641	132,319	112,755	110,196	90,206	96,714	94,414
Other revenue	5,035	6,369	8,515	6,805	4,864	5,797	6,841
Net revenues	\$ 110,676	\$ 138,688	\$ 121,270	\$ 117,001	\$ 95,070	\$ 102,511	\$ 101,255
Shipments by markets (in thousands of pounds)							
Aerospace	1,809	2,687	2,439	2,308	2,064	2,314	2,042
Chemical processing	1,182	1,351	852	913	714	649	745
Land-based gas turbines	1,084	1,218	1,028	1,327	1,300	1,365	1,227
Other markets	447	680	466	470	308	431	365
Total shipments	4,522	5,936	4,785	5,018	4,386	4,759	4,379
Average selling price per pound							
Aerospace	\$ 23.91	\$ 22.45	\$ 23.16	\$ 23.83	\$ 23.03	\$ 22.62	\$ 23.04
Chemical processing	26.02	26.33	28.36	23.12	22.69	20.20	27.48
Land-based gas turbines	16.17	16.30	17.14	14.66	13.07	13.89	13.14
Other markets	31.54	24.36	31.11	31.13	30.76	28.55	29.56
Total product (product only; excluding other revenue)	23.36	22.29	23.56	21.96	20.57	20.32	21.56
Total average selling price (including other revenue)	24.48	23.36	25.34	23.32	21.68	21.54	23.12

Results of Operations for the Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2016

The following table sets forth certain financial information as a percentage of net revenues for the periods indicated and compares such information between periods.

	Three Months Ended June 30,				Change	
	2015		2016		Amount	%
Net revenues	\$ 121,270	100.0 %	\$ 101,255	100.0 %	\$ (20,015)	(16.5)%
Cost of sales	97,119	80.1 %	87,990	86.9 %	(9,129)	(9.4)%
Gross profit	24,151	19.9 %	13,265	13.1 %	(10,886)	(45.1)%
Selling, general and administrative expense	12,412	10.2 %	9,211	9.1 %	(3,201)	(25.8)%
Research and technical expense	878	0.7 %	916	0.9 %	38	4.3 %
Operating income	10,861	9.0 %	3,138	3.1 %	(7,723)	(71.1)%
Interest income	(21)	(0.0)%	(29)	(0.0)%	(8)	38.1 %
Interest expense	36	0.0 %	138	0.1 %	102	283.3 %
Income before income taxes	10,846	8.9 %	3,029	3.0 %	(7,817)	(72.1)%
Provision for income taxes	4,244	3.5 %	237	0.2 %	(4,007)	(94.4)%
Net income	\$ 6,602	5.4 %	\$ 2,792	2.8 %	\$ (3,810)	(57.7)%

The following table includes a breakdown of net revenues, shipments and average selling prices to the markets served by the Company for the periods shown.

By market	Three Months Ended		Change	
	June 30,		Amount	%
	2015	2016		
Net revenues (in thousands)				
Aerospace	\$ 56,484	\$ 47,039	\$ (9,445)	(16.7)%
Chemical processing	24,159	20,469	(3,690)	(15.3)%
Land-based gas turbines	17,616	16,117	(1,499)	(8.5)%
Other markets	14,496	10,789	(3,707)	(25.6)%
Total product revenue	112,755	94,414	(18,341)	(16.3)%
Other revenue	8,515	6,841	(1,674)	(19.7)%
Net revenues	\$ 121,270	\$ 101,255	\$ (20,015)	(16.5)%
Pounds by market (in thousands)				
Aerospace	2,439	2,042	(397)	(16.3)%
Chemical processing	852	745	(107)	(12.6)%
Land-based gas turbines	1,028	1,227	199	19.4 %
Other markets	466	365	(101)	(21.7)%
Total shipments	4,785	4,379	(406)	(8.5)%
Average selling price per pound				
Aerospace	\$ 23.16	\$ 23.04	\$ (0.12)	(0.5)%
Chemical processing	28.36	27.48	(0.88)	(3.1)%
Land-based gas turbines	17.14	13.14	(4.00)	(23.3)%
Other markets	31.11	29.56	(1.55)	(5.0)%
Total product (excluding other revenue)	23.56	21.56	(2.00)	(8.5)%
Total average selling price (including other revenue)	\$ 25.34	\$ 23.12	\$ (2.22)	(8.8)%

Net Revenues. Net revenues were \$101.3 million in the third quarter of fiscal 2016, a decrease of 16.5% from \$121.3 million in the same period of fiscal 2015. Volume was 4.4 million pounds in the third quarter of fiscal 2016, a decrease of 8.5% from 4.8 million pounds in the same period of fiscal 2015. The decrease in volume is due to the lower level of overall activity and the impact of global economic concerns. While specialty application project volumes in certain markets improved in the third quarter compared sequentially to the first and second quarters of fiscal 2016, the project orders shipped in the third quarter of fiscal 2016 as compared to the same period in fiscal 2015 decreased. The product-sales average selling price was \$21.56 per pound in the third quarter of fiscal 2016, a decrease of 8.5% from \$23.56 per pound in the same period of fiscal 2015. The average selling price decreased as a result of lower raw material market prices, which represented approximately \$1.11 per pound of the decrease, and increased pricing competition, which represented approximately \$1.27 of the decrease, partially offset by a \$0.38 per pound increase due to changes in product mix.

[Table of Contents](#)

Sales to the aerospace market were \$47.0 million in the third quarter of fiscal 2016, a decrease of 16.7% from \$56.5 million in the same period of fiscal 2015, due to a 16.3% decrease in volume combined with a 0.5% decrease in average selling price per pound. The decrease in volume reflects supply chain adjustments as the transition to new generation engines progresses. The average selling price per pound decrease reflects a change in market prices of raw material, which represented \$1.29 of the decrease, and increased pricing competition, which represented \$0.95 of the decrease, partially offset by a change to a higher-value product mix, which increased average selling price per pound by approximately \$2.12. The increase in the average selling price per pound due to a higher-value product mix appears to be partially driven by new generation jet engine production beginning to gain traction with higher-valued alloys that improve the Company's product mix in this market.

Sales to the chemical processing market were \$20.5 million in the third quarter of fiscal 2016, a decrease of 15.3% from \$24.2 million in the same period of fiscal 2015, due to a 12.6% decrease in volume combined with a 3.1% decrease in average selling price per pound. Volumes decreased due to a lower level of overall activity in the chemical processing market. While increased levels of project orders shipped in the third quarter compared sequentially to the first and second quarters of fiscal 2016, lower levels of project orders shipped in the third quarter of fiscal 2016 compared to the same quarter of fiscal 2015. The average selling price per pound decrease reflects increased pricing competition, which represented approximately \$3.73 of the decrease, and a change in market prices of raw materials, which represented approximately \$1.11 of the decrease, partially offset by a higher-value product mix, which increased average selling price per pound by approximately \$3.96 due to a higher percentage of proprietary alloys sold in the third quarter of fiscal 2016.

Sales to the land-based gas turbine market were \$16.1 million in the third quarter of fiscal 2016, a decrease of 8.5% from \$17.6 million for the same period of fiscal 2015, due to a decrease of 23.3% in average selling price per pound partially offset by an increase of 19.4% in volume. Volumes increased due to a higher level of ingot orders shipped in the third quarter of fiscal 2016 compared to the same period of fiscal 2015. The decrease in average selling price primarily reflects a lower-value mix of product form (i.e. ingots), which represented approximately \$2.75 of the decrease, a change in market prices of raw materials, which represented approximately \$0.84 of the decrease, and increased pricing competition, which represented approximately \$0.41 of the decrease.

Sales to other markets were \$10.8 million in the third quarter of fiscal 2016, a decrease of 25.6% from \$14.5 million in the same period of fiscal 2015, due to a 21.7% decrease in volume, combined with a 5.0% decrease in average selling price per pound. The decrease in volume was primarily due to a lower amount of project business shipped in the third quarter of fiscal 2016, which highlights the sporadic nature of these projects. The decrease in average selling price reflects lower raw material market prices, which represented approximately \$1.01 of the decrease, and increased pricing competition, which represented approximately \$0.97 of the decrease, partially offset by a change to a higher-value product mix, which increased average selling price per pound by approximately \$0.43.

Other Revenue. Other revenue was \$6.8 million in the third quarter of fiscal 2016, a decrease of 19.7% from \$8.5 million in the same period of fiscal 2015. The decrease is due primarily to a decline in conversion sales due to the slower economic environment.

Cost of Sales. Cost of sales was \$88.0 million, or 86.9% of net revenues, in the third quarter of fiscal 2016 compared to \$97.1 million, or 80.1% of net revenues, in the same period of fiscal 2015. Cost of sales in the third quarter of fiscal 2016 decreased by \$9.1 million as compared to the same period of fiscal 2015 primarily due to lower volumes and lower raw material costs.

Gross Profit. As a result of the above factors, gross profit was \$13.3 million for the third quarter of fiscal 2016, a decrease of \$10.9 million from the same period of fiscal 2015. Gross margin as a percentage of net revenue decreased to 13.1% in the third quarter of fiscal 2016 as compared to 19.9% in the same period of fiscal 2015. The decrease is primarily attributable to a less profitable mix of products sold in fiscal 2016 related to the lower specialty application projects and falling nickel prices. Falling nickel prices created compression on gross margins due to pressure on selling prices from lower nickel prices, combined with higher cost of sales as the Company sells the higher-cost inventory melted in a prior period with higher nickel prices.

Selling, General and Administrative Expense. Selling, general and administrative expense was \$9.2 million for the third quarter of fiscal 2016, a decrease of \$3.2 million from the same period of fiscal 2015. This decrease is primarily attributable to foreign exchange gains of \$0.9 million realized in the third quarter of fiscal 2016 compared to \$1.3 million of foreign exchange losses realized in the third quarter of fiscal 2015, combined with a \$0.7 million reduction from reduced management incentive compensation. Selling, general and administrative expense as a percentage of net revenues decreased to 9.1% for the third quarter of fiscal 2016 compared to 10.2% for the same period of fiscal 2015.

Research and Technical Expense. Research and technical expense was \$0.9 million, or 0.9% of revenue, for the third quarter of fiscal 2016, compared to \$0.9 million, or 0.7% of revenue, in the same period of fiscal 2015.

Operating Income. As a result of the above factors, operating income in the third quarter of fiscal 2016 was \$3.1 million compared to operating income of \$10.9 million in the same period of fiscal 2015.

[Table of Contents](#)

Income Taxes. Income tax expense was \$0.2 million in the third quarter of fiscal 2016, a decrease of \$4.0 million from an expense of \$4.2 million in the third quarter of fiscal 2015. The effective tax rate for the third quarter of fiscal 2016 was 7.8%, compared to 39.1% in the same period of fiscal 2015. The lower effective tax rate this quarter was primarily attributable to the recognition of a research and development tax credit that had a \$0.8 million benefit to income tax expense in the quarter

Net Income. As a result of the above factors, net income in the third quarter of fiscal 2016 was \$2.8 million, a decrease of \$3.8 million from net income of \$6.6 million in the same period of fiscal 2015.

Results of Operations for the Nine Months Ended June 30, 2015 Compared to the Nine Months Ended June 30, 2016

	Nine Months Ended June 30,				Change	
	2015		2016		Amount	%
Net revenues	\$ 370,634	100.0 %	\$ 298,836	100.0 %	\$ (71,798)	(19.4)%
Cost of sales	298,375	80.5 %	264,578	88.5 %	(33,797)	(11.3)%
Gross profit	72,259	19.5 %	34,258	11.5 %	(38,001)	(52.6)%
Selling, general and administrative expense	31,767	8.6 %	29,011	9.7 %	(2,756)	(8.7)%
Research and technical expense	2,691	0.7 %	2,744	0.9 %	53	2.0 %
Operating income	37,801	10.2 %	2,503	0.8 %	(35,298)	(93.4)%
Interest income	(64)	(0.0)%	(74)	(0.0)%	(10)	15.6 %
Interest expense	68	0.0 %	415	0.1 %	347	510.3 %
Income before income taxes	37,797	10.2 %	2,162	0.7 %	(35,635)	(94.3)%
Provision for income taxes	13,095	3.5 %	304	0.1 %	(12,791)	(97.7)%
Net income	\$ 24,702	6.7 %	\$ 1,858	0.6 %	\$ (22,844)	(92.5)%

The following table includes a breakdown of net revenues, shipments and average selling prices to the markets served by the Company for the periods shown.

	Nine Months Ended			
	June 30,		Change	
	2015	2016	Amount	%
Net revenues (dollars in thousands)				
Aerospace	\$ 160,059	\$ 146,916	\$ (13,143)	(8.2)%
Chemical processing	90,487	49,777	(40,710)	(45.0)%
Land-based gas turbines	55,007	52,074	(2,933)	(5.3)%
Other markets	45,162	32,567	(12,595)	(27.9)%
Total product revenue	350,715	281,334	(69,381)	(19.8)%
Other revenue	19,919	17,502	(2,417)	(12.1)%
Net revenues	\$ 370,634	\$ 298,836	\$ (71,798)	(19.4)%
Pounds by market (in thousands)				
Aerospace	6,935	6,420	(515)	(7.4)%
Chemical processing	3,385	2,108	(1,277)	(37.7)%
Land-based gas turbines	3,330	3,892	562	16.9 %
Other markets	1,593	1,104	(489)	(30.7)%
Total shipments	15,243	13,524	(1,719)	(11.3)%
Average selling price per pound				
Aerospace	\$ 23.08	\$ 22.88	\$ (0.20)	(0.8)%
Chemical processing	26.73	23.61	(3.12)	(11.7)%
Land-based gas turbines	16.52	13.38	(3.14)	(19.0)%
Other markets	28.35	29.50	1.15	4.1 %
Total product (excluding other revenue)	23.01	20.80	(2.21)	(9.6) %
Total average selling price (including other revenue)	\$ 24.32	\$ 22.10	\$ (2.22)	(9.1)%

Net Revenues. Net revenues were \$298.8 million in the first nine months of fiscal 2016, a decrease of 19.4% from \$370.6 million in the same period of fiscal 2015. Volume was 13.5 million pounds in the first nine months of fiscal 2016, a decrease of 11.3% from 15.2 million pounds in the same period of fiscal 2015. The decrease in volume is due to the lower level of project orders in chemical processing and other markets as well as adjustments in the inventory in the aerospace supply chain in the first nine months of fiscal 2016 as compared to the same period in fiscal 2015. The product-sales average selling price was \$20.80 per pound in the first nine months of fiscal 2016, a decrease of 9.6% from \$23.01 per pound in the same period of fiscal 2015. The average selling price decreased as a

[Table of Contents](#)

result of lower raw material market prices, which represented approximately \$1.65 per pound of the decrease, and increased pricing competition, which represented approximately \$0.59 per pound of the decrease, partially offset by a change in product mix, which increased average selling price per pound by approximately \$0.03.

Sales to the aerospace market were \$146.9 million in the first nine months of fiscal 2016, a decrease of 8.2% from \$160.1 million in the same period of fiscal 2015, due to a 7.4% decrease in volume combined with a 0.8% decrease in average selling price per pound. The decrease in volume appears to reflect adjustments in the supply chain. The average selling price per pound decrease reflects a change in market prices of raw material, which represented \$1.71 of the decrease, and increased pricing competition, which represented \$0.22 of the decrease, partially offset by a change to a higher-value product mix, which increased average selling price per pound by approximately \$1.73. The increase in the average selling price per pound due to a higher-value product mix, appears to be partially driven by new generation jet engine production beginning to gain traction with higher-valued alloys that improve the Company's product mix in this market.

Sales to the chemical processing market were \$49.8 million in the first nine months of fiscal 2016, a decrease of 45.0% from \$90.5 million in the same period of fiscal 2015, due to a 37.7% decrease in volume combined with an 11.7% decrease in average selling price per pound. Volumes decreased due to a lower level of both base business and project orders shipped compared to the first nine months of fiscal 2015. The lower level of project orders shipped in the first nine months of fiscal 2016 compared to the same period in fiscal 2015 highlights the sporadic nature of these projects. The average selling price per pound decrease reflects increased pricing competition, which represented approximately \$2.37 of the decrease, and a change in market prices of raw materials, which represented approximately \$1.54 of the decrease, partially offset by a higher-value product mix, which increased average selling price per pound by approximately \$0.79 due to a higher amount of proprietary alloys sold in the first nine months of fiscal 2016.

Sales to the land-based gas turbine market were \$52.1 million in the first nine months of fiscal 2016, a decrease of 5.3% from \$55.0 million for the same period of fiscal 2015, due to a decrease of 19.0% in average selling price per pound partially offset by an increase of 16.9% in volume. Volumes increased due to a higher level of ingot and plate orders shipped in the first nine months of fiscal 2016 compared to the same period of fiscal 2015. The decrease in average selling price primarily reflects a change to a lower-value product mix, which represented approximately \$1.21 of the decrease, lower market raw material prices, which represented approximately \$1.60 of the decrease, and increased pricing competition, which represented approximately \$0.33 of the decrease.

Sales to other markets were \$32.6 million in the first nine months of fiscal 2016, a decrease of 27.9% from \$45.2 million in the same period of fiscal 2015, due to a 30.7% decrease in volume partially offset by an increase of 4.1% in average selling price per pound. The decrease in volume was primarily due to a lower amount of project business shipped in the first nine months of fiscal 2016. The increase in average selling price reflects a higher-value product mix, which represented approximately \$3.11 of the increase, partially offset by increased competition, which decreased average selling price per pound by approximately \$0.26, and lower raw material market prices, which decreased average selling price per pound by approximately \$1.70.

Other Revenue. Other revenue was \$17.5 million in the first nine months of fiscal 2016, a decrease of 12.1% from \$19.9 million in the same period of fiscal 2015. The decrease is due primarily to a decline in conversion sales combined with adjustments to sales reserves.

Cost of Sales. Cost of sales was \$264.6 million, or 88.5% of net revenues, in the first nine months of fiscal 2016 compared to \$298.4 million, or 80.5% of net revenues, in the same period of fiscal 2015. Cost of sales in the first nine months of fiscal 2016 decreased by \$33.8 million as compared to the same period of fiscal 2015 primarily due to lower volumes and raw material costs.

Gross Profit. As a result of the above factors, gross profit was \$34.3 million for the first nine months of fiscal 2016, a decrease of \$38.0 million from the same period of fiscal 2015. Gross margin as a percentage of net revenue decreased to 11.5% in the first nine months of fiscal 2016 as compared to 19.5% in the same period of fiscal 2015. The decrease is primarily attributable to a less profitable mix of products sold in fiscal 2016 related to the lower specialty application projects and falling nickel prices. Falling nickel prices created compression on gross margins due to pressure on selling prices from lower nickel prices, combined with higher cost of sales as the Company sells the higher-cost inventory melted in a prior period with higher nickel prices. In addition, the falling nickel prices combined with compressing gross margins necessitated inventory valuation adjustments to adjust inventory to lower net realizable values.

Selling, General and Administrative Expense. Selling, general and administrative expense was \$29.0 million for the first nine months of fiscal 2016, a decrease of \$2.8 million from the same period of fiscal 2015. The decrease in expense was primarily driven by changes in foreign exchange combined with lower management incentive compensation expense in fiscal 2016. Selling, general and administrative expense as a percentage of net revenues increased to 9.7% for the first nine months of fiscal 2016 compared to 8.6% for the same period of fiscal 2015 primarily due to lower revenues.

[Table of Contents](#)

Research and Technical Expense. Research and technical expense was \$2.7 million, or 0.9% of revenue, for the first nine months of fiscal 2016, compared to \$2.7 million, or 0.7% of revenue, in the same period of fiscal 2015.

Operating Income. As a result of the above factors, operating income in the first nine months of fiscal 2016 was \$2.5 million compared to operating income of \$37.8 million in the same period of fiscal 2015.

Income Taxes. Income tax expense was \$0.3 million in the first nine months fiscal 2016, a decrease of \$12.8 million from an expense of \$13.1 million the same period of fiscal 2015. The effective tax rate for the first nine months of fiscal 2016 was 14.1%, compared to 34.6% in the same period of fiscal 2015. The lower effective tax rate this year was primarily attributable to the recognition of a research and development tax credit that had a \$0.8 million benefit to income tax expense in the third quarter.

Net Income. As a result of the above factors, net income for the first nine months of fiscal 2016 was \$1.9 million, a decrease of \$22.8 million from net income of \$24.7 million in the same period of fiscal 2015.

Working Capital

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was \$269.7 million at June 30, 2016, a decrease of \$7.8 million or 2.9% from \$277.5 million at September 30, 2015. This decrease resulted primarily from accounts receivable decreasing \$8.3 million, partially offset by accrued expenses decreasing \$4.3 million during the first nine months of fiscal 2016. Inventory decreased by \$2.2 million due to lower business volumes and lower costs of inventory driven by falling commodity prices partially offset by longer production cycle times associated with the Company's aerospace market business.

Liquidity and Capital Resources

Comparative cash flow analysis

During the first nine months of fiscal 2016, the Company's primary sources of cash were cash on-hand and cash provided by operating activities, as detailed below. At June 30, 2016, the Company had cash and cash equivalents of \$44.4 million (excluding restricted cash of \$9.2 million) compared to \$49.0 million at September 30, 2015. As of June 30, 2016, the Company had cash and cash equivalents of \$13.9 million that was held by foreign subsidiaries in various currencies.

For the first nine months of fiscal 2016, net cash provided by operating activities was \$26.3 million compared to net cash provided by operations of \$38.9 million in the first nine months of fiscal 2015. Net income of \$1.9 million in the first nine months of fiscal 2016 compared to net income \$24.7 million in the same period of fiscal 2015 was the primary driver for the change in addition to higher pension and post-retirement payments in the first nine months of fiscal 2016 of \$9.8 million compared to \$4.1 million over the same period of fiscal 2015. Partially offsetting these items was cash generated from lower controllable working capital of \$2.0 million in the first nine months of fiscal 2016 compared to cash used from higher controllable working capital of \$6.1 million over the same period of fiscal 2015, and income taxes payments of \$0 million in the first nine months of fiscal 2016 compared to income tax payments of \$12.2 million in the first nine-months of fiscal 2015. Net cash used in investing activities was \$22.1 million in the first nine months of fiscal 2016 compared to \$28.7 million in the same period of fiscal 2015. The reduction in cash used in investing activities is primarily due to the Company's acquisition of Leveltek – LaPorte assets of \$14.6 million in the first nine months of 2015, partially offset by higher additions to property, plant and equipment of \$8.1 million in the first nine months of fiscal 2016 compared to the same period of 2015 as a result of the Company's investments in sheet manufacturing capacity. Net cash used in financing activities in the first nine months of fiscal 2016 of \$8.4 million included \$8.2 million of dividend payments and approximately \$0.3 million of stock re-purchases made to satisfy taxes in relation to the vesting of restricted stock granted to officers and other employees.

Future sources of liquidity

The Company's sources of liquidity for the remainder of fiscal 2016 are expected to consist primarily of cash generated from operations, cash on-hand and, if needed, borrowings under the U.S. revolving credit facility. At June 30, 2016, the Company had cash of \$44.4 million, an outstanding balance of zero on the U.S. revolving credit facility and access to a total of approximately \$120.0 million under the U.S. revolving credit facility, subject to a borrowing base formula and certain reserves that could limit the Company's borrowing to approximately \$105.0 million. Management believes that the resources described above will be sufficient to fund planned capital expenditures and working capital requirements over the next twelve months.

U.S. Revolving Credit Facility

The Company and Wells Fargo Capital Finance, LLC ("Wells Fargo") entered into a Third Amended and Restated Loan and Security Agreement (the "Amended Agreement") with certain other lenders with an effective date of July 14, 2011. On July 7, 2016,

[Table of Contents](#)

the Company amended the agreement to, among other things, extend the term through July 7, 2021 and reduce unused line fees and certain administrative fees. The maximum revolving loan amount under the Amended Agreement is \$120.0 million, subject to a borrowing base formula and certain reserves. The Amended Agreement permits an increase in the maximum revolving loan amount from \$120.0 million up to an aggregate amount of \$170.0 million at the request of the borrowers. Borrowings under the U.S. revolving credit facility bear interest, at the Company's option, at either Wells Fargo's "prime rate", plus up to 0.75% per annum, or the adjusted Eurodollar rate used by the lender, plus up to 2.0% per annum. As of June 30, 2016, the U.S. revolving credit facility had an outstanding balance of zero. In addition, the Company must pay monthly, in arrears, a commitment fee of 0.20% per annum (0.25% prior to the July 7, 2016 amendment) on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay 1.5% per annum on the daily outstanding balance of all issued letters of credit, plus customary fees for issuance, amendments and processing. The Company is subject to certain covenants as to fixed charge coverage ratios and other customary covenants, including covenants restricting the incurrence of indebtedness, the granting of liens and the sale of assets. The covenant pertaining to fixed charge coverage ratios is only effective in the event the amount of excess availability under the revolver is less than 10.0% of the maximum credit revolving loan amount (12.5% prior to the July 7, 2016 amendment). The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met (which do not apply in the case of dividends less than \$20.0 million in the aggregate in a year and repurchases in connection with the vesting of shares of restricted stock). As of June 30, 2016, the most recent required measurement date under the Amended Agreement, management believes the Company was in compliance with all applicable financial covenants under the Amended Agreement. Borrowings under the U.S. revolving credit facility are collateralized by a pledge of substantially all of the U.S. assets of the Company, including the equity interests in its U.S. subsidiaries, but excluding the four-high Steckel rolling mill and related assets, which are pledged to Titanium Metals Corporation ("TIMET") to secure the performance of the Company's obligations under a Conversion Services Agreement with TIMET (see discussion of TIMET at Note 7 in the Company's Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q). The U.S. revolving credit facility is also secured by a pledge of a 65% equity interest in each of the Company's direct foreign subsidiaries.

Future uses of liquidity

The Company's primary uses of cash over the next twelve months are expected to consist of expenditures related to:

- Funding operations;
- Capital spending;
- Dividends to stockholders; and
- Pension and postretirement plan contributions.

Capital investment in the first nine months of fiscal 2016 was \$22.1 million, and the forecast for capital spending in fiscal 2016 is \$30.0 million. See "Capital Spending" in this Form 10-Q for additional discussion of actual and planned capital spending.

Contractual Obligations

The following table sets forth the Company's contractual obligations for the periods indicated, as of June 30, 2016:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
	(in thousands)				
Credit facility fees ⁽¹⁾	\$ 12	\$ 12	\$ —	\$ —	\$ —
Operating lease obligations	7,670	3,045	3,716	907	2
Capital lease obligations	10,630	700	1,143	1,104	7,683
Raw material contracts (primarily nickel)	20,928	20,928	—	—	—
Capital projects and other commitments	19,382	19,382	—	—	—
Pension plan ⁽²⁾	113,192	8,333	13,420	19,556	71,883
Non-qualified pension plans	786	95	190	190	311
Other postretirement benefits ⁽³⁾	49,870	4,870	10,000	10,000	25,000
Environmental post-closure monitoring	749	79	143	156	371
Total	\$ 223,219	\$ 57,444	\$ 28,612	\$ 31,913	\$ 105,250

(1) As of June 30, 2016, the revolver balance was zero, therefore no interest is due. However, the Company is obligated to the Bank for unused line fees and quarterly management fees. On July 7, 2016 the Company entered into an amendment to the credit facility to, among other things, extend the term through July 7, 2021.

(2) The Company has a funding obligation to contribute \$113,192 to the domestic pension plan. These payments will be tax deductible. All benefit payments under the domestic pension plan are provided by the plan and not the Company.

(3) Represents expected post-retirement benefits only based upon anticipated timing of payments.

New Accounting Pronouncements

See Note 2. New Accounting Pronouncements in the Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Assumptions and estimates were based on the facts and circumstances known at June 30, 2016. However, future events rarely develop exactly as forecasted and the best estimates routinely require adjustment. The accounting policies discussed in Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015 are considered by management to be the most important to an understanding of the financial statements because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. These policies are also discussed in Note 2 of the consolidated financial statements included in Item 8 of that report. There have been no material changes to that information since the end of fiscal 2015.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2016, there were no material changes in the market risks described in "Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Item 4. Controls and Procedures

The Company has performed, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness and the design and operation of the Company's disclosure controls and procedures (as defined by Exchange Act rules 13a-15(e) and 15d-15(e)) pursuant to Rule 13a-15(b) of the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

Effective May 1, 2016 the Company implemented Microsoft Dynamics AX ERP information technology solution for the Kokomo manufacturing and cost accounting functions. The implementation of these ERP modules resulted in material changes to the Company's internal controls over financial reporting (as that term is defined in Rule 13(a)-15(f) or 15(d)-15(f) under the Exchange Act). Therefore, modifications to the design and documentation of internal control processes and procedures relating to the new system to replace and supplement existing internal controls over financial reporting were made as appropriate. Evaluation of the operating effectiveness of these internal controls is ongoing and will be completed by the end of fiscal 2016. The system changes were undertaken to integrate systems and consolidate information, and were not undertaken in response to any actual or perceived deficiencies in the Company's internal control over financial reporting.

There were no changes in the Company's internal control over financial reporting during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits

Exhibits. See Index to Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HAYNES INTERNATIONAL, INC.

/s/ Mark Comerford

Mark Comerford
President and Chief Executive Officer
Date: August 4, 2016

/s/ Daniel Maudlin

Daniel Maudlin
Vice President — Finance and Chief Financial Officer
Date: August 4, 2016

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of Haynes International, Inc. (incorporated by reference to Exhibit 3.1 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
3.2	Amended and Restated By-laws of Haynes International, Inc. (incorporated by reference to Exhibit 3.2 to the Haynes International, Inc. Registration Statement on Form S-1, Registration No. 333-140194).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.01 to the Haynes International, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2009).
4.2	Second Restated Certificate of Incorporation of Haynes International, Inc. (incorporated by reference to Exhibit 3.1 hereof).
4.3	Amended and Restated By-laws of Haynes International, Inc. (incorporated by reference to Exhibit 3.2 hereof).
10.1	Amendment No. 2 to Third Amended and Restated Loan and Security Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 13, 2016).
31.1	Rule 13a-14(a)/15d-4(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications
101	The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; and (v) related notes.

*Furnished not filed.

CERTIFICATIONS

I, Mark M. Comerford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ Mark M. Comerford
Mark M. Comerford
President and Chief Executive Officer

CERTIFICATIONS

I, Daniel W. Maudlin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ Daniel W. Maudlin
Daniel W. Maudlin
Vice President of Finance and
Chief Financial Officer

Certifications Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the
Sarbanes—Oxley Act of 2002

I, Daniel W. Maudlin, the Vice President Finance and Chief Financial Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

/s/ Daniel W. Maudlin

Daniel W. Maudlin
*Vice President Finance and
Chief Financial Officer*

August 4, 2016

Date

I, Mark M. Comerford, the President and Chief Executive Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

/s/ Mark M. Comerford

Mark M. Comerford
President and Chief Executive Officer

August 4, 2016

Date
