# 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 December 31, 2017**

**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**<br>(State or other jurisdiction of incorporation or organization) | **06-1185400**<br>(I.R.S. Employer Identification No.) |
| **1020 West Park Avenue, Kokomo, Indiana**<br>(Address of principal executive offices) | **46904-9013**<br>(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer (Do not check if a smaller reporting company) ☐ | Smaller reporting company☐ |
| | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 February 1, 2018, the registrant had 12,520,320 shares of Common Stock, $.001 par value, outstanding.

**QUARTERLY REPORT ON FORM 10-Q**
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**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, 2017 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 46,328 | $ 33,966 |
| Accounts receivable, less allowance for doubtful accounts of $620 and $624 at September 30, 2017 and December 31, 2017, respectively | 61,602 | 54,823 |
| Inventories | 244,457 | 267,228 |
| Income taxes receivable | — | 10,104 |
| Other current assets | 2,781 | 3,587 |
| Total current assets | 355,168 | 369,708 |
| Property, plant and equipment, net | 192,556 | 188,999 |
| Deferred income taxes | 58,133 | 29,889 |
| Other assets | 5,107 | 5,297 |
| Goodwill | 4,789 | 4,789 |
| Other intangible assets, net | 6,066 | 5,933 |
| Total assets | $ 621,819 | $ 604,615 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 32,802 | $ 40,737 |
| Accrued expenses | 14,108 | 13,054 |
| Income taxes payable | 195 | — |
| Accrued pension and postretirement benefits | 5,095 | 5,095 |
| Deferred revenue—current portion | 2,500 | 2,500 |
| Total current liabilities | 54,700 | 61,386 |
| Long-term obligations (less current portion) (Note 14) | 7,896 | 8,626 |
| Deferred revenue (less current portion) | 20,329 | 19,704 |
| Deferred income taxes | 1,741 | 1,741 |
| Accrued pension benefits (less current portion) | 90,957 | 89,764 |
| Accrued postretirement benefits (less current portion) | 112,424 | 112,707 |
| Total liabilities | 288,047 | 293,928 |
| Commitments and contingencies (Note 6) | — | — |
| Stockholders' equity: | | |
| Common stock, $0.001 par value (40,000,000 shares authorized, 12,544,933 and 12,562,433 shares issued and 12,509,757 and 12,520,320 outstanding at September 30, 2017 and December 31, 2017, respectively) | 13 | 13 |
| Preferred stock, $0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding) | — | — |
| Additional paid-in capital | 248,733 | 249,339 |
| Accumulated earnings | 159,366 | 134,082 |
| Treasury stock, 35,176 shares at September 30, 2017 and 42,113 shares at December 31, 2017 | (1,646) | (1,876) |
| Accumulated other comprehensive loss | (72,694) | (70,871) |
| Total stockholders' equity | 333,772 | 310,687 |
| Total liabilities and stockholders' equity | $ 621,819 | $ 604,615 |

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)**

| | Three Months Ended December 31, 2016 | Three Months Ended December 31, 2017 |
|---|---|---|
| Net revenues | $ 93,355 | $ 89,693 |
| Cost of sales | 82,868 | 82,683 |
| Gross profit | 10,487 | 7,010 |
| Selling, general and administrative expense | 10,312 | 10,770 |
| Research and technical expense | 943 | 888 |
| Operating income (loss) | (768) | (4,648) |
| Interest income | (57) | (18) |
| Interest expense | 169 | 230 |
| Income (loss) before income taxes | (880) | (4,860) |
| Provision for (benefit from) income taxes | (208) | 17,666 |
| Net income (loss) | $ (672) | $ (22,526) |
| Net income (loss) per share: | | |
| Basic | $ (0.06) | $ (1.82) |
| Diluted | $ (0.06) | $ (1.82) |
| Weighted Average Common Shares Outstanding | | |
| Basic | 12,382 | 12,411 |
| Diluted | 12,382 | 12,411 |
| Dividends declared per common share | $ 0.22 | $ 0.22 |

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)**

| | Three Months Ended December 31, | |
|---|---|---|
| | 2016 | 2017 |
| Net income (loss) | $ (672) | $ (22,526) |
| Other comprehensive income (loss), net of tax: | | |
| Pension and postretirement | 2,580 | 1,306 |
| Foreign currency translation adjustment | (3,026) | 517 |
| Other comprehensive income (loss) | (446) | 1,823 |
| Comprehensive income (loss) | $ (1,118) | $ (20,703) |

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

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

| | Three Months Ended December 31, 2016 | Three Months Ended December 31, 2017 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ (672) | $ (22,526) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 5,262 | 5,744 |
| Amortization | 123 | 133 |
| Pension and post-retirement expense - U.S. and U.K. | 5,859 | 3,556 |
| Stock compensation expense | 558 | 606 |
| Deferred revenue | (5,205) | (625) |
| Deferred income taxes | 729 | 27,488 |
| Loss on disposition of property | 254 | — |
| Change in assets and liabilities: | | |
| Restricted cash | 3,523 | — |
| Accounts receivable | 7,648 | 6,979 |
| Inventories | (6,973) | (22,502) |
| Other assets | (1,041) | (989) |
| Accounts payable and accrued expenses | 8,938 | 8,583 |
| Income taxes | (2,705) | (10,300) |
| Accrued pension and postretirement benefits | (2,829) | (2,400) |
| Net cash provided by (used in) operating activities | 13,469 | (6,253) |
| **Cash flows from investing activities:** | | |
| Additions to property, plant and equipment | (5,893) | (3,183) |
| Net cash provided by (used in) investing activities | (5,893) | (3,183) |
| **Cash flows from financing activities:** | | |
| Dividends paid | (2,752) | (2,754) |
| Payment for purchase of treasury stock | (266) | (230) |
| Payments on long-term obligation | (55) | (67) |
| Net cash provided by (used in) financing activities | (3,073) | (3,051) |
| Effect of exchange rates on cash | (839) | 125 |
| Increase (decrease) in cash and cash equivalents: | 3,664 | (12,362) |
| Cash and cash equivalents: | | |
| Beginning of period | 59,297 | 46,328 |
| End of period | $ 62,961 | $ 33,966 |
| Supplemental disclosures of cash flow information: | | |
| Interest (net of capitalized interest) | $ 155 | $ 215 |
| Income taxes paid (refunded), net | $ 1,836 | $ 464 |
| Capital expenditures incurred, but not yet paid | $ 991 | $ 896 |

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 ("GAAP"), 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, 2017 filed with the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP 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 which are necessary for a fair presentation of results for the respective interim periods. The results of operations for the three months ended December 31, 2017 are not necessarily indicative of the results to be expected for the full fiscal year ending September 30, 2018 or any interim period.

*Principles of Consolidation*

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

## Note 2. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 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. ASU 2015-14 deferred the effective date of the update to 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 on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. The objective of this update is 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 Company adopted these changes in the first quarter of fiscal 2018, which did not result in a material impact to the Company's consolidated financial statements.

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 15, 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 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This new guidance requires entities to (1) disaggregate the service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. This new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods, with early adoption 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, 2017 | December 31, 2017 |
|---|---|---|
| Raw Materials | $ 18,731 | $ 21,949 |
| Work-in-process | 130,019 | 148,341 |
| Finished Goods | 94,331 | 95,351 |
| Other | 1,376 | 1,587 |
| | $ 244,457 | $ 267,228 |

**Note 4. Income Taxes**

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("the Act"), which made significant changes to U.S. federal income tax law including, among other things, lowering corporate income tax rates, permitting bonus depreciation that will allow for full expensing of qualified property and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Beginning October 1, 2017 and continuing through September 30, 2018, the Company's U.S. income will be taxed at a 24.5% federal tax rate after which time the federal tax rate applicable to the Company will be lowered to 21.0%. Deferred tax assets as of December 31, 2017 were revalued to the lower statutory rates of 24.5% or 21.0%, depending upon the projected timing of the reversal of these assets. The estimated impact of the revaluation of the deferred tax assets has resulted in increased tax expense in the first quarter of fiscal 2018 of $17,868. This amount was recorded as a discrete accounting adjustment and will be adjusted throughout the remainder of fiscal 2018 as the timing of the reversal of deferred tax assets becomes known. Other components of the Act, such as the transition tax applied on accumulated earnings and profits of controlled foreign corporations, have not been included in income tax expense as the impact, if any, cannot reasonably be determined at this time. An analysis of accumulated earnings and foreign tax credit pools must be completed before this amount can be determined.

Income tax expense for the three months ended December 31, 2016 and 2017 differed from the U.S. federal statutory rates of 35% and 24.5%, respectively, primarily due to state income taxes, differing tax rates on foreign earnings and discrete tax items that impacted income tax expense in these periods. In addition to the deferred tax revaluation adjustment of $17,868, current period tax expense was adversely impacted due to a lower rate applied against a pretax loss of $(4,860). Additionally, the low effective tax rate in the first quarter of fiscal 2018 was due to the Company's pre-tax loss in the United States and pre-tax income in the United Kingdom, which has a lower effective tax rate than the statutory rate. When incurring a pre-tax loss, the effective tax rate of the Company will be lower than the statutory rate if the estimated full-year pre-tax loss in the United States is a partial offset to estimated full year pre-tax income incurred in other jurisdictions. The effective tax rate for the three months ended December 31, 2017 was (363.5)% compared to 23.6% in the same period of fiscal 2017.

**Note 5. Pension and Post-retirement Benefits**

Components of net periodic pension and post-retirement benefit cost for the three months ended December 31, 2016 and 2017 were as follows:

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | Pension Benefits | | Other Benefits | |
| | 2016 | 2017 | 2016 | 2017 |
| Service cost | $ 1,571 | $ 1,384 | $ 87 | $ 84 |
| Interest cost | 2,549 | 2,606 | 1,073 | 1,078 |
| Expected return | (3,472) | (3,634) | — | — |
| Amortizations | 2,981 | 1,289 | 1,070 | 749 |
| Net periodic benefit cost | $ 3,629 | $ 1,645 | $ 2,230 | $ 1,911 |

The Company contributed $1,500 to Company-sponsored domestic pension plans, $879 to its other post-retirement benefit plans and $203 to the U.K. pension plan for the three months ended December 31, 2017. The Company expects to make future contributions of $4,500 to its U.S. pension plan, $4,121 to its other post-retirement benefit plan and $504 to the U.K. pension plan for the remainder of fiscal 2018.

## Note 6. Legal, Environmental and Other Contingencies

*Legal*

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 welding fumes containing manganese. The Company (together with a number of other manufacturer defendants) is also involved in one action alleging that asbestos in its facilities harmed the plaintiff. The Company believes that it has defenses to these allegations 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 expects to amend its Amended and Restated By-Laws effective upon receipt of the affirmative vote of a majority of its stockholders at the Company's 2018 Annual Meeting of Stockholders. The proposed amendment would remove the requirement that stockholders electing to remove a director must show cause in order to do so. This proposed amendment is in response to a recent decision by the Delaware Court of Chancery.

*Environmental*

The Company has received permits from the Indiana Department of Environmental Management and the North Carolina Department of Environment and Natural Resources to close and provide post closure environmental monitoring and care for certain areas of its Kokomo, Indiana and Mountain Home, North Carolina facilities, respectively.

The Company is required to, among other things, 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 testing and corrective action by the Company could be required. The Company is unable to estimate the costs of any further corrective action at these sites, if required. Accordingly, the Company cannot assure that the costs of any future corrective action at these, or any other current or former sites, would not have a material effect on the Company's financial condition, results of operations or liquidity.

As of September 30, 2017 and December 31, 2017, the Company has accrued $633 for post-closure monitoring and maintenance activities, of which $531 was included in long-term obligations as it is not due within one year. Accruals for these costs are calculated by estimating the annual cost to monitor and maintain each post-closure site and multiplying that amount by the number of years remaining in the post-closure monitoring period.

Expected expenditures for post-closure monitoring and maintenance activities (discounted) were as follows at December 31, 2017.

| | | |
|---|---|---|
| 2019 | $ | 54 |
| 2020 | | 52 |
| 2021 | | 60 |
| 2022 | | 50 |
| 2023 and thereafter | | 315 |
| | $ | 531 |

On February 11, 2016, the Company voluntarily reported to the Louisiana Department of Environmental Quality a leak that it discovered in one of its chemical cleaning operations at its Arcadia, Louisiana facility. As a result of the discovery, the Company is working with that department to determine the extent of the issue and appropriate remediation.

**Note 7. Deferred Revenue**

On November 17, 2006, the Company entered into a twenty-year agreement to provide conversion services ("Conversion Services Agreement") 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 (20 years) 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 Conversion Services Agreement. The agreement contains certain default provisions which could result in contract termination and damages, including liquidated damages of $25.0 million 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-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.

**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 by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment loss in the event that the carrying amount is greater than the fair value. Any goodwill impairment loss recognized would not exceed the total carrying amount of goodwill allocated to that reporting unit. No impairment has been recognized as of December 31, 2017.

During the first three months of fiscal 2018, there were no changes in the carrying amount of goodwill.

Amortization of customer relationships, patents, non-competes and other intangibles was $123 and $133 for the three-month periods ended December 31, 2016 and 2017, respectively. The following represents a summary of intangible assets at September 30, 2017 and December 31, 2017:

| September 30, 2017 | Gross Amount | Accumulated Amortization | Carrying Amount |
|---|---|---|---|
| Patents | $ 4,030 | $ (3,656) | $ 374 |
| Trademarks | 3,800 | — | 3,800 |
| Customer relationships | 2,100 | (426) | 1,674 |
| Other | 291 | (73) | 218 |
| | $ 10,221 | $ (4,155) | $ 6,066 |

| December 31, 2017 | Gross Amount | Accumulated Amortization | Carrying Amount |
|---|---|---|---|
| Patents | $ 4,030 | $ (3,737) | $ 293 |
| Trademarks | 3,800 | — | 3,800 |
| Customer relationships | 2,100 | (464) | 1,636 |
| Other | 291 | (87) | 204 |
| | $ 10,221 | $ (4,288) | $ 5,933 |

| Estimated future Aggregate Amortization Expense:<br>Year Ended September 30, | |
|---|---|
| 2018 | $ 394 |
| 2019 | 256 |
| 2020 | 198 |
| 2021 | 180 |
| 2022 | 133 |
| Thereafter | 972 |

## 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.

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

| (in thousands, except share and per share data) | Three Months Ended December 31, 2016 | Three Months Ended December 31, 2017 |
|---|---|---|
| *Numerator: Basic and Diluted* | | |
| Net income (loss) | $ (672) | $ (22,526) |
| Dividends paid | (2,752) | (2,758) |
| Undistributed income (loss) | (3,424) | (25,284) |
| Percentage allocated to common shares [a] | 100.0 % | 100.0 % |
| Undistributed income (loss) allocated to common shares | (3,424) | (25,284) |
| Dividends paid on common shares outstanding | 2,724 | 2,737 |
| Net income (loss) available to common shares | (700) | (22,547) |
| *Denominator: Basic and Diluted* | | |
| Weighted average common shares outstanding | 12,382,207 | 12,410,896 |
| Adjustment for dilutive potential common shares | — | — |
| Weighted average shares outstanding - Diluted | 12,382,207 | 12,410,896 |
| | | |
| Basic net income (loss) per share | $ (0.06) | $ (1.82) |
| Diluted net income (loss) per share | $ (0.06) | $ (1.82) |
| | | |
| Number of stock option shares excluded as their effect would be anti-dilutive | 345,167 | 366,776 |
| Number of restricted stock shares excluded as their effect would be anti-dilutive | 109,785 | 97,835 |
| Number of deferred restricted stock shares excluded as their effect would be anti-dilutive | — | 16,550 |
| Number of performance share awards excluded as their effect would be anti-dilutive | 19,000 | 43,800 |
| | | |
| [a] Percentage allocated to common shares - Weighted average | | |
| Common shares outstanding | 12,382,207 | 12,410,896 |
| Unvested participating shares | — | — |
| | 12,382,207 | 12,410,896 |

**Note 10. Stock-Based Compensation**

**Restricted Stock**

On February 23, 2009, the Company adopted a restricted stock plan that reserved 400,000 shares of common stock for issuance. Additionally, on March 1, 2016, the Company adopted the 2016 Incentive Compensation Plan which provides for grants of restricted stock, restricted stock units and performance shares, among other awards. Up to 275,000 shares of restricted stock, restricted stock units and performance shares may be granted in the aggregate under this plan. Following the adoption of the 2016 Incentive Compensation Plan, the Company ceased granting awards from the 2009 restricted stock plan, although awards remain outstanding thereunder.

Grants of restricted stock are comprised 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.

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, which is determined based upon the closing price of the Company's common stock on the trading date immediately preceding 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.

The shares of time-based restricted stock granted to employees vest on the third anniversary of their grant date if the recipient is still an employee of the Company on such date. 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 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 following table summarizes the activity under the 2009 restricted stock plan and the 2016 Incentive Compensation Plan with respect to restricted stock for the three months ended December 31 2017:

| | Number of Shares | | Weighted Average Fair Value At Grant Date |
|---|---|---|---|
| Unvested at September 30, 2017 | 107,210 | $ | 41.36 |
| Granted | 31,750 | $ | 31.76 |
| Forfeited / Canceled | (14,250) | $ | 46.72 |
| Vested | (26,875) | $ | 44.51 |
| Unvested at December 31, 2017 | 97,835 | $ | 36.60 |
| Expected to vest | 85,168 | $ | 36.43 |

Compensation expense related to restricted stock for the three months ended December 31, 2016 and 2017 was $416 and $315, respectively. The remaining unrecognized compensation expense related to restricted stock at December 31, 2017 was $1,960, to be recognized over a weighted average period of 1.36 years. During the first quarter of fiscal 2018, the Company repurchased 6,937 shares of stock from employees at an average purchase price of $32.23 to satisfy required withholding taxes upon vesting of restricted stock-based compensation.

**Deferred Restricted Stock**

On November 20, 2017, the Company adopted a deferred compensation plan that allows directors and officers the option to defer receipt of cash and stock compensation. On November 21, 2017, the Company granted shares of restricted stock out of the restricted stock plan in which elections were made by certain individuals to defer receipt to a future period. Those shares will vest in accordance with the parameters of the restricted stock plan, however, receipt of the shares and any corresponding dividends are deferred until the end of the deferral period. In the event the deferred shares are forfeited prior to the vesting date, deferred dividends pertaining to those shares are also forfeited. During the deferral period, the participants who elected to defer shares will not have voting rights with respect to those shares during the period of deferral.

The following table summarized the activity under the 2016 Incentive Compensation Plan with respect to deferred restricted stock for the three months ended December 31, 2017.

| | Number of Shares | | Weighted Average Fair Value At Grant Date |
|---|---|---|---|
| Unvested at September 30, 2017 | — | $ | — |
| Granted | 16,550 | $ | 31.76 |
| Unvested at December 31, 2017 | 16,550 | $ | 31.76 |
| Expected to vest | 16,550 | $ | 31.76 |

Compensation expense related to deferred restricted stock for the three months ended December 31, 2016 and 2017 was $0 and $44, respectively. The remaining unrecognized compensation expense related to restricted stock at December 31, 2017 was $482, to be recognized over a weighted average period of 0.92 years.

**Performance Shares**

On November 22, 2016 and November 21, 2017, the Company granted a target of 19,000 and 24,800, respectively, performance share awards to certain key employees. The number of performance shares that will ultimately be earned, as well as the number of shares that will be distributed in settling those earned performance shares, if any, will not be determined until the end of the performance period. Performance shares earned will depend on the calculated total shareholder return of the Company at the end of the three-year period ending September 30, 2019 and September 30, 2020, respectively, as compared to the total shareholder return of the Company's peer group, as defined by the Compensation Committee. The fair value of the performance shares granted on November 22, 2016 and November 21, 2017 is $60.09 and $38.43, per share, respectively, which is estimated as of the date of the grant using a Monte Carlo simulation model. Compensation expense related to the performance shares for the three months ended December 31, 2016 and 2017 was $23 and $128, respectively. The remaining unrecognized compensation expense related to performance shares at December 31, 2017 was $1,630, to be recognized over a weighted average period of 2.20 years.

## Stock Options

The Company's 2016 Incentive Compensation Plan and its two previous stock option plans authorize, or formerly authorized, the granting of non-qualified stock options to certain key employees and non-employee directors for the purchase of a maximum of 1,925,000 shares of the Company's common stock. The first option plan was adopted in August 2004 and provided 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 the grant of options to purchase up to 500,000 shares of the Company's common stock. Following the adoption of the 2016 Incentive Compensation Plan, the Company ceased granting awards from these plans, although awards remain outstanding thereunder. On March 1, 2016, the Company adopted the 2016 Incentive Compensation Plan which provides for grants of up to 425,000 stock options and stock appreciation rights. 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 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.

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 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 dividend yield assumption is based on the Company's history and expectations regarding dividend payouts at the time of the grant. The following assumptions were used for grants during fiscal years 2017 and 2018:

| Grant Date | Fair Value | Dividend Yield | Risk-free Interest Rate | Expected Volatility | Expected Life |
|---|---|---|---|---|---|
| November 21, 2017 | $ 9.74 | 2.77 % | 2.06 % | 42 % | 5 years |
| November 22, 2016 | $ 11.50 | 2.15 % | 1.79 % | 37 % | 5 years |

The stock-based employee compensation expense for stock options for the three months ended December 31, 2016 and 2017 was $120 and $118, respectively. The remaining unrecognized compensation expense at December 31, 2017 was $1,242, to be recognized over a weighted average vesting period of 1.65 years.

The following table summarizes the activity under the stock option plans and the 2016 Incentive Compensation Plan with respect to stock options for the three months ended December 31, 2017 and provides 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, 2017 | 425,326 | | $ 44.93 | |
| Granted | 57,550 | | $ 31.76 | |
| Exercised | — | | $ 0.00 | |
| Canceled | — | | $ 0.00 | |
| Outstanding at December 31, 2017 | 482,876 | $ 189 | $ 44.56 | 5.89 yrs. |
| Vested or expected to vest | 446,141 | $ 188 | $ 43.33 | 4.60 yrs. |
| Exercisable at December 31, 2017 | 366,776 | $ 172 | $ 45.80 | 4.85 yrs. |

## Note 11. Dividend

In the first quarter of fiscal 2018, 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 December 15, 2017 to stockholders of record at the close of business on December 1, 2017. The dividend cash pay-out was $2,754 for the quarter based on the number of shares outstanding and $4 of dividends were recorded as deferred in accordance with the Deferred Compensation Plan.

On February 1, 2018, 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 March 15, 2018 to stockholders of record at the close of business on March 1, 2018.

**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. The fair value of cash and cash equivalents is determined using Level 1 information. The Company had no Level 2 or Level 3 assets or liabilities as of September 30, 2017 or December 31, 2017.

U.S and international equities, fixed income, and other investments held in the Company's pension plan are held in mutual funds and common / collective funds which are valued using net asset value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. These investments are not classified in the fair value hierarchy in accordance with guidance included in ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

**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 (loss) and other comprehensive income (loss) items, including pension, post-retirement and foreign currency translation adjustments, primarily caused by the strengthening of the US dollar against the British pound sterling, net of tax when applicable.

*Accumulated Other Comprehensive Income (Loss)*

| | Three Months Ended December 31, 2016 | | | |
|---|---|---|---|---|
| | Pension Plan | Postretirement Plan | Foreign Exchange | Total |
| Accumulated other comprehensive income (loss) as of September 30, 2016 | $ (74,742) | $ (29,585) | $ (10,196) | $ (114,523) |
| Other comprehensive income (loss) before reclassifications | — | — | (3,026) | (3,026) |
| Amounts reclassified from accumulated other comprehensive income (loss) | | | | |
| Amortization of Pension and Postretirement Plan items [(a)] | 202 | — | — | 202 |
| Actuarial losses [(a)] | 2,810 | 1,070 | — | 3,880 |
| Tax benefit | (1,108) | (394) | — | (1,502) |
| Net current-period other comprehensive income (loss) | 1,904 | 676 | (3,026) | (446) |
| Accumulated other comprehensive income (loss) as of December 31, 2016 | $ (72,838) | $ (28,909) | $ (13,222) | $ (114,969) |

| | Three Months Ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Pension Plan | Postretirement Plan | Foreign Exchange | Total |
| Accumulated other comprehensive income (loss) as of September 30, 2017 | $ (43,012) | $ (21,691) | $ (7,991) | $ (72,694) |
| Other comprehensive income (loss) before reclassifications | — | — | 517 | 517 |
| Amounts reclassified from accumulated other comprehensive income (loss) | | | | |
| Amortization of Pension and Postretirement Plan items [(a)] | 93 | — | — | 93 |
| Actuarial losses [(a)] | 1,223 | 750 | — | 1,973 |
| Tax benefit | (484) | (276) | — | (760) |
| Net current-period other comprehensive income (loss) | 832 | 474 | 517 | 1,823 |
| Accumulated other comprehensive loss as of December 31, 2017 | $ (42,180) | $ (21,217) | $ (7,474) | $ (70,871) |

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

**Note 14. Long-term Obligations**

On January 1, 2015, the Company entered into a capital lease agreement for the building that houses the assets and operations of LaPorte Custom Metal Processing (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.

The Company entered into a twenty-year "build-to-suit" lease for a building that houses the assets and operations of the service center located in LaPorte, Indiana that was relocated from Lebanon, Indiana. During the first quarter of fiscal 2017, the Company took occupancy of the building. The Company retained substantially all of the construction risk and was deemed to be the owner of the facility for accounting purposes, even though it is not the legal owner. Construction costs incurred relative to the buildout of the facility of approximately $4,100 are included in Property, plant and equipment, net on the Consolidated Balance Sheet and are depreciated over the 20-year lease term. The Company accounts for the related build-to-suit liability as a financing obligation.

As of December 31, 2017, future minimum lease rental payments during each fiscal year applicable to the lease obligations were as follows.

| | |
|---|---|
| 2018 | $ 656 |
| 2019 | 989 |
| 2020 | 994 |
| 2021 | 1,001 |
| 2022 | 1,012 |
| Thereafter | 13,678 |
| Total minimum lease payments | 18,330 |
| Less amounts representing interest | (10,106) |
| Present value of net minimum lease payments | 8,224 |
| Less current obligation | (132) |
| Total long-term lease obligation | $ 8,092 |

The lease obligations are included in Long-term obligations (less current portion) on the Consolidated Balance Sheet.

| | September 30, 2017 | December 31, 2017 |
|---|---|---|
| Capital lease rental payments | $ 4,275 | $ 4,259 |
| Finance lease rental payments | 4,017 | 3,965 |
| Environmental post-closure monitoring and maintenance activities | 633 | 633 |
| Less amounts due within one year | (1,029) | (231) |
| Long-term obligations (less current portion) | $ 7,896 | $ 8,626 |

## 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 2018 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, 2017.*

*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 industrial 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 59% of net product revenues in fiscal 2017. 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 13 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 first quarter of fiscal 2018, 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 December 15, 2017 to stockholders of record at the close of business on December 1, 2017. The dividend cash pay-out in the first quarter was approximately $2.8 million based on the number of shares outstanding and equal to approximately $11.0 million on an annualized basis.

On February 1, 2018, 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 March 15, 2018 to stockholders of record at the close of business on March 1, 2018.

### Capital Spending

During the first quarter of fiscal 2018, capital investment was $3.2 million, and total planned capital expenditures for fiscal 2018 are expected to be $16.0 million, similar to fiscal 2017.

***Impact of the Tax Cuts and Jobs Act on Deferred Tax Assets***

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other changes is a permanent reduction in the federal corporate income tax rate from 35% to 21%, which the Company expects will positively impact the Company's future effective tax rate and after-tax earnings in the United States. As a result of the Act, the Company's blended rate for fiscal 2018 is 24.5%. The Company may also be affected by certain other aspects of the Act, including, without limitation, provisions regarding repatriation of accumulated foreign earnings and deductibility of capital expenditures. The Company is in the process of determining what, if any, effect those provisions will have on the Company's financial results, and there can be no assurance of whether such additional effects will be positive or negative.

As a result of the reduction in the corporate income tax rate, the Company is required to revalue its net deferred tax asset to account for the future impact of lower corporate tax rates on this deferred amount and record any change in the value of such asset as a one-time non-cash charge on its income statement. The Company has performed an analysis of its first quarter of fiscal 2018 tax provision based on the new tax rate as compared to the previous effective tax rate of 40% (which includes state and foreign taxes), and determined the amount of such expense to be $19.6 million, which reduced the Company's first quarter fiscal 2018 results.

**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 has relocated its service center operations in Lebanon, Indiana to LaPorte. The project began in the first quarter of fiscal 2016 and was substantially completed by the end of the first quarter of fiscal 2018. During the first three months of fiscal 2018, the Company expensed $0.8 million for costs related to the relocation, including but not limited to, physical relocation costs, employee retention costs, and duplicate lease costs.

**Volumes, Competition and Pricing**

Consistent with previous fiscal years, the Company's first quarter ending December 31 was impacted by holidays, planned maintenance outages and customers managing their calendar year-end balance sheets. Volume in the first quarter of fiscal 2018 was 3.9 million pounds, which is 1.5% lower than last year's first quarter, and 16.9% lower sequentially than the fourth quarter of fiscal 2017. While first quarter sales continued to be impacted by weak volume demand driven by lower transactional business, challenging pricing and low levels of high-value specialty application projects, the Company has identified positive signs of the beginning of a market recovery. Backlog has increased to $205.7 million at December 31, 2017 which reflects a 25.1% increase in backlog pounds from September 30, 2017. Overall, order entry rates in the first quarter of fiscal 2018 were 34% higher than sales levels, creating a solid book-to-bill-ratio. The product average selling price per pound in the first quarter of fiscal 2018 was $21.15 compared to $19.80 in the fourth quarter of 2017. In addition, the Company is expecting some additional pricing strength moving forward as pricing under many of the Company's long-term agreements with customers increased according to annual escalating clauses relating to the market price of certain raw materials beginning in January.

*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:**

**Comparison by Quarter of Net Revenues, Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2017 and 2018**

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| **(dollars in thousands)** | **December 31, 2016** | **March 31, 2017** | **June 30, 2017** | **September 30, 2017** | **December 31, 2017** |
| Net Revenues | $ 93,355 | $ 103,112 | $ 97,977 | $ 100,765 | $ 89,693 |
| Gross Profit Margin | $ 10,487 | $ 9,788 | $ 3,662 | $ 5,773 | $ 7,010 |
| Gross Profit Margin % | 11.2 % | 9.5 % | 3.7 % | 5.7 % | 7.8 % |

Compared to the first quarter of fiscal 2017, gross profit margin and gross profit margin percentage in the first quarter of fiscal 2018 were lower because lower levels of specialty application projects negatively impacted gross margins. However sequential improvements in gross profit margin and gross profit margin percentage occurred in the first quarter of fiscal 2018, compared to the third and fourth quarters of fiscal 2017, even with lower sales and volume levels. Gross profit margin percentage was 7.8% in the first quarter of fiscal 2018 compared to 3.7% and 5.7% in the third and fourth quarters of fiscal 2017. Improvement was largely attributable to better product-mix and higher pricing levels driven by raw material increases.

**Backlog**

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2016 | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 |
| ***Backlog*** [1] | | | | | |
| Dollars (in thousands) | $ 167,286 | $ 170,848 | $ 180,922 | $ 177,300 | $ 205,718 |
| Pounds (in thousands) | 6,795 | 6,960 | 7,496 | 6,453 | 8,073 |
| Average selling price per pound | $ 24.62 | $ 24.55 | $ 24.14 | $ 27.48 | $ 25.48 |
| ***Average nickel price per pound*** | | | | | |
| London Metals Exchange [2] | $ 5.00 | $ 4.64 | $ 4.05 | $ 5.10 | $ 5.18 |

(1) The Company defines backlog to include firm commitments from customers for delivery of product at established prices. There are orders in the backlog at any given time which include prices that are subject to adjustment based on changes in raw material costs, which can vary from approximately 30% - 50% of the orders. 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 $205.7 million at December 31, 2017, an increase of $28.4 million, or 16.0%, from $177.3 million at September 30, 2017. Backlog pounds increased during the first quarter of fiscal 2018 by 25.1%. Aerospace and other markets had higher order entries and improving backlog levels, as compared to the prior quarter. The average market price for nickel increased during the first quarter by 1.6%.

**Quarterly Market Information**

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | December 31, 2016 | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 |
| **Net revenues** (in thousands) | | | | | |
| Aerospace | $ 45,784 | $ 49,536 | $ 46,895 | $ 50,300 | $ 46,839 |
| Chemical processing | 19,128 | 18,081 | 15,017 | 18,241 | 13,356 |
| Industrial gas turbines | 14,593 | 17,827 | 14,731 | 14,372 | 13,421 |
| Other markets | 8,429 | 9,923 | 14,379 | 10,472 | 9,238 |
| Total product revenue | 87,934 | 95,367 | 91,022 | 93,385 | 82,854 |
| Other revenue | 5,421 | 7,745 | 6,955 | 7,380 | 6,839 |
| **Net revenues** | $ 93,355 | $ 103,112 | $ 97,977 | $ 100,765 | $ 89,693 |
| | | | | | |
| **Shipments by markets** (in thousands of pounds) | | | | | |
| Aerospace | 2,017 | 2,322 | 2,207 | 2,301 | 2,023 |
| Chemical processing | 605 | 771 | 858 | 929 | 687 |
| Industrial gas turbines | 1,039 | 1,403 | 1,011 | 1,015 | 876 |
| Other markets | 316 | 350 | 501 | 472 | 332 |
| **Total shipments** | 3,977 | 4,846 | 4,577 | 4,717 | 3,918 |
| | | | | | |
| **Average selling price per pound** | | | | | |
| Aerospace | $ 22.70 | $ 21.33 | $ 21.25 | $ 21.86 | $ 23.15 |
| Chemical processing | 31.62 | 23.45 | 17.50 | 19.64 | 19.44 |
| Industrial gas turbines | 14.05 | 12.71 | 14.57 | 14.16 | 15.32 |
| Other markets | 26.67 | 28.35 | 28.70 | 22.19 | 27.83 |
| **Total product** (product only; excluding other revenue) | 22.11 | 19.68 | 19.89 | 19.80 | 21.15 |
| **Total average selling price** (including other revenue) | 23.47 | 21.28 | 21.41 | 21.36 | 22.89 |

**Results of Operations for the Three Months Ended December 31, 2016 Compared to the Three Months Ended December 31, 2017**

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 December 31, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2016 | | 2017 | | Amount | % |
| Net revenues | $ 93,355 | 100.0 % | $ 89,693 | 100.0 % | $ (3,662) | (3.9)% |
| Cost of sales | 82,868 | 88.8 % | 82,683 | 92.2 % | (185) | (0.2)% |
| Gross profit | 10,487 | 11.2 % | 7,010 | 7.8 % | (3,477) | (33.2)% |
| Selling, general and administrative expense | 10,312 | 11.0 % | 10,770 | 12.0 % | 458 | 4.4 % |
| Research and technical expense | 943 | 1.0 % | 888 | 1.0 % | (55) | (5.8)% |
| Operating income (loss) | (768) | (0.8)% | (4,648) | (5.2)% | (3,880) | 505.2 % |
| Interest income | (57) | (0.1)% | (18) | (0.0)% | 39 | (68.4)% |
| Interest expense | 169 | 0.2 % | 230 | 0.3 % | 61 | 36.1 % |
| Income (loss) before income taxes | (880) | (0.9)% | (4,860) | (5.4)% | (3,980) | 452.3 % |
| Provision for (benefit from) income taxes | (208) | (0.2)% | 17,666 | 19.7 % | 17,874 | (8,593.3)% |
| Net income (loss) | $ (672) | (0.7)% | $ (22,526) | (25.1)% | $ (21,854) | 3,252.1 % |

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 December 31, 2016 | Three Months Ended December 31, 2017 | Change Amount | Change % |
|---|---|---|---|---|
| **Net revenues** (in thousands) | | | | |
| Aerospace | $ 45,784 | $ 46,839 | $ 1,055 | 2.3 % |
| Chemical processing | 19,128 | 13,356 | (5,772) | (30.2)% |
| Industrial gas turbine | 14,593 | 13,421 | (1,172) | (8.0)% |
| Other markets | 8,429 | 9,238 | 809 | 9.6 % |
| **Total product revenue** | 87,934 | 82,854 | (5,080) | (5.8)% |
| Other revenue | 5,421 | 6,839 | 1,418 | 26.2 % |
| **Net revenues** | $ 93,355 | $ 89,693 | $ (3,662) | (3.9)% |
| | | | | |
| **Pounds by market** (in thousands) | | | | |
| Aerospace | 2,017 | 2,023 | 6 | 0.3 % |
| Chemical processing | 605 | 687 | 82 | 13.6 % |
| Industrial gas turbine | 1,039 | 876 | (163) | (15.7)% |
| Other markets | 316 | 332 | 16 | 5.1 % |
| **Total shipments** | 3,977 | 3,918 | (59) | (1.5)% |
| | | | | |
| **Average selling price per pound** | | | | |
| Aerospace | $ 22.70 | $ 23.15 | $ 0.45 | 2.0 % |
| Chemical processing | 31.62 | 19.44 | (12.18) | (38.5)% |
| Industrial gas turbine | 14.05 | 15.32 | 1.27 | 9.0 % |
| Other markets | 26.67 | 27.83 | 1.16 | 4.3 % |
| **Total product** (excluding other revenue) | 22.11 | 21.15 | (0.96) | (4.3)% |
| **Total average selling price** (including other revenue) | $ 23.47 | $ 22.89 | $ (0.58) | (2.5)% |

*Net Revenues.* Net revenues were $89.7 million in the first quarter of fiscal 2018, a decrease of 3.9% from $93.3 million in the same period of fiscal 2017. Volume was 3.9 million pounds in the first quarter of fiscal 2018, a decrease of 1.5% from 4.0 million pounds in the same period of fiscal 2017. The decrease in volume was primarily due to a decline in shipments into the industrial gas turbine market during the first quarter of fiscal 2018 due to continued weak demand. The product-sales average selling price was $21.15 per pound in the first quarter of fiscal 2018, a decrease of 4.3% from $22.11 per pound in the same period of fiscal 2017. The average selling price decreased due to increased pricing competition and a lower value product mix, which decreased average selling price per pound by approximately $1.14 and $0.82, respectively, partially offset by higher raw material market prices, primarily cobalt, which increased average selling prices per pound by approximately $1.00.

Sales to the aerospace market were $46.8 million in the first quarter of fiscal 2018, an increase of 2.3% from $45.8 million in the same period of fiscal 2017, due to a 2.0% increase in average selling price per pound, combined with a 0.3% increase in volume. The average selling price per pound increase reflects an increase in market prices of raw materials, primarily cobalt, and a higher-value product mix, which increased average selling price per pound by approximately $1.00 and $0.78, respectively, partially offset by other pricing and mix factors, which decreased average selling price per pound by approximately $1.33.

Sales to the chemical processing market were $13.4 million in the first quarter of fiscal 2018, a decrease of 30.2% from $19.1 million in the same period of fiscal 2017, due to a 38.5% decrease in average selling price per pound, partially offset by a 13.6% increase in volume. The increase in volume reflects a moderate strengthening of base demand, but from very low volume levels. The average selling price per pound decrease reflects a lower-value product mix due to a proprietary alloy project shipment sold in the first quarter of fiscal 2017 which was not repeated in the first quarter of fiscal 2018, and increased pricing competition and other factors, which decreased average selling price per pound by approximately $10.56 and $2.19, respectively, partially offset by a change in market prices of certain raw materials, which increased average selling price per pound by approximately $0.57.

Sales to the industrial gas turbine market were $13.4 million in the first quarter of fiscal 2018, a decrease of 8.0% from $14.6 million for the same period of fiscal 2017, due to a decrease of 15.7% in volume, partially offset by an increase in average selling price per pound of 9.0%. The decrease in volume is primarily due to a decreased level of transactional business in this market. The increase in average selling price per pound primarily reflects a change in market prices of raw materials, primarily cobalt, and a higher-value product form mix due to less ingot product shipped, which increased average selling price per pound by approximately $0.95 and $0.49, respectively, partially offset by increased pricing competition and other factors, which decreased average selling price per pound by approximately $0.17.

Sales to other markets were $9.2 million in the first quarter of fiscal 2018, an increase of 9.6% from $8.4 million in the same period of fiscal 2017, due to a 5.1% increase in volume, combined with a 4.3% increase in average selling price per pound. The increase in volume was primarily due to strength in the oil and gas and flue-gas desulfurization markets. The increase in average selling price reflects higher raw material market prices, primarily cobalt, which increased average selling price per pound by approximately $2.04, partially offset by a lower-value product mix and increased pricing competition and other factors, which decreased average selling price per pound by approximately $0.52 and $0.36, respectively.

*Other Revenue.* Other revenue was $6.8 million in the first quarter of fiscal 2018, an increase of 26.2% from $5.4 million in the same period of fiscal 2017. The increase is due primarily to increased toll conversion and miscellaneous sales.

*Cost of Sales.* Cost of sales was $82.7 million, or 92.2% of net revenues, in the first quarter of fiscal 2018 compared to $82.9 million, or 88.8% of net revenues, in the same period of fiscal 2017. Cost of sales in the first quarter of fiscal 2018 decreased by $0.2 million as compared to the same period of fiscal 2017 due to lower volumes and the reduction of inventory reserves, partially offset by costs associated with relocating the Lebanon service center to LaPorte as previously announced.

*Gross Profit.* As a result of the above factors, gross profit was $7.0 million for the first quarter of fiscal 2018, a decrease of $3.5 million from the same period of fiscal 2017. Gross margin as a percentage of net revenue decreased to 7.8% in the first quarter of fiscal 2018 as compared to 11.2% in the same period of fiscal 2017.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was $10.8 million for the first quarter of fiscal 2018, an increase of $0.5 million from the same period of fiscal 2017. This increase is primarily attributable to foreign exchange fluctuations. Selling, general and administrative expense as a percentage of net revenues increased to 12.0% for the first quarter of fiscal 2018 compared to 11.0% for the same period of fiscal 2017.

*Research and Technical Expense.* Research and technical expense was $0.9 million, or 1.0% of revenue, for the first quarter of fiscal 2018, similar to the expense in the same period of fiscal 2017.

*Operating Income/(Loss).* As a result of the above factors, operating loss in the first quarter of fiscal 2018 was $(4.6) million compared to operating loss of $(0.8) million in the same period of fiscal 2017.

*Income Taxes.* Income tax expense was $17.7 million in the first quarter of fiscal 2018, a difference of $17.9 million from a benefit of $0.2 million in the first quarter of fiscal 2017. The effective tax rate for the first quarter of fiscal 2018 was (363.5)%, compared to 23.6% in the same period of fiscal 2017. The change in effective tax rate for the first quarter of fiscal 2018 as compared to the same period of fiscal 2017 is primarily attributable to the passage of the Tax Reform and Jobs Act during the quarter, which required the Company revalue its deferred tax assets based on the lowering of the statutory tax rate of 35% to 21% (24.5% in fiscal 2018). See "Impact of the Tax Cuts and Jobs Act on Deferred Tax Assets" and Note 4 to the condensed consolidated financial statements in this Form 10-Q for additional discussion of the expected impact of the Tax Cuts and Jobs Act.

*Net Income/(Loss).* As a result of the above factors, net loss in the first quarter of fiscal 2018 was $(22.5) million, a difference of $21.9 million from net loss of $(0.7) million in the same period of fiscal 2017.

## Working Capital

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was $268.3 million at December 31, 2017, an increase of $9.1 million or 3.5%, from $259.1 million at September 30, 2017. This increase resulted primarily from inventory increasing $22.8 million, partially offset by accounts payable and accrued expenses increasing by $6.9 million and accounts receivable decreasing by $6.8 million during the first three months of fiscal 2018.

## Liquidity and Capital Resources

*Comparative cash flow analysis*

During the first three months of fiscal 2018, the Company's primary sources of cash was cash on-hand. At December 31, 2017, the Company had unrestricted cash and cash equivalents of $34.0 million compared to $46.3 million at September 30, 2017. As of December 31, 2017, the Company had cash and cash equivalents of $14.9 million held by foreign subsidiaries in various currencies.

Net cash used in operating activities in the first three months of fiscal 2018 was $(6.3) million compared to net cash provided by operating activities of $13.5 million in the first three months of fiscal 2017. The lower cash provided in the first three months of fiscal 2018 was largely driven by increases in inventory of $22.5 million in the first three months of fiscal 2018 compared to increases in inventory of $7.0 million during the same period of fiscal 2017, as well as losses before income taxes of $($4.9) million during the first three months of fiscal 2018 compared to losses before income taxes of $(0.9) million during the same period of fiscal 2017. These factors were partially offset by lower cash payments of $0.5 million during the first three months of fiscal 2018 compared to $1.8 million during the same period of fiscal 2017.

Net cash used in investing activities was $3.2 million in the first three months of fiscal 2018 was lower than cash used in investing activities during the same period of fiscal 2017 of $5.9 million as a result of lower additions to property, plant and equipment, as the Company completed its capacity expansion in sheet manufacturing.

Net cash used in financing activities in the first three months of fiscal 2018 of $3.1 million included $2.8 million of dividend payments and approximately $0.2 million of stock re-purchases made to satisfy taxes in relation to the vesting of restricted stock, which is comparable to the prior year.

*Future sources of liquidity*

The Company's sources of liquidity for the remainder of fiscal 2018 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 December 31, 2017, the Company had cash of $34.0 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. 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, 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 December 31, 2017, the U.S. revolving credit facility had a zero balance.

The Company must pay monthly, in arrears, a commitment fee of 0.20% per annum 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. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met (most of which do not apply in the case of regular quarterly 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 December 31, 2017, 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 three months of fiscal 2018 was $3.2 million, and the forecast for capital spending in fiscal 2018 is $16.0 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 December 31, 2017:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 Years** | **3-5 Years** | **More than 5 years** |
| | | | **(in thousands)** | | |
| Credit facility fees[1] | $ 1,000 | $ 280 | $ 560 | $ 160 | $ — |
| Operating lease obligations | 5,970 | 2,979 | 2,737 | 254 | — |
| Capital and finance lease obligations | 18,458 | 1,017 | 1,999 | 2,018 | 13,424 |
| Raw material contracts (primarily nickel) | 25,129 | 25,129 | — | — | — |
| Capital projects and other commitments | 10,907 | 10,907 | — | — | — |
| Pension plan[2] | 90,422 | 6,000 | 18,375 | 25,531 | 40,516 |
| Non-qualified pension plans | 753 | 95 | 190 | 190 | 278 |
| Other postretirement benefits[3] | 50,000 | 5,000 | 10,000 | 10,000 | 25,000 |
| Environmental post-closure monitoring | 633 | 104 | 112 | 121 | 296 |
| Total | $ 203,272 | $ 51,511 | $ 33,973 | $ 38,274 | $ 79,514 |

(1) As of December 31, 2017, 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.

(2) The Company has a funding obligation to contribute $90,422 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 December 31, 2017. 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, 2017 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 2017.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

As of December 31, 2017, 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, 2017.

**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 December 31, 2017.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Set forth below is information regarding the Company's stock repurchases during the period covered by this report, comprising shares repurchased by the Company from employees and directors to satisfy share-based compensation.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans of Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1-31, 2017 | — | — | — | — |
| November 1-30, 2017 | 6,937 | 32.23 | — | — |
| December 1-31, 2017 | — | — | — | — |
| Total | 6,937 | 32.23 | — | — |

### Item 6. Exhibits

**Exhibits. See Index to Exhibits.**

## 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 | Haynes International, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Haynes International, Inc. Form 8-K, filed November 27, 2017). |
| 10.2** | Revised form of Restricted Stock Award Agreement for non-employee directors. |
| 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 December 31, 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.
** Filed herewith.

## 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: February 1, 2018

*/s/ Daniel Maudlin*
Daniel Maudlin
Vice President — Finance and Chief Financial Officer
Date: February 1, 2018

XBRL-Only Content Section

This table is for xbrl tagging only in order to tag the basic and diluted values using separate gaap elements. The basic elements are used in the table in the note. The diluted elements are used in the table below.

| **(in thousands, except share and per share data)** | **Three Months Ended December 31, 2016** | **2017** |
|---|---|---|
| *Numerator: Basic and Diluted* | | |
| Net income - Diluted | $ (672) | $ (22,526) |
| Undistributed income (loss) - Diluted | (3,424) | (25,284) |
| Undistributed income (loss) allocated to common shares - Diluted | (3,424) | (25,284) |
| Net income available to common shares - Diluted | (700) | (22,547) |

**Exhibit 10.2**

HAYNES International

**RESTRICTED STOCK**
**AWARD AGREEMENT**

This Restricted Stock Award Agreement is entered into by and between Haynes International, Inc., a Delaware corporation ("Company"), and «Director_Name», a member of the Company's Board of Directors ("Grantee"), effective as of «Date of Grant» ("Effective Date").

**Background**

The Company wishes to provide incentives to recognize and reward the Grantee, whose performance, contributions and skills will be critical to the Company's success, by aligning his/her interests more closely with those of the Company's stockholders. For this purpose, the Compensation Committee of the Company's Board of Directors ("Committee") has granted the Grantee restricted shares of common stock of Company, subject to the terms and conditions provided in this Restricted Stock Award Agreement ("Agreement") and the Haynes International, Inc. 2016 Incentive Compensation Plan (the "Plan"). All capitalized terms not herein defined shall have the meaning set forth in the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms, conditions and provisions of the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

In consideration of the premises, the Company and the Grantee agree as follows:

**Agreement**

1. Grant. The Company hereby grants the Grantee «No_of_Shares» shares of common stock of the Company ("Award Shares"), which Award Shares shall be subject to the terms, conditions and restrictions specified in this Agreement and the Plan. Although the Compensation Committee awarded the Grantee the Award Shares as of the Effective Date, the Grantee has elected to defer «No_of_Shares» of such Award Shares ("Deferred Shares") pursuant to the terms of the Haynes International, Inc. Deferred Compensation Plan ("Deferred Compensation Plan") and the Grantee's deferral election under such Deferred Compensation Plan. The Award Shares that are not Deferred Shares are referred to herein as "Restricted Shares". The right to receive the Deferred Shares shall be subject to the same vesting and forfeiture provisions that otherwise apply (or would apply in the case where all of the Award Shares are Deferred Shares) to the Restricted Shares herein as if the Deferred Shares were granted as Restricted Shares on the date hereof. The Deferred Shares will be settled at the time provided for under the Deferred Compensation Plan (and the applicable deferral election) in the form of shares of the Company's common stock issued under the Plan. The Committee has determined that (disregarding

restrictions imposed by this Agreement and the Plan that lapse upon the Grantee's interest becoming vested) the Award Shares have a per-share fair market value of «Fair_Market_Value_» as of the Effective Date.

2. Closing. The transfer of the Restricted Shares ("Closing") shall occur simultaneously with the execution of this Agreement. Concurrently with the execution of this Agreement, (i) the Company shall deliver to the Grantee a certificate, registered in the Grantee's name, representing the Restricted Shares, and (ii) the Grantee shall deliver to the Company a duly executed stock power, endorsed in blank, relating to the Restricted Shares.

3. Custody. The Grantee understands that, although the certificates representing the Restricted Shares shall be registered in the Grantee's name, all such certificates (other than for Restricted Shares that have vested) shall be deposited, together with the stock power executed by the Grantee, in proper form for transfer, with the Company. The Company is hereby authorized to effectuate the transfer into its name of all certificates representing the Restricted Shares that are forfeited to the Company pursuant to Section 6 of this Agreement. Following the vesting of all Restricted Shares subject to this Agreement, or earlier, if requested by the Grantee, the Company shall issue an appropriate certificate for those Restricted Shares that have become vested.

4. Nontransferability of Restricted Shares. Until such time as the Restricted Shares become vested, the Grantee shall not have any right to sell, assign, transfer, pledge, hypothecate, or otherwise dispose of the Restricted Shares. The Grantee represents and warrants to the Company that he/she shall not sell, assign, transfer, pledge, hypothecate, or otherwise dispose of the Restricted Shares in violation of applicable securities laws, the Plan or the provisions of this Agreement.

5. Vesting. The Grantee's interest in the Restricted Shares shall vest and become nonforfeitable as follows: Except as otherwise provided herein or in the Plan, the Grantee's interest in the Restricted Shares shall vest upon the earlier of (a) the first anniversary of the Effective Date, or (b) the failure of the Grantee to be re-elected at an annual meeting of the stockholders of the Company as a result of being excluded from the nominations for any reason other than Cause.

Notwithstanding the preceding paragraph of this Section 5, the Grantee's interest in the Restricted Shares not previously vested or forfeited shall become 100% vested upon (x) the occurrence of a Change in Control or (y) the cessation of Grantee’s service on the Board of Directors by reason of the Grantee’s death or Disability.

6. Forfeiture. Except as set forth herein or in the Plan, if the Grantee should cease to be a director of the Company for any reason (other than that described in Section 5(b)) before becoming 100% vested in the Restricted Shares, the Restricted Shares shall not vest, and the Grantee's interest in the unvested portion of the Restricted Shares shall be immediately forfeited (effective as of the date of such termination of service).

7. Voting and Other Rights. The Grantee shall have absolute beneficial ownership of the Restricted Shares, including the right to vote any and all Restricted Shares and to receive dividends or other distributions thereon, subject to the vesting restrictions set forth in Section 5,

until the earlier of the date on which such Restricted Shares shall be forfeited as provided herein or the date on which the Grantee ceases to own such shares.

8. Grantee Representations. The Grantee represents and warrants to the Company that he/she has not (a) directly or indirectly rendered services to or for an organization, or engaged in a business, that is, in the judgment of the Committee, in competition with the Company or (b) disclosed to anyone outside of the Company, or used for any purpose other than the Company's business, any confidential or proprietary information or material relating to the Company.

9. Adjustments for Changes in Capitalization of the Company. In the event of any merger, reorganization, consolidation, recapitalization, separation, split-up, liquidation or other change affecting the Shares, an adjustment shall be made to the Restricted Shares to the extent provided under the terms of the Plan.

10. Securities Laws. The Grantee understands that applicable securities laws may restrict the right of the Grantee to dispose of any Restricted Shares which the Grantee may acquire hereunder and govern the manner in which such Restricted Shares may be sold. The Grantee shall not offer, sell or otherwise dispose of any of the Restricted Shares in any manner which would (a) require the Company to file any registration statement with the Securities Exchange Commission (the "SEC"), (b) require the Company to amend or supplement any registration statement which the Company may at any time have on file with the SEC, or (c) violate the 1933 Act or any other state or federal law.

11. Withholding Taxes. If the grant or other transfer of the Restricted Shares, or the vesting of the Restricted Shares, results in taxable compensation income to the Grantee the Grantee agrees to make direct payment of the applicable taxes to the applicable taxing authority.

12. Integration. This Agreement supersedes any and all prior and/or contemporaneous agreements, either oral or in writing, between the parties hereto, with respect to the subject matter hereof. Each party to this Agreement acknowledges that no representations, inducements, promises, or other agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, pertaining to the subject matter hereof, which are not embodied herein, and that no prior and/or contemporaneous agreement, statement or promise pertaining to the subject matter hereof that is not contained in this Agreement shall be valid or binding on either party.

13. Impact of Agreement on Service. Nothing contained in this Agreement, the Deferred Compensation Plan or the Plan shall restrict the right of the Company or any of its Subsidiaries to terminate the Grantee’s service at any time with or without Cause.

14. Acknowledgments by Grantee. By signing this Agreement, the Grantee acknowledges that he/she (a) has received a copy of the Plan and is familiar with the terms and provisions of the Plan and the Agreement, and (b) agrees to accept as binding, conclusive and final all decisions and interpretations of the Company’s Board of Directors and Committee upon any questions arising under the Plan or this Agreement.

15. Successors. This Agreement shall be binding upon and inure to the benefit of any successor of the Company and any successors, assigns or estate of the Grantee, including his/her executors, administrators and trustees.

16. Amendment. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is in writing and signed by the party against whom such modification, waiver or discharge is sought to be enforced.

17. Governing Law. The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Indiana, without giving effect to the principles of conflict of laws of such State.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Agreement, effective on the date specified in the first paragraph hereof.

GRANTEE

_______________________________
«Director_Name»

HAYNES INTERNATIONAL, INC.

By: /s/ Daniel Maudlin
Daniel Maudlin
Vice President - Finance and Chief Financial Officer

**STOCK POWER**

***For Value Received,*** the undersigned hereby sells, assigns and transfers unto Haynes International, Inc., «Typed_No_of_Shares» («No_of_Shares») shares of common stock, $0.001 par value, of Haynes International, Inc. (the "Company"), standing in his/her name on the books of the Company and does hereby irrevocably constitute and appoint the Secretary of the Company attorney-in-fact to transfer those shares on the books of the Company with full power of substitution in the premises.

Dated and effective as of the __21st____ day of _November__, _2017__.

By:________________________________________
«Director_Name»

***In the presence of:***

___________________________________________
Witness Signature

___________________________________________
Witness Printed Name

**Exhibit 31.1**

## 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-159f) 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: February 1, 2018

/s/ MARK M. COMERFORD

Mark M. Comerford
*President and Chief Executive Officer*

**Exhibit 31.2**

## 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-159f) 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: February 1, 2018

/s/ DANIEL W. MAUDLIN

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

**Exhibit 32.1**

**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 December 31, 2017 (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*

February 1, 2018
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 December 31, 2017 (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*

February 1, 2018
Date