

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33288

**HAYNES INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**06-1185400**

(I.R.S. Employer Identification No.)

**1020 West Park Avenue, Kokomo, Indiana**

(Address of principal executive offices)

**46904-9013**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$.001 per share	"HAYN"	NASDAQ Global Market

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 every Interactive Data File required to be submitted 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 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

Non-accelerated filer

Accelerated filer

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 July 30, 2020, the registrant had 12,556,921 shares of Common Stock, \$.001 par value, outstanding.

---

**QUARTERLY REPORT ON FORM 10-Q**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Unaudited Condensed Consolidated Financial Statements of Haynes International, Inc. and Subsidiaries	3
Consolidated Balance Sheets (Unaudited) as of September 30, 2019 and June 30, 2020	3
Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended June 30, 2019 and 2020	4
Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Nine Months Ended June 30, 2019 and 2020	5
Consolidated Statement of Stockholders Equity (Unaudited) for the Three and Nine Months Ended June 30, 2019 and 2020	6
Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended June 30, 2019 and 2020	7
Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
Item 4. Controls and Procedures	30
<b>PART II OTHER INFORMATION</b>	32
Item 1a. Risk Factors COVID-19	32
Item 6. Exhibits	33
Index to Exhibits	33
Signatures	34

**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, 2019	June 30, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,038	\$ 65,466
Accounts receivable, less allowance for doubtful accounts of \$441 and \$602 at September 30, 2019 and June 30, 2020, respectively	76,979	52,285
Inventories	258,802	263,885
Income taxes receivable	1,757	5,071
Other current assets	3,297	3,816
Total current assets	371,873	390,523
Property, plant and equipment, net	169,966	162,634
Deferred income taxes	34,132	31,669
Other assets	7,756	9,263
Goodwill	4,789	4,789
Other intangible assets, net	5,284	5,134
Total assets	\$ 593,800	\$ 604,012
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 34,497	\$ 19,986
Accrued expenses	18,833	17,710
Income taxes payable	—	279
Accrued pension and postretirement benefits	4,250	4,250
Revolving credit facilities	—	30,000
Deferred revenue—current portion	2,500	2,500
Total current liabilities	60,080	74,725
Long-term obligations (less current portion) (Note 15)	8,609	8,573
Deferred revenue (less current portion)	15,329	13,454
Deferred income taxes	2,016	2,052
Operating lease liabilities	—	1,984
Accrued pension benefits (less current portion)	101,812	96,879
Accrued postretirement benefits (less current portion)	109,679	111,221
Total liabilities	297,525	308,888
Commitments and contingencies (Note 7)	—	—
Stockholders' equity:		
Common stock, \$0.001 par value (40,000,000 shares authorized, 12,566,969 and 12,615,830 shares issued and 12,513,500 and 12,556,921 shares outstanding at September 30, 2019 and June 30, 2020, respectively)	13	13
Preferred stock, \$0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding)	—	—
Additional paid-in capital	253,843	256,754
Accumulated earnings	125,296	129,408
Treasury stock, 53,469 shares at September 30, 2019 and 58,909 shares at June 30, 2020	(2,239)	(2,437)
Accumulated other comprehensive loss	(80,638)	(88,614)
Total stockholders' equity	296,275	295,124
Total liabilities and stockholders' equity	\$ 593,800	\$ 604,012

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 June 30,		Nine Months Ended June 30,	
	2019	2020	2019	2020
Net revenues	\$ 126,032	\$ 80,576	\$ 360,575	\$ 300,592
Cost of sales	107,857	77,937	316,382	259,914
Gross profit	18,175	2,639	44,193	40,678
Selling, general and administrative expense	10,985	9,824	32,776	32,116
Research and technical expense	830	867	2,523	2,777
Operating income (loss)	6,360	(8,052)	8,894	5,785
Nonoperating retirement benefit expense	856	1,700	2,568	5,100
Interest income	(15)	(11)	(53)	(35)
Interest expense	231	417	756	964
Income before income taxes	5,288	(10,158)	5,623	(244)
Provision for income taxes	1,486	(2,061)	1,915	517
Net income (loss)	<u>\$ 3,802</u>	<u>\$ (8,097)</u>	<u>\$ 3,708</u>	<u>\$ (761)</u>
Net income (loss) per share:				
Basic	\$ 0.30	\$ (0.65)	\$ 0.29	\$ (0.06)
Diluted	<u>\$ 0.30</u>	<u>\$ (0.65)</u>	<u>\$ 0.29</u>	<u>\$ (0.06)</u>
Weighted Average Common Shares Outstanding				
Basic	12,450	12,475	12,443	12,470
Diluted	<u>12,592</u>	<u>12,475</u>	<u>12,591</u>	<u>12,470</u>
Dividends declared per common share	<u>\$ 0.22</u>	<u>\$ 0.22</u>	<u>\$ 0.66</u>	<u>\$ 0.66</u>

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

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

	<u>Three Months Ended June 30,</u>		<u>Nine Months Ended June 30,</u>	
	2019	2020	2019	2020
Net income (loss)	\$ 3,802	\$ (8,097)	\$ 3,708	\$ (761)
Other comprehensive income (loss), net of tax:				
Pension and postretirement	580	1,719	1,739	5,158
Foreign currency translation adjustment	(1,803)	(176)	(1,943)	149
Other comprehensive income (loss)	(1,223)	1,543	(204)	5,307
Comprehensive income	<u>\$ 2,579</u>	<u>\$ (6,554)</u>	<u>\$ 3,504</u>	<u>\$ 4,546</u>

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

**HAYNES INTERNATIONAL, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(in thousands, except share data)

**Three Months Ended June 30, 2019**

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par					
Balance March 31, 2019	12,515,480	\$ 13	252,425	\$ 120,977	\$ (2,177)	\$ (41,546)	\$ 329,692
Net income (loss)				3,802			3,802
Dividends paid and accrued (\$0.22 per share)				(2,760)			(2,760)
Other comprehensive income (loss)						(1,223)	(1,223)
Purchase of treasury stock	(2,130)				(62)		(62)
Stock compensation			691				691
Balance June 30, 2019	12,513,350	\$ 13	\$ 253,116	\$ 122,019	\$ (2,239)	\$ (42,769)	\$ 330,140

**Three Months Ended June 30, 2020**

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par					
Balance March 31, 2020	12,556,921	\$ 13	255,896	\$ 140,297	\$ (2,437)	\$ (90,157)	\$ 303,612
Net income (loss)				(8,097)			(8,097)
Dividends paid and accrued (\$0.22 per share)				(2,792)			(2,792)
Other comprehensive income (loss)						1,543	1,543
Issue restricted stock (less forfeitures)							—
Stock compensation			858				858
Balance June 30, 2020	12,556,921	\$ 13	\$ 256,754	\$ 129,408	\$ (2,437)	\$ (88,614)	\$ 295,124

**Nine Months Ended June 30, 2019**

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par					
Balance September 30, 2018	12,504,478	\$ 13	251,053	\$ 126,588	\$ (1,869)	\$ (42,565)	\$ 333,220
Net income (loss)				3,708			3,708
Dividends paid and accrued (\$0.66 per share)				(8,277)			(8,277)
Other comprehensive income (loss)						(204)	(204)
Exercise of stock options	12,084		215				215
Issue restricted stock (less forfeitures)	8,144						—
Purchase of treasury stock	(11,356)				(370)		(370)
Stock compensation			1,848				1,848
Balance June 30, 2019	12,513,350	\$ 13	\$ 253,116	\$ 122,019	\$ (2,239)	\$ (42,769)	\$ 330,140

**Nine Months Ended June 30, 2020**

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par					
Balance September 30, 2019	12,513,500	\$ 13	253,843	\$ 125,296	\$ (2,239)	\$ (80,638)	\$ 296,275
Net income (loss)				(761)			(761)
Dividends paid and accrued (\$0.66 per share)				(8,410)			(8,410)
Other comprehensive income (loss)						5,307	5,307
Exercise of stock options	12,400		422				422
Reclass due to adoption of ASU 2018-02				13,283		(13,283)	—
Issue restricted stock (less forfeitures)	36,461						—
Purchase of treasury stock	(5,440)				(198)		(198)
Stock compensation			2,489				2,489
Balance June 30, 2020	12,556,921	\$ 13	\$ 256,754	\$ 129,408	\$ (2,437)	\$ (88,614)	\$ 295,124

The accompanying notes are an integral part of these financial statements

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

	Nine Months Ended June 30,	
	2019	2020
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 3,708	\$ (761)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	14,090	14,588
Amortization	205	150
Pension and post-retirement expense - U.S. and U.K.	6,733	10,342
Change in long-term obligations	—	(21)
Stock compensation expense	1,848	2,489
Deferred revenue	(1,875)	(1,875)
Deferred income taxes	1,036	633
Loss on disposition of property	13	—
Change in assets and liabilities:		
Accounts receivable	(5,044)	24,815
Inventories	2,470	(4,956)
Other assets	(409)	(20)
Accounts payable and accrued expenses	6,049	(15,929)
Income taxes	4,902	(3,041)
Accrued pension and postretirement benefits	(5,457)	(6,733)
Net cash provided by (used in) operating activities	<u>28,269</u>	<u>19,681</u>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(7,316)	(7,142)
Net cash provided by (used in) investing activities	<u>(7,316)</u>	<u>(7,142)</u>
<b>Cash flows from financing activities:</b>		
Revolving credit facility borrowings	16,600	30,000
Revolving credit facility repayments	(16,600)	—
Dividends paid	(8,258)	(8,285)
Proceeds from exercise of stock options	215	422
Payment for purchase of treasury stock	(370)	(198)
Payments on long-term obligation	(106)	(140)
Net cash provided by (used in) financing activities	<u>(8,519)</u>	<u>21,799</u>
Effect of exchange rates on cash	(191)	90
Increase (decrease) in cash and cash equivalents:	<u>12,243</u>	<u>34,428</u>
Cash, cash equivalents and restricted cash:		
Beginning of period	9,802	31,038
End of period	<u>\$ 22,045</u>	<u>\$ 65,466</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest (net of capitalized interest)	<u>\$ 712</u>	<u>\$ 865</u>
Income taxes paid (refunded), net	<u>\$ (4,028)</u>	<u>\$ 2,912</u>
Capital expenditures incurred, but not yet paid	<u>\$ 418</u>	<u>\$ 531</u>
Dividends declared but not yet paid	<u>\$ 19</u>	<u>\$ 124</u>

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

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

**Note 1. Basis of Presentation**

*Interim Financial Statements*

The accompanying unaudited condensed interim consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“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, 2019 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 and nine months ended June 30, 2020 are not necessarily indicative of the results to be expected for the full fiscal year ending September 30, 2020 or any interim period.

*Principles of Consolidation*

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

*COVID-19 Pandemic*

In March 2020, the World Health Organization characterized the coronavirus (“COVID-19”) a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The rapid spread of the pandemic and the continuously evolving responses to combat it have had an increasingly negative impact on the global economy and our business. Due to the widespread impact of the COVID-19 pandemic, the Company implemented a temporary shut-down of most of the Company’s production operations beginning the week of March 23, 2020, which impacted the last week of the second quarter. The shut-down continued into the third quarter with operations resuming in mid-April in certain areas on a voluntary basis. As a result of the rapidly changing business environment, unprecedented market volatility and heightened degree of uncertainty resulting from COVID-19, it is difficult to predict the overall impact of COVID-19 on the Company’s business and financial results. The Company believes that cash on hand, net cash provided by operations, and the entry into new financing arrangements prior to maturity of the current agreement in July 2021 will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued.

**Note 2. Recently Issued Accounting Standards**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new guidance requires 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. The Company adopted the provisions of ASU 2016-02 in the first quarter of fiscal year 2020 using the modified retrospective transition method, which did not require the Company to adjust comparative periods. The Company’s right-of-use assets (“ROU”) and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments. ROU assets are included in Other assets, and the related lease obligation is included in Operating lease liabilities on the consolidated balance sheets. The adoption of the standard had no material impact on the Consolidated Financial Statements.

The Company elected the package of practical expedients included in this guidance which allowed it to not reassess: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and, (iii) the initial direct costs for existing leases. The Company has elected the practical expedient to not separate lease components from non-lease components for all asset classes. The Company will recognize lease expense for operating leases in the consolidated statements of operations on a straight-line basis over the lease term. The Company also made a policy election to not recognize ROU asset and lease liabilities for short-term leases with an initial term of 12 months or less for all asset classes. Leases with the option to extend their term are reflected



in the lease term when it is reasonably certain that the Company will exercise such options. The Company has expanded the disclosure of operating leases included in Note 16.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income (loss) to accumulated earnings for standard tax effects resulting from the Tax Cuts and Jobs Act. This update is effective for fiscal years beginning after December 15, 2018. The Company adopted the provisions of this standard in the first quarter of fiscal year 2020 which had an impact of increasing accumulated other comprehensive loss and increasing accumulated earnings by \$13,283.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. This new guidance removes and modifies disclosure requirements on fair value statements. This update is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact, if any, on its disclosures in the Notes to Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-05, *Financial Instruments – Credit Losses (Topic 326)* which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The new current expected credit loss (CECL) methodology does not have a minimum threshold for recognition of impairment losses, and entities will need to measure expected credit losses on assets that have a low risk of loss. This update is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact, if any, on the Company’s Consolidated Financial Statements.

### Note 3. Revenues from Contracts with Customers

#### Contract Balances

As of September 30, 2019 and June 30, 2020, accounts receivable with customers were \$77,420 and \$52,887, respectively. Allowance for doubtful accounts as of September 30, 2019 and June 30, 2020 were \$441 and \$602, respectively, and are presented within accounts receivable, less allowance for doubtful accounts on the consolidated balance sheet.

Contract liabilities are recognized when the Company has received consideration from a customer to transfer goods or services at a future point in time when the Company performs under the purchase order or contract. As of September 30, 2019 and June 30, 2020, no contract liabilities have been recorded except for \$17,829 and \$15,954, respectively, for the Titanium Metals Corporation agreement, as described in Note 8 to the Condensed Consolidated Financial Statements.

#### Disaggregation of Revenue

Revenue is disaggregated by end-use markets. The following table includes a breakdown of net revenues to the markets served by the Company for the three and nine months ended June 30, 2019 and 2020.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2019	2020	2019	2020
<b>Net revenues (dollars in thousands)</b>				
Aerospace	\$ 66,321	\$ 40,375	\$ 189,786	\$ 158,390
Chemical processing	21,197	12,143	61,878	44,687
Industrial gas turbine	15,870	13,673	43,638	44,137
Other markets	15,666	11,203	46,909	35,840
<b>Total product revenue</b>	<b>119,054</b>	<b>77,394</b>	<b>342,211</b>	<b>283,054</b>
Other revenue	6,978	3,182	18,364	17,538
<b>Net revenues</b>	<b>\$ 126,032</b>	<b>\$ 80,576</b>	<b>\$ 360,575</b>	<b>\$ 300,592</b>

#### Note 4. Inventories

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

	September 30, 2019	June 30, 2020
Raw Materials	\$ 17,935	\$ 23,008
Work-in-process	138,859	125,178
Finished Goods	100,590	114,194
Other	1,418	1,505
	<u>\$ 258,802</u>	<u>\$ 263,885</u>

#### Note 5. Income Taxes

Income tax expense for the three and six months ended June 30, 2019 and 2020 differed from the U.S. federal statutory rate of 21.0%, primarily due to state income taxes, differing tax rates on foreign earnings and discrete tax items that impacted income tax expense in these periods. The effective tax rate for the three months ended June 30, 2020 was 20.3% on \$(10,158) of loss before income taxes compared to 28.1% on income before income taxes of \$5,288 for the three months ended June 30, 2019. Income tax expense in the three months ended June 30, 2020 was unfavorably impacted by a valuation allowance in the amount of \$980 on deferred tax assets related to tax credits that are not expected to be realized before expiration. The effective tax rate for the nine months ended June 30, 2020 was 211.9% on \$(244) of loss before income taxes compared to 34.1% on income before income taxes of \$5,623 for the nine months ended June 30, 2019. Income tax expense in the first nine months of fiscal 2019 was unfavorably impacted by the forfeiture of unexercised stock options, which resulted in approximately \$300 of additional tax expense.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act contains significant business tax provisions, including modifications to the rules limiting the deductibility of net operating losses (NOLs), expensing of qualified improvement property (OIP) and business interest in IRC Sections 172(a) and 163(j), respectively. The effects of the new legislation are recognized upon enactment, which (for U.S. federal legislation) is the date the President signs a bill into law. There was not significant impact to income tax expense for the three and nine months ended June 30, 2020 relating to the CARES Act.

#### Note 6. Pension and Post-retirement Benefits

Components of net periodic pension and post-retirement benefit cost for the three and nine months ended June 30, 2019 and 2020 were as follows:

	Three Months Ended June 30,				Nine Months Ended June 30,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2019	2020	2019	2020	2019	2020	2019	2020
Service cost	\$ 1,309	\$ 1,386	\$ 79	\$ 354	\$ 3,929	\$ 4,159	\$ 237	\$ 1,062
Interest cost	2,567	2,148	1,088	874	7,700	6,444	3,264	2,620
Expected return	(3,561)	(3,639)	—	—	(10,708)	(10,907)	—	—
Amortizations	402	1,860	372	462	1,205	5,578	1,116	1,386
Net periodic benefit cost	<u>\$ 717</u>	<u>\$ 1,755</u>	<u>\$ 1,539</u>	<u>\$ 1,690</u>	<u>\$ 2,126</u>	<u>\$ 5,274</u>	<u>\$ 4,617</u>	<u>\$ 5,068</u>

The Company contributed \$4,500 to Company-sponsored U.S. pension plans, \$2,141 to its other post-retirement benefit plans and \$491 to the U.K. pension plan for the nine months ended June 30, 2020. The Company expects to make contributions of \$1,500 to its U.S. pension plan, \$2,013 to its other post-retirement benefit plan and \$0 to the U.K. pension plan for the remainder of fiscal 2020.

#### Note 7. 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.

In January 2017, a customer based in the United Kingdom wrote to the Company making a claim in relation to certain product sold to that customer by the Company. This writing was followed up by claim correspondence from 2018 through early 2020. The Company has engaged its legal advisors in the United Kingdom to respond to the claim, and correspondence between the parties' respective counsel remains ongoing. To date, the insurers have not accepted coverage responsibility for the claim but have agreed to fund expenses of legal counsel selected by the Company through the date of the determination regarding coverage. The Company intends to pursue such coverage as and if necessary while vigorously defending against the customer claim. Liability for the claim is disputed, and the amount of the claim, if any, remains unclear. Based on the facts presently known, management does not believe that the claim will have a material effect on the Company's financial position, results of operations or cash flows.

### *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, or other sites, if required. In addition, the Company occasionally has regulatory violations that may be required to be reported at the state or federal level. 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, 2019 and June 30, 2020, the Company has accrued \$606 for post-closure monitoring and maintenance activities, of which \$508 is included in long-term obligations as it is not due within one year. Accruals for these costs are calculated by estimating the cost to monitor and maintain each post-closure site and multiplying that amount by the number of years remaining in the post-closure monitoring.

Expected maturities of post-closure monitoring and maintenance activities (discounted) included in long-term obligations are as follows at June 30, 2020.

#### **Expected maturities of post-closure monitoring and maintenance activities (discounted)**

<b>Year Ended September 30,</b>	
2021	\$ 74
2022	64
2023	81
2024	60
2025 and thereafter	229
	<u>\$ 508</u>

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. Management does not currently expect that any remediation costs related to this matter will have a material adverse effect on the Company's results of operations.

### **Note 8. Deferred Revenue**

On November 17, 2006, the Company entered into a twenty-year agreement to provide conversion services to Titanium Metals Corporation (TIMET) for up to ten million pounds of titanium metal annually. TIMET paid the Company a \$50,000 up-front fee and will also pay the Company for its processing services during the term of the agreement (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 \$25,000 and the Company being required to return the unearned portion of the up-front fee. The Company considered each provision and the likelihood of the occurrence of a default that would result in liquidated damages. Based on the nature of the events that could trigger the liquidated damages clause, and the availability of the cure periods set forth in the agreement, the Company determined and continues to believe that none of these circumstances are reasonably likely to occur. Therefore, events resulting in liquidated damages have not been factored in as a reduction to the amount of revenue recognized over the life of the contract. The cash received of \$50,000 is recognized in income on a straight-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 9. Goodwill and Other Intangible Assets, Net

The Company has goodwill, trademarks, customer relationships and other intangibles. As the customer relationships have a definite life, they are amortized over a life of sixteen years. The Company reviews 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 undiscounted 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 June 30, 2020.

During the first nine months of fiscal 2020, there were no changes in the carrying amount of goodwill.

Amortization of customer relationships and other intangibles was \$50 and \$50 for the three-month periods ended June 30, 2019 and 2020, respectively and \$205 and \$150 for the nine-month periods ended June 30, 2019 and 2020, respectively. The following represents a summary of intangible assets at September 30, 2019 and June 30, 2020.

September 30, 2019	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks	3,800	—	3,800
Customer relationships	2,100	(718)	1,382
Other	291	(189)	102
	\$ 6,191	\$ (907)	\$ 5,284

June 30, 2020	Gross Amount	Accumulated Amortization	Carrying Amount
Trademarks	\$ 3,800	\$ —	\$ 3,800
Customer relationships	2,100	(824)	1,276
Other	291	(233)	58
	\$ 6,191	\$ (1,057)	\$ 5,134

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

2020	\$	48
2021		185
2022		133
2023		129
2024		126
Thereafter		713

## Note 10. 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. 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 June 30,		Nine Months Ended June 30,	
	2019	2020	2019	2020
<i>Numerator: Basic and Diluted</i>				
Net income (loss)	\$ 3,802	\$ (8,097)	\$ 3,708	\$ (761)
Dividends paid and accrued	(2,760)	(2,792)	(8,277)	(8,410)
Undistributed income (loss)	1,042	(10,889)	(4,569)	(9,171)
Percentage allocated to common shares <sup>(a)</sup>	98.9 %	100.0 %	100.0 %	100.0 %
Undistributed income (loss) allocated to common shares	1,030	(10,889)	(4,569)	(9,171)
Dividends paid on common shares outstanding	2,729	2,792	8,182	8,410
Net income (loss) available to common shares	3,759	(8,097)	3,613	(761)
<i>Denominator: Basic and Diluted</i>				
Weighted average common shares outstanding	12,449,738	12,475,406	12,443,039	12,469,703
Adjustment for dilutive potential common shares	141,858	—	148,183	—
Weighted average shares outstanding - Diluted	12,591,596	12,475,406	12,591,222	12,469,703
Basic net income (loss) per share	\$ 0.30	\$ (0.65)	\$ 0.29	\$ (0.06)
Diluted net income (loss) per share	\$ 0.30	\$ (0.65)	\$ 0.29	\$ (0.06)
Number of stock option shares excluded as their effect would be anti-dilutive	446,182	299,093	352,358	263,376
Number of restricted stock shares excluded as their effect would be anti-dilutive	61,688	81,380	65,692	82,105
Number of deferred restricted stock shares excluded as their effect would be anti-dilutive	29,050	36,499	29,050	35,547
Number of performance share awards excluded as their effect would be anti-dilutive	51,120	46,581	49,994	46,581
<sup>(a)</sup> Percentage allocated to common shares - Weighted average				
Common shares outstanding	12,449,738	12,475,406	12,443,039	12,469,703
Unvested participating shares	141,858	—	—	—
	12,591,596	12,475,406	12,443,039	12,469,703

## Note 11. Stock-Based Compensation

### Restricted Stock

The following table summarizes the activity under the 2009 restricted stock plan and the 2016 and 2020 Incentive Compensation Plans with respect to restricted stock for the nine months ended June 30, 2020:

	Number of Shares	Weighted Average Fair Value At Grant Date
Unvested at September 30, 2019	61,838	\$ 34.94
Granted	37,011	\$ 36.67
Forfeited / Canceled	(550)	\$ 34.00
Vested	(16,919)	\$ 40.12
Unvested at June 30, 2020	<u>81,380</u>	\$ 34.65
Expected to vest	<u>81,380</u>	\$ 34.65

Compensation expense related to restricted stock for the three months ended June 30, 2019 and 2020 was \$180 and \$276, respectively, and for the nine months ended June 30, 2019 and 2020 was \$452 and \$832, respectively. The remaining unrecognized compensation expense related to restricted stock at June 30, 2020 was \$1,483, to be recognized over a weighted average period of 1.37 years. During the first nine months of fiscal 2020, the Company repurchased 5,440 shares of stock from employees at an average purchase price of \$36.38 to satisfy required withholding taxes upon vesting of restricted stock-based compensation.

### Deferred Restricted Stock

The following table summarizes the activity under the 2016 and 2020 Incentive Compensation Plans with respect to deferred restricted stock for the nine months ended June 30, 2020.

	Number of Shares	Weighted Average Fair Value At Grant Date
Unvested and deferred at September 30, 2019	12,500	\$ 33.98
Granted	7,449	\$ 33.39
Vested and deferred	(14,797)	34.45
Unvested and deferred at June 30, 2020	<u>5,152</u>	\$ 31.78
Vested and deferred at June 30, 2020	<u>31,347</u>	\$ 33.03

Compensation expense related to deferred restricted stock for the three months ended June 30, 2019 and 2020 was \$106 and \$83, respectively, and for the nine months ended June 30, 2019 and 2020 was \$335 and \$226, respectively. The remaining recognized compensation expense related to deferred restricted stock at June 30, 2020 was \$75, to be recognized over a weighted average period of 0.42 years.

### Performance Shares

The following table summarizes the activity under the 2016 and 2020 Incentive Compensation Plans with respect to performance shares for the nine months ended June 30, 2020.

	Number of Shares	Weighted Average Fair Value At Grant Date
Unvested at September 30, 2019	38,553	\$ 42.52
Granted	23,880	\$ 44.13
Unvested at June 30, 2020	<u>62,433</u>	\$ 43.14

Compensation expense related to the performance shares for the three months ended June 30, 2019 and 2020 was \$207 and \$238, respectively, and for the nine months ended June 30, 2019 and 2020 was \$532 and \$652, respectively. The remaining unrecognized compensation expense related to performance shares at June 30, 2020 was \$1,368, to be recognized over a weighted average period of 1.44 years.

### **Stock Options**

The Company has elected to use the Black-Scholes option pricing model to estimate fair value, 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 year 2020:

<b>Grant Date</b>	<b>Fair Value</b>	<b>Dividend Yield</b>	<b>Risk-free Interest Rate</b>	<b>Expected Volatility</b>	<b>Expected Life</b>
November 19, 2019	\$ 9.66	2.38 %	1.65 %	35 %	5 years

The stock-based employee compensation expense for stock options for the three months ended June 30, 2019 and 2020 was \$198 and \$261, respectively, and for the nine months ended June 30, 2019 and 2020 was \$529 and \$779, respectively. The remaining unrecognized compensation expense at June 30, 2020 was \$1,840, to be recognized over a weighted average vesting period of 1.74 years.

The following table summarizes the activity under the stock option plans and the 2016 and 2020 Incentive Compensation Plans with respect to stock options for the nine months ended June 30, 2020 and provides information regarding outstanding stock options:

	<b>Number of Shares</b>	<b>Aggregate Intrinsic Value (000s)</b>	<b>Weighted Average Exercise Prices</b>	<b>Weighted Average Remaining Contractual Life</b>
Outstanding at September 30, 2019	482,391		\$ 38.05	
Granted	91,466		\$ 37.00	
Exercised	(12,400)		\$ 34.00	
Outstanding at June 30, 2020	561,457	\$ —	\$ 37.97	7.57 yrs.
Vested or expected to vest	509,918	\$ —	\$ 37.92	7.36 yrs.
Exercisable at June 30, 2020	299,093	\$ —	\$ 40.67	5.92 yrs.

### **Note 12. Dividend**

In the first, second and third quarters of fiscal 2020, the Company declared and paid quarterly cash dividends of \$0.22 per outstanding share of the Company's common stock. The first quarter dividend was paid on December 16, 2019 to stockholders of record at the close of business on December 2, 2019, the second quarter dividend was paid on March 16, 2020 to stockholders of record at the close of business on March 2, 2020 and the third quarter dividend was paid on June 15, 2020 to stockholders of record at the close of business on June 1, 2020. The dividend cash pay-outs were \$2,760, \$2,763 and \$2,762 for the first, second and third quarters of fiscal 2020, respectively, and \$77, \$18 and \$30 of dividends were recorded as deferred in the first, second and third quarters, respectively.

On July 30, 2020, the Company announced that the Board of Directors declared a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend is payable September 15, 2020 to stockholders of record at the close of business on September 1, 2020.

### **Note 13. 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, 2019 or June 30, 2020.

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 14. 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 or weakening of the U.S. dollar against the British pound sterling, net of tax when applicable.

##### Accumulated Other Comprehensive Income (Loss)

	Three Months Ended June 30, 2019			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of March 31, 2019	\$ (20,860)	\$ (10,655)	\$ (10,031)	\$ (41,546)
Other comprehensive income (loss) before reclassifications	—	—	(1,803)	(1,803)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup>	51	—	—	51
Actuarial losses <sup>(1)</sup>	364	372	—	736
Tax benefit	(108)	(99)	—	(207)
Net current-period other comprehensive income (loss)	307	273	(1,803)	(1,223)
Accumulated other comprehensive income (loss) as of June 30, 2019	\$ (20,553)	\$ (10,382)	\$ (11,834)	\$ (42,769)

	Three Months Ended June 30, 2020			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of March 31, 2020	\$ (59,562)	\$ (17,409)	\$ (13,186)	\$ (90,157)
Other comprehensive income (loss) before reclassifications	—	—	(176)	(176)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup>	51	—	—	51
Actuarial losses <sup>(1)</sup>	1,819	461	—	2,280
Tax benefit	(489)	(123)	—	(612)
Net current-period other comprehensive income (loss)	1,381	338	(176)	1,543
Accumulated other comprehensive income (loss) as of June 30, 2020	\$ (58,181)	\$ (17,071)	\$ (13,362)	\$ (88,614)

	Nine Months Ended June 30, 2019			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2018	\$ (21,473)	\$ (11,201)	\$ (9,891)	\$ (42,565)
Other comprehensive income (loss) before reclassifications	—	—	(1,943)	(1,943)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup>	154	—	—	154
Actuarial losses <sup>(1)</sup>	1,091	1,115	—	2,206
Tax benefit	(325)	(296)	—	(621)
Net current-period other comprehensive income (loss)	920	819	(1,943)	(204)
Accumulated other comprehensive loss as of June 30, 2019	\$ (20,553)	\$ (10,382)	\$ (11,834)	\$ (42,769)



	Nine Months Ended June 30, 2020			
	Pension Plan	Postretirement Plan	Foreign Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2019	\$ (53,811)	\$ (13,316)	\$ (13,511)	\$ (80,638)
Other comprehensive income (loss) before reclassifications	—	—	149	149
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan items <sup>(1)</sup>	154	—	—	154
Actuarial losses <sup>(1)</sup>	5,461	1,386	—	6,847
Tax benefit	(1,476)	(367)	—	(1,843)
Net current-period other comprehensive income (loss)	4,139	1,019	149	5,307
Reclass due to adoption of ASU 2018-02	(8,509)	(4,774)	—	(13,283)
Accumulated other comprehensive loss as of June 30, 2020	\$ (58,181)	\$ (17,071)	\$ (13,362)	\$ (88,614)

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

## Note 15. Long-term Obligations

The following table sets for the components of the Company's Long-term obligations.

	September 30, 2019	June 30, 2020
	Finance lease obligations	\$ 7,979
Environmental post-closure monitoring and maintenance activities	606	606
Long-term disability	251	256
Deferred dividends	40	165
Less amounts due within one year	(267)	(307)
Long-term obligations (less current portion)	\$ 8,609	\$ 8,573

## Note 16. Leases

### *Nature of the Leases*

The Company has operating and financing leases for buildings, equipment (e.g. trucks and forklifts), vehicles, and computer equipment. Leasing arrangements require fixed payments and also include an amount that is probable will be owed under residual value guarantees, if applicable. Some lease payments also include payments related to purchase or termination options when the lessee is reasonably certain to exercise the option or is not reasonably certain not to exercise the option, respectively. The leases have remaining terms of one to 17 years.

For all leases with an initial expected term of more than 12 months, the Company recorded, at the adoption date of ASC 842 or lease commencement date for leases entered into after the adoption date, a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or to control the use of, a specified asset for the lease term. The Company utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases, unless the Company can specifically determine the lessor's implicit rate.

### *Significant Judgments and Assumptions*

#### *Determination of Whether a Contract Contains a Lease*

The Company determines whether a contract is or contains a lease at the inception of the contract. The contract is or contains a lease if the contract conveys the right to control the use of identified assets for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all of the economic benefits from use of the property, plant, and equipment and have the right to direct its use.

#### *Practical Expedients (Policy Elections)*

The Company elected certain practical expedients and transition relief, including the short-term lease recognition exemption, which excludes leases with a term of 12 months or less from recognition on the balance sheet, recognizing lease components and non-

lease components together as a single lease component, and the transition relief package which, among other things, includes not reassessing the lease classification or whether a contract is or contains a lease.

The following table sets forth the components of the Company's lease cost for the three and nine months ended June 30, 2020.

	<u>Three Months Ended June 30, 2020</u>	<u>Nine Months Ended June 30, 2020</u>
Finance lease cost:		
Amortization of right of use asset	\$ 108	\$ 323
Interest on lease liabilities	205	620
Total finance lease cost	<u>\$ 313</u>	<u>\$ 943</u>
Operating lease cost	<u>\$ 381</u>	<u>\$ 1,111</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	205	620
Operating cash flows from operating leases	381	1,111
Financing cash flows from finance leases	43	125
Total cash paid for amounts included in measurement of lease liabilities	<u>\$ 629</u>	<u>\$ 1,856</u>

Lease costs associated with short term leases are not material.

The following table sets forth the Company's right of use assets and lease liabilities as of June 30, 2020.

	<u>June 30, 2020</u>
Finance lease assets (included in Property, plant and equipment, net)	\$ 6,611
Operating right of use lease assets (included in Other assets)	\$ 1,984
Finance lease liabilities	
Accrued expenses	\$ 188
Long-term obligations (less current portion)	7,665
Total Finance lease liabilities	<u>\$ 7,853</u>
Operating lease liabilities	<u>\$ 1,984</u>
<u>June 30, 2020</u>	
Weighted average lease term (Years)	
Finance leases	15.4
Operating leases	3.2
Weighted average discount rate	
Finance leases	10.33 %
Operating leases	5.25 %

The following is a table of future minimum lease payments during each fiscal year under operating and finance leases and the present value of the net minimum lease payments as of June 30, 2020.

<b>Future minimum lease payments</b>	<b>Finance Leases</b>	<b>Operating Leases</b>
2020	\$ 249	\$ 290
2021	1,001	808
2022	1,012	426
2023	1,024	293
2024	1,031	280
Thereafter	11,540	71
<b>Total minimum lease payments</b>	<b>15,857</b>	<b>2,168</b>
Less: amount representing interest	(8,004)	(184)
<b>Present value of net minimum lease payments</b>	<b>\$ 7,853</b>	<b>\$ 1,984</b>

The following is a table of future minimum lease payments as of September 30, 2019.

<b>Contractual Obligations as of September 30, 2019</b>	<b>Finance Leases</b>	<b>Operating Leases</b>
2020	\$ 993	\$ 2,542
2021	1,000	1,254
2022	1,013	460
2023	1,024	277
2024	1,032	259
Thereafter	11,623	60
<b>Total minimum lease payments</b>	<b>16,685</b>	<b>4,852</b>
Less: amount representing interest	(8,706)	—
<b>Present value of net minimum lease payments</b>	<b>\$ 7,979</b>	<b>\$ 4,852</b>

#### **Note 17. Foreign Currency Forward Contracts**

The Company enters into foreign currency forward contracts to reduce income statement volatility resulting from foreign currency denominated transactions. The Company has not designated the contracts as hedges, therefore, changes in fair value are recognized in earnings. All of these contracts are designed to be settled within the same fiscal quarter they are entered into and, accordingly, as of June 30, 2020, there were no contracts that remain unsettled. As a result, there was no impact to the balance sheet from those contracts as of September 30, 2019 or June 30, 2020. Foreign exchange hedging gains and losses are recorded within selling, general and administrative expenses on the Consolidated Statements of Operations along with foreign currency transactional gains and losses as follows.

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
Foreign currency transactional gain (loss)	\$ 479	\$ (70)	\$ 726	\$ (417)
Foreign exchange forward contract gain (loss)	\$ (769)	\$ (198)	\$ (1,068)	\$ (220)
<b>Net gain (loss) included in selling, general and administrative expense</b>	<b>\$ (290)</b>	<b>\$ (268)</b>	<b>\$ (342)</b>	<b>\$ (637)</b>

## **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 2020 and beyond, overall volume and pricing trends, cost reduction strategies and their anticipated results, capital expenditures, dividends and the impact of COVID-19 on the economy, demand for our products and our operations, including the measures taken by governmental authorities to address it, which may precipitate or exacerbate other risks and/or uncertainties. 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, including our expectations of the impact of the recent COVID-19 pandemic. 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 described in Item 1A of Part II of this Quarterly Report and Item 1A. of Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2019.*

*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 58% of net product revenues in fiscal 2019. 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 12 service and/or sales centers in the United States, Europe and Asia. All of these centers are Company operated.

### **COVID-19 Pandemic**

In March 2020, the World Health Organization characterized the coronavirus (“COVID-19”) as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The rapid spread of the pandemic, and the continuously evolving responses to combat it, have had an increasingly negative impact on the global economy and our business.

COVID-19 related disruptions continued to negatively impact the Company’s financial and operating results in the third quarter of fiscal 2020. In particular, the aerospace supply chain is currently absorbing significant downward adjustments to its forecasted demand. With select aerospace customers, the Company has accepted order push outs and cancellations in some cases. Markets other than aerospace have also been depressed with uncertainty and tight cash management impacting customer ordering patterns. The Company has taken significant actions to position itself to manage through the current market disruption caused by COVID-19. There is no guarantee, however, that these measures will prove sufficient. These measures include:

- Implemented a 10% reduction in salaries of all members of the executive team and cash compensation of the Board of Directors. Discontinued monthly accruals for management incentive compensation.
- A temporary shut-down of most of the Company's production operations beginning the week of March 23, 2020, which impacted the last week of the second quarter and continued into the third quarter with operations resuming in mid-April in certain areas on a voluntary basis.
- Furloughs implemented for certain production, maintenance and salaried employees. The primary objective is to attempt to minimize spending as sales volume declines
- Eliminated approximately 60 salaried positions, implemented a global hiring freeze and eliminated annual merit increases for salaried employees.
- Requiring most salaried employees to take one week of unpaid time off during the fourth quarter of fiscal 2020.
- Significant focus on reducing discretionary spending as well as reviewing and prioritizing capital expenditures.
- Focused on reducing inventory to line up with sales volumes. This inventory reduction strategy has and is expected to continue to generate cash.

While the foregoing actions are expected to generate cost savings and cash benefits, the Company cannot determine what additional actions may be required. The Company's business is subject to numerous risks and uncertainties that may change at any time and, therefore, actual cost savings and cash benefits, if any, may differ materially from what the Company anticipates.

Due to the current unprecedented market and economic conditions in the U.S. and internationally, the extent of the expected impact of the COVID-19 pandemic on the Company's operations cannot be reasonably estimated due to lower revenue leading to lower volumes and unfavorable fixed cost absorption. However, we expect our results from operations and cash flows for the remainder of fiscal 2020 to be adversely impacted by the pandemic. See Item 1A. Risk Factors in Part II. Other Information for further information regarding the risks associated with the COVID-19 pandemic. Also, see Liquidity and Capital Resources below for certain actions taken by the Company in response to the COVID-19 pandemic.

### **Dividends Paid and Declared**

In the first, second and third quarters of fiscal 2020, the Company declared and paid a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The first quarter dividend was paid on December 16, 2019 to stockholders of record at the close of business on December 2, 2018, the second quarter dividend was paid on March 16, 2020 to stockholders of record at the close of business on March 2, 2020 and the third quarter dividend was paid on June 15, 2020 to stockholders of record at the close of business on June 1, 2020. The dividend cash pay-outs in each of the first, second and third quarters were approximately \$2.8 million based on the number of shares outstanding.

On July 30, 2020, the Company announced that the Board of Directors declared a regular quarterly cash dividend of \$0.22 per outstanding share of the Company's common stock. The dividend is payable September 15, 2020 to stockholders of record at the close of business on September 1, 2020. Any future dividends will be at the discretion of the Board of Directors.

### **Capital Spending**

During the first nine months of fiscal 2020, capital investment was \$7.1 million, and total planned capital expenditures for fiscal 2020 are expected to be between \$9.0 and \$10.0 million to allow for maintaining reliability within operations.

### **Volumes, Competition and Pricing**

Due to the widespread impact of the COVID-19 global pandemic, demand for the Company's products has been negatively impacted across all of the Company's major end markets. Most significantly aerospace volumes have declined with announced reductions in commercial aerospace build schedules combined with a reduction in repair, maintenance & overhaul activity. The commercial airline industry has been dramatically impacted along with the corresponding aerospace supply chain. Complicating the demand situation includes: 1) The elevated amount of inventory throughout the aerospace supply chain, 2) The significant number of undelivered new

planes already built (primarily Boeing 737 MAX), 3) The significant number of parked planes taken out of service, and 4) The cash preservation mode occurring with many customers in the supply chain resulting in very conservative order entry trends. All of the major Company markets, not just aerospace, have been impacted by the last item noted. In addition, customers delaying capital expenditures in the chemical processing industry are being impacted by both economic condition uncertainty as well as low oil prices.

Last quarter, the Company estimated that overall volumes could be lower by 15-30% this quarter as compared to the second quarter of fiscal 2020. Volume actually declined 1.2 million pounds, or 26.7%, sequentially from second to the third quarter of fiscal year 2020 to 3.2 million pounds. This represented a 1.95 million pounds, or 38.1%, decline from last year's third quarter. Due to abnormally low levels of production during the current quarter, the Company directly expensed a portion of fixed overhead costs.

The product average selling price per pound in the third quarter of fiscal 2020 was \$24.41, which is higher sequentially compared to the second quarter of fiscal 2020 and higher than last year's third quarter. The increase was primarily driven by favorable product mix and the impact of price increases. The Company continues to pursue price increases in its high-value differentiated products.

*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 2019 and 2020						
	Quarter Ended						
(dollars in thousands)	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
Net Revenues	\$ 107,069	\$ 127,474	\$ 126,032	\$ 129,640	\$ 108,453	\$ 111,563	\$ 80,576
Gross Profit Margin	\$ 11,335	\$ 14,683	\$ 18,175	\$ 21,310	\$ 18,743	\$ 19,296	\$ 2,639
Gross Profit Margin %	10.6 %	11.5 %	14.4 %	16.4 %	17.3 %	17.3 %	3.3 %

The significant drop in volumes resulting from the COVID-19 pandemic compressed margins significantly in the third quarter of fiscal 2020. Especially challenging is reducing spending commensurate with reductions in production volume in this environment. In the third quarter, the Company charged \$5.9 million directly to cost of goods sold for excess fixed overhead incurred due to abnormally low production levels that could not be capitalized into inventory. Further, third quarter charges to cost of goods sold were incurred due to additional inventory reserves and separation costs related to workforce reduction measures. Finally, additional margin compression occurred due to nickel prices dropping during the prior two quarters.

#### Backlog

	Quarter Ended						
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
<b>Backlog<sup>(1)</sup></b>							
Dollars (in thousands)	\$ 237,802	\$ 253,003	\$ 254,947	\$ 235,204	\$ 237,620	\$ 204,709	\$ 174,639
Pounds (in thousands)	8,392	8,855	9,072	8,064	8,231	6,930	5,643
Average selling price per pound	\$ 28.34	\$ 28.57	\$ 28.10	\$ 29.17	\$ 28.87	\$ 29.54	\$ 30.95
<b>Average nickel price per pound</b>							
London Metals Exchange <sup>(2)</sup>	\$ 4.92	\$ 5.93	\$ 5.43	\$ 8.02	\$ 6.26	\$ 5.39	\$ 5.76

<sup>(1)</sup> 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, however, in the current economic environment, shipments may be delayed due to customer request. 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.

<sup>(2)</sup> 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.

The Company has experienced very low order entry levels attributable primarily to the global COVID-19 pandemic and its unprecedented impact on the economy, significant supply chain inventory reductions, continued trade tariffs, the significant drop in the oil prices, along with the continued grounding of the Boeing 737 MAX. Backlog was \$174.6 million at June 30, 2020, a decrease of \$30.1 million, or 14.7%, from \$204.7 million at March 31, 2020. Backlog pounds at June 30, 2020 decreased sequentially during the third quarter of fiscal 2020 by 18.6% as compared to March 31, 2020. The average selling price of products in the Company's backlog increased to \$30.95 per pound at June 30, 2020 from \$29.54 per pound at March 31, 2020, reflecting a favorable change in product mix. Visibility with respect to the remainder of fiscal 2020 and for the foreseeable future is limited due to the uncertainty surrounding the ultimate impact of COVID-19 and the mitigation measures that are being pursued by governmental authorities as well as factors mentioned in Volumes, Competition and Pricing.

## Quarterly Market Information

	Quarter Ended						
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
<b>Net revenues</b> (in thousands)							
Aerospace	\$ 54,607	\$ 68,858	\$ 66,321	\$ 68,318	\$ 58,843	\$ 59,172	\$ 40,375
Chemical processing	18,920	21,761	21,197	27,773	16,712	15,832	12,143
Industrial gas turbines	14,083	13,685	15,870	15,792	13,763	16,701	13,673
Other markets	14,285	16,958	15,666	11,037	11,875	12,762	11,203
Total product revenue	101,895	121,262	119,054	122,920	101,193	104,467	77,394
Other revenue	5,174	6,212	6,978	6,720	7,260	7,096	3,182
<b>Net revenues</b>	<b>\$ 107,069</b>	<b>\$ 127,474</b>	<b>\$ 126,032</b>	<b>\$ 129,640</b>	<b>\$ 108,453</b>	<b>\$ 111,563</b>	<b>\$ 80,576</b>

## Shipments by markets (in thousands of pounds)

Aerospace	2,112	2,857	2,579	2,731	2,303	2,261	1,523
Chemical processing	898	971	1,126	1,315	788	689	578
Industrial gas turbines	811	757	893	946	825	990	768
Other markets	509	580	523	432	306	386	302
<b>Total shipments</b>	<b>4,330</b>	<b>5,165</b>	<b>5,121</b>	<b>5,424</b>	<b>4,222</b>	<b>4,326</b>	<b>3,171</b>

## Average selling price per pound

Aerospace	\$ 25.86	\$ 24.10	\$ 25.72	\$ 25.02	\$ 25.55	\$ 26.17	\$ 26.51
Chemical processing	21.07	22.41	18.83	21.12	21.21	22.98	21.01
Industrial gas turbines	17.36	18.08	17.77	16.69	16.68	16.87	17.80
Other markets	28.06	29.24	29.95	25.55	38.81	33.06	37.10
<b>Total product</b> (product only; excluding other revenue)	<b>23.53</b>	<b>23.48</b>	<b>23.25</b>	<b>22.66</b>	<b>23.97</b>	<b>24.15</b>	<b>24.41</b>
<b>Total average selling price</b> (including other revenue)	<b>\$ 24.73</b>	<b>\$ 24.68</b>	<b>\$ 24.61</b>	<b>\$ 23.90</b>	<b>\$ 25.69</b>	<b>\$ 25.79</b>	<b>\$ 25.41</b>

## Results of Operations for the Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

	Three Months Ended June 30,				Change	
	2019		2020		Amount	%
Net revenues	\$ 126,032	100.0 %	\$ 80,576	100.0 %	\$ (45,456)	(36.1)%
Cost of sales	107,857	85.6 %	77,937	96.7 %	(29,920)	(27.7)%
Gross profit	18,175	14.4 %	2,639	3.3 %	(15,536)	(85.5)%
Selling, general and administrative expense	10,985	8.7 %	9,824	12.2 %	(1,161)	(10.6)%
Research and technical expense	830	0.7 %	867	1.1 %	37	4.5 %
Operating income (loss)	6,360	5.0 %	(8,052)	(10.0)%	(14,412)	(226.6)%
Nonoperating retirement benefit expense	856	0.7 %	1,700	2.1 %	844	98.6 %
Interest income	(15)	(0.0)%	(11)	(0.0)%	4	(26.7)%
Interest expense	231	0.2 %	417	0.5 %	186	80.5 %
Income (loss) before income taxes	5,288	4.2 %	(10,158)	(12.6)%	(15,446)	(292.1)%
Provision for (benefit from) income taxes	1,486	1.2 %	(2,061)	(2.6)%	(3,547)	(238.7)%
Net income (loss)	<u>\$ 3,802</u>	<u>3.0 %</u>	<u>\$ (8,097)</u>	<u>(10.0)%</u>	<u>\$ (11,899)</u>	<u>(313.0)%</u>

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

By market	Three Months Ended		Change	
	2019	2020	Amount	%
<b>Net revenues (dollars in thousands)</b>				
Aerospace	\$ 66,321	\$ 40,375	\$ (25,946)	(39.1)%
Chemical processing	21,197	12,143	(9,054)	(42.7)%
Industrial gas turbine	15,870	13,673	(2,197)	(13.8)%
Other markets	15,666	11,203	(4,463)	(28.5)%
<b>Total product revenue</b>	<b>119,054</b>	<b>77,394</b>	<b>(41,660)</b>	<b>(35.0)%</b>
Other revenue	6,978	3,182	(3,796)	(54.4)%
<b>Net revenues</b>	<b>\$ 126,032</b>	<b>\$ 80,576</b>	<b>\$ (45,456)</b>	<b>(36.1)%</b>
<b>Pounds by market (in thousands)</b>				
Aerospace	2,579	1,523	(1,056)	(40.9)%
Chemical processing	1,126	578	(548)	(48.7)%
Industrial gas turbine	893	768	(125)	(14.0)%
Other markets	523	302	(221)	(42.3)%
<b>Total shipments</b>	<b>5,121</b>	<b>3,171</b>	<b>(1,950)</b>	<b>(38.1)%</b>
<b>Average selling price per pound</b>				
Aerospace	\$ 25.72	\$ 26.51	\$ 0.79	3.1 %
Chemical processing	18.83	21.01	2.18	11.6 %
Industrial gas turbine	17.77	17.80	0.03	0.2 %
Other markets	29.95	37.10	7.15	23.9 %
<b>Total product (excluding other revenue)</b>	<b>23.25</b>	<b>24.41</b>	<b>1.16</b>	<b>5.0 %</b>
<b>Total average selling price (including other revenue)</b>	<b>\$ 24.61</b>	<b>\$ 25.41</b>	<b>\$ 0.80</b>	<b>3.3 %</b>

*Net Revenues.* Net revenues were \$80.6 million in the third quarter of fiscal 2020, a decrease of 36.1% from \$126.0 million in the same period of fiscal 2019. Volume was 3.2 million pounds in the third quarter of fiscal 2020, a decrease of 38.1% from 5.1 million pounds in the same period of fiscal 2019. The decrease in volume is primarily attributable to a significant slowdown in demand caused by the COVID-19 pandemic in addition to the impact caused by the grounding of the Boeing 737 MAX. In addition, the cash preservation actions occurring with many customers resulted in very conservative order entry trends. The product average selling price was \$24.41 per pound in the third quarter of fiscal 2020, an increase of 5.0% from \$23.25 per pound in the same period of fiscal 2019. The increase in average selling price per pound largely reflects a higher value product mix most notably in chemical processing and other markets as compared to the same period of last year, and improved pricing, both of which increased average selling price per pound by approximately \$1.45. These increases were partially offset by lower market prices of raw materials which decreased average selling price per pound by approximately \$0.29.

Sales to the aerospace market were \$40.4 million in the third quarter of fiscal 2020, a decrease of 39.1% from \$66.3 million in the same period of fiscal 2019, due to a 40.9% decrease in volume, partially offset by a 3.1% increase in average selling price per pound. Demand in the aerospace market declined primarily due to the COVID-19 pandemic, but also due to the continued issues with the Boeing 737 MAX. The airline industry and the commercial aerospace industry has been dramatically impacted by the pandemic. Demand has also been impacted by the elevated amount of inventory throughout the aerospace supply chain, the significant number of undelivered new planes already built (primarily the Boeing 737 MAX), and the significant number of planes taken out of service. The increase in average selling price per pound largely reflects a higher value product mix, combined with price increases taken over the past year, which increased average selling price per pound by approximately \$1.03, partially offset by lower market prices of raw materials, which decreased average selling price per pound by approximately \$0.24 per pound.

Sales to the chemical processing market were \$12.1 million in the third quarter of fiscal 2020, a decrease of 42.7% from \$21.2 million in the same period of fiscal 2019, due to a 48.7% decrease in volume, partially offset by 11.6% increase in average selling price per pound. Volume was lower primarily due to decreased demand caused by COVID-19, low oil prices and a decrease in special project shipments in this market. The increase in average selling price per pound reflects a higher value product mix and higher pricing, which increased average selling price per pound by approximately \$2.67, partially offset by market prices of raw materials, which decreased average selling price per pound by approximately \$0.49.



Sales to the industrial gas turbine market were \$13.7 million in the third quarter of fiscal 2020, a decrease of 13.8% from \$15.9 million for the same period of fiscal 2019, due to a decrease in volume of 14.0%, partially offset by an increase in average selling price per pound of 0.2%. The decrease in volume is primarily attributable to precautionary purchasing methods due to COVID-19, combined with small/medium frame engine builds slowing down due to the oil industry. The Company's share gain initiative continues, however, given the current economic conditions, shipments are not yet consistent quarter to quarter. The increase in average selling price per pound reflects a higher value product mix, which increased average selling price per pound by approximately \$0.32, partially offset by lower market prices of raw materials and other factors which decreased average selling price per pound by approximately \$0.29.

Sales to other markets were \$11.2 million in the third quarter of fiscal 2020, a decrease of 28.5% from \$15.7 million in the same period of fiscal 2019, due to a decrease in volume of 42.3%, partially offset by a 23.9% increase in average selling price per pound. The decrease in volume was primarily due to decreased demand resulting from the effects of the COVID-19 pandemic and lower oil prices; decreases were largest in the flue-gas desulfurization, automotive and oil and gas markets. The average selling price per pound increase reflects a higher-value product mix and improved pricing, which increased average selling price per pound by approximately \$7.37, partially offset by lower market prices of raw materials, which decreased average selling price per pound by approximately \$0.22.

*Other Revenue.* Other revenue was \$3.2 million in the third quarter of fiscal 2020, a decrease of 54.4% from \$7.0 million in the same period of fiscal 2019. The decrease was due primarily to decreased toll conversion and miscellaneous sales. Toll conversion sales decreased due to the COVID-19 pandemic.

*Cost of Sales.* Cost of sales was \$77.9 million, or 96.7% of net revenues, in the third quarter of fiscal 2020 compared to \$107.9 million, or 85.6% of net revenues, in the same period of fiscal 2019. The decrease was primarily due to lower volumes and lower raw material prices combined with the Company's actions taken to lower costs in response to COVID-19. During the third quarter of fiscal 2020, the Company took safety measures to reduce the risk of spread of COVID-19, those actions included plant shutdowns during the month of April as well as voluntary and involuntary layoffs. Forced temporary layoffs were also activated. In an additional effort to cut expenses, the Company reduced its salaried workforce as well and incurred approximately \$0.4 million in severance expenses. However, despite these cost reduction measures, fixed costs did not decline in line with the current production volumes which required directly expensing a portion of these fixed costs in the amount of approximately \$5.9 million. Also, the Company recorded certain inventory reserves to cost of goods sold during the third quarter of fiscal 2020.

*Gross Profit.* As a result of the above factors, gross profit was \$2.6 million for the third quarter of fiscal 2020, a decrease of \$15.5 million from the same period of fiscal 2019. Gross margin as a percentage of net revenue decreased to 3.3% in the third quarter of fiscal 2020 as compared to 14.4% in the same period of fiscal 2019. This percentage decrease was primarily due to the above-mentioned \$5.9 million direct charge to cost of goods sold and period costs spread over lower volumes.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was \$9.8 million for the third quarter of fiscal 2020, a decrease of \$1.2 million from the same period of fiscal 2019. Selling, general and administrative expense as a percentage of net revenues increased to 12.2% for the third quarter of fiscal 2020 compared to 8.7% for the same period of fiscal 2019. Significant cost saving measures were undertaken during the quarter including such actions as: reduced executive salaries, reduced board fees, reduced travel and entertainment expenses, management incentive programs were not accrued for, temporary layoffs, as well as reduced salaried workforce, which incurred approximately \$0.2 million in severance expenses.

*Research and Technical Expense.* Research and technical expense was \$0.9 million, or 1.1% of net revenue, for the third quarter of fiscal 2020, compared to \$0.8 million, or 0.7% of net revenue, in the same period of fiscal 2019.

*Operating Income/(Loss).* As a result of the above factors, operating loss in the third quarter of fiscal 2020 was (\$8.1) million compared to operating income of \$6.4 million in the same period of fiscal 2019.

*Nonoperating retirement benefit expense.* Nonoperating retirement benefit expense was \$1.7 million in the third quarter of fiscal 2020 compared to \$0.9 million in the same period of fiscal 2019. The increase in expense was primarily driven by lower discount rates in the September 30, 2019 valuation which resulted in higher retirement liabilities and ultimately higher expense for the third quarter of fiscal 2020.

*Income Taxes.* Income tax benefit was \$2.1 million in the third quarter of fiscal 2020, a difference of \$3.5 million from expense of \$1.5 million in the third quarter of fiscal 2019, driven by a difference in income before income taxes of \$15.4 million, partially offset by a valuation allowance recorded during the third quarter of fiscal 2020 of \$980 that are not expected to be realized prior to expiration.

*Net Income/(Loss).* As a result of the above factors, net loss in the third quarter of fiscal 2020 was (\$8.1) million, compared to net income of \$3.8 million in the same period of fiscal 2019.

## Results of Operations for the Nine Months Ended June 30, 2020 Compared to the Nine Months Ended June 30, 2019

(\$ in thousands)	Nine Months Ended June 30,				Change	
	2019		2020		Amount	%
Net revenues	\$ 360,575	100.0 %	\$ 300,592	100.0 %	\$ (59,983)	(16.6)%
Cost of sales	316,382	87.7 %	259,914	86.5 %	(56,468)	(17.8)%
Gross profit	44,193	12.3 %	40,678	13.5 %	(3,515)	(8.0)%
Selling, general and administrative expense	32,776	9.1 %	32,116	10.7 %	(660)	(2.0)%
Research and technical expense	2,523	0.7 %	2,777	0.9 %	254	10.1 %
Operating income (loss)	8,894	2.5 %	5,785	1.9 %	(3,109)	(35.0)%
Nonoperating retirement benefit expense	2,568	0.7 %	5,100	1.7 %	2,532	98.6 %
Interest income	(53)	(0.0)%	(35)	(0.0)%	18	(34.0)%
Interest expense	756	0.2 %	964	0.3 %	208	27.5 %
Income (loss) before income taxes	5,623	1.6 %	(244)	(0.1)%	(5,867)	(104.3)%
Provision for (benefit from) income taxes	1,915	0.5 %	517	0.2 %	(1,398)	(73.0)%
Net income (loss)	\$ 3,708	1.0 %	\$ (761)	(0.3)%	\$ (4,469)	(120.5)%

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

	Nine Months Ended June 30,		Change	
	2019	2020	Amount	%
<b>Net revenues (dollars in thousands)</b>				
Aerospace	\$ 189,786	\$ 158,390	\$ (31,396)	(16.5)%
Chemical processing	61,878	44,687	(17,191)	(27.8)%
Industrial gas turbine	43,638	44,137	499	1.1 %
Other markets	46,909	35,840	(11,069)	(23.6)%
<b>Total product revenue</b>	<b>342,211</b>	<b>283,054</b>	<b>(59,157)</b>	<b>(17.3)%</b>
Other revenue	18,364	17,538	(826)	(4.5)%
<b>Net revenues</b>	<b>\$ 360,575</b>	<b>\$ 300,592</b>	<b>\$ (59,983)</b>	<b>(16.6)%</b>
<b>Pounds by market (in thousands)</b>				
Aerospace	7,548	6,087	(1,461)	(19.4)%
Chemical processing	2,995	2,055	(940)	(31.4)%
Industrial gas turbine	2,461	2,583	122	5.0 %
Other markets	1,612	994	(618)	(38.3)%
<b>Total shipments</b>	<b>14,616</b>	<b>11,719</b>	<b>(2,897)</b>	<b>(19.8)%</b>
<b>Average selling price per pound</b>				
Aerospace	\$ 25.14	\$ 26.02	\$ 0.88	3.5 %
Chemical processing	20.66	21.75	1.09	5.3 %
Industrial gas turbine	17.73	17.09	(0.64)	(3.6)%
Other markets	29.10	36.06	6.96	23.9 %
<b>Total product (excluding other revenue)</b>	<b>23.41</b>	<b>24.15</b>	<b>0.74</b>	<b>3.2 %</b>
<b>Total average selling price (including other revenue)</b>	<b>\$ 24.67</b>	<b>\$ 25.65</b>	<b>\$ 0.98</b>	<b>4.0 %</b>

*Net Revenues.* Net revenues were \$300.6 million in the first nine months of fiscal 2020, a decrease of 16.6% from \$360.6 million in the same period of fiscal 2019. Volume was 11.7 million pounds in the first nine months of fiscal 2020, a decrease of 19.8% from 14.6 million pounds in the same period of fiscal 2019. The decrease in volume was primarily caused by COVID-19, issues in the aerospace supply chain due to the 737 MAX and low oil prices, partially offset by increased volumes in the industrial gas turbine market. The product average selling price was \$24.15 per pound in the first nine months of fiscal 2020, an increase of 3.2% from \$23.41 per pound in the same period of fiscal 2019. The average selling price increased as a result of a higher value mix and improved pricing as compared to the same period of fiscal 2019, in the amount of approximately \$0.90 per pound, partially offset by lower raw material market prices, which decreased average selling price per pound by approximately \$0.16.

Sales to the aerospace market were \$158.4 million in the first nine months of fiscal 2020, a decrease of 16.5% from \$189.8 million in the same period of fiscal 2019, due to an 19.4%, or 1.5 million pound, decrease in volume, partially offset by a 3.5%, or \$0.88,

increase in average selling price per pound. The decrease in volume is primarily due to the COVID-19 pandemic, but also related to the reduced demand in the supply chain for the Boeing 737 MAX. The average selling price per pound increase reflects a higher value product mix and improved pricing, which increased average selling price per pound by approximately \$0.99, partially offset by lower raw material market prices, which decreased average selling price per pound by approximately \$0.11.

Sales to the chemical processing market were \$44.7 million in the first nine months of fiscal 2020, a decrease of 27.8% from \$61.9 million in the same period of fiscal 2019, due to a 31.4% decrease in volume, partially offset by a 5.3%, or \$1.09, increase in average selling price per pound. Base-business volumes decreased in the first nine months of fiscal 2020 from the same period of fiscal 2019, primarily due to COVID-19 and low oil prices. The average selling price per pound reflects a higher-value product mix and improved pricing, which increased average selling price per pound by approximately \$1.19, partially offset by a lower market prices for raw materials, which decreased average selling price per pound by approximately \$0.10.

Sales to the industrial gas turbine market were \$44.1 million in the first nine months of fiscal 2020, an increase of 1.1% from \$43.6 million for the same period of fiscal 2019, due to an increase in volume of 5.0%, partially offset by a decrease in average selling price per pound of 3.6%, or \$0.64. The increase in volume is primarily attributable to the initial impact of the Company's share gain initiative and a slight improvement in demand for large-frame turbines prior to COVID-19, while demand for small/medium frame engine builds has slowed down. The decrease in average selling price per pound primarily reflects declined pricing due to competition and other factors combined with lower market prices for raw materials, which decreased average selling price per pound by approximately \$0.84, partially offset by a higher-value product mix, which increased the average selling price per pound by approximately \$0.20.

Sales to other markets were \$35.8 million in the first nine months of fiscal 2020, a decrease of 23.6% from \$46.9 million in the same period of fiscal 2019, due to a 38.3% decrease in volume, partially offset by a 23.9% increase in average selling price per pound. The decrease in volume was primarily due to a decline in sales to the flue-gas desulfurization market. The increase in average selling price reflects a higher-value product mix, which increased average selling price per pound by approximately \$7.71, partially offset by lower raw material market prices and increased competition and other factors, which decreased average selling price per pound by approximately \$0.75.

*Other Revenue.* Other revenue was \$17.5 million in the first nine months of fiscal 2020, a decrease of 4.5% from \$18.4 million in the same period of fiscal 2019. The decrease was due primarily to lower miscellaneous sales, increases in sales return reserves and lower levels of toll conversion.

*Cost of Sales.* Cost of sales was \$259.9 million, or 86.5% of net revenues, in the first nine months of fiscal 2020 compared to \$316.4 million, or 87.7% of net revenues, in the same period of fiscal 2019. This decrease was primarily due to lower volumes sold combined with lower raw material prices and the Company's actions taken to lower costs in response to COVID-19. However, despite these cost reduction measures, fixed costs did not decline in line with the current production volumes which required directly expensing a portion of these fixed costs in the amount of approximately \$7.4 million.

*Gross Profit.* As a result of the above factors, gross profit was \$40.7 million for the first nine months of fiscal 2020, a decrease of \$3.5 million from the same period of fiscal 2019. Gross profit as a percentage of net revenue increased to 13.5% in the first nine months of fiscal 2020 as compared to 12.3% in the same period of fiscal 2019. The improvement in gross profit margin was primarily attributable to improved pricing and cost saving initiatives. Fiscal 2019 was impacted by the temporary inefficiencies caused by the delayed start-up of cold-finish operations after the planned equipment upgrade in the first three months of fiscal 2019. The first nine months of fiscal 2020 was impacted by the COVID-19 pandemic.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was \$32.1 million for the first nine months of fiscal 2020, a decrease of \$0.7 million from the same period of fiscal 2019. This decrease is primarily attributable to cost saving measures taken with COVID-19, including temporary layoffs and workforce reductions, partially offset by severance expense of \$0.2 million and an increase in foreign exchange losses. Selling, general and administrative expense as a percentage of net revenues increased to 10.7% for the first nine months of fiscal 2020 compared to 9.1% for the same period of fiscal 2019.

*Research and Technical Expense.* Research and technical expense was \$2.8 million, or 0.9% of net revenue, for the first nine months of fiscal 2020, compared to \$2.5 million, or 0.7% of net revenue, in the same period of fiscal 2019. The increase was primarily due to higher salary expenses due to headcount increases in this area.

*Operating Income/(Loss).* As a result of the above factors, operating income in the first nine months of fiscal 2020 was \$5.8 million compared to operating income of \$8.9 million in the same period of fiscal 2019.

*Nonoperating retirement benefit expense.* Nonoperating retirement benefit expense was \$5.1 million in the first nine months of fiscal 2020 compared to \$2.6 million in the same period of fiscal 2019. The increase in expense was primarily driven by lower discount

rates in the September 30, 2019 valuation which resulted in higher retirement liabilities and ultimately higher expense for the first nine months of fiscal 2020.

*Income Taxes.* Income tax expense was \$0.5 million in the first nine months of fiscal 2020, a decrease of \$1.4 million from expense of \$1.9 million in the same period of fiscal 2019, driven by a difference in income before income taxes of \$5.9 million as well as a valuation allowance recorded during the third quarter of fiscal 2020 of \$980 that are not expected to be realized prior to expiration.

*Net Income/(Loss).* As a result of the above factors, net loss for the first nine months of fiscal 2020 was \$(0.8) million, a difference of \$4.5 million from net income of \$3.7 million in the same period of fiscal 2019.

## **Working Capital**

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was \$278.5 million at June 30, 2020, a decrease of \$4.0 million, or 1.4%, from \$282.5 million at September 30, 2019. The decrease resulted primarily from accounts receivable decreasing \$24.7 million, partially offset by accounts payable and accrued expenses decreasing by \$15.6 million and inventory increasing by \$5.1 million during the first nine months of fiscal 2020. A strategic emphasis on reducing inventory has been implemented with the goal of generating cash. During the third quarter of fiscal 2020 inventory was reduced \$16.5 million and cash was increased by \$13.1 million.

## **Liquidity and Capital Resources**

### *Comparative cash flow analysis*

The Company had cash and cash equivalents of \$65.5 million at June 30, 2020, inclusive of \$11.0 million that was held by foreign subsidiaries in various currencies, compared to \$31.0 million at September 30, 2019. Additionally, the Company has borrowings against its line of credit outstanding of \$30.0 million as of June 30, 2020, compared to zero borrowed as of September 30, 2019.

Net cash provided by operating activities in the first nine months of fiscal 2020 was \$19.7 million compared to net cash provided by operating activities of \$28.3 million in the first nine months of fiscal 2019, a decrease of \$8.6 million. Cash flow from operating activities in the first nine months of fiscal 2020 was adversely impacted by higher tax payments as compared to the same period of fiscal 2019, an increase in inventory as compared to a decrease in the same period of fiscal 2019, a decrease in accounts payable and accrued expenses as compared to an increase in the same period of fiscal 2019 and a net loss in the first nine months of fiscal 2020, as compared to net income in the same period of fiscal 2019. These impacts were partially offset by a decrease in accounts receivable in the first nine months of fiscal 2020, as compared to an increase in the same period of fiscal 2019.

Net cash used in investing activities was \$7.1 million in the first nine months of fiscal 2020 which was lower than cash used in investing activities of \$7.3 million during the same period of fiscal 2019 due to lower additions to property, plant and equipment.

Net cash provided by financing activities was \$21.8 million in the first nine months of fiscal 2020, primarily driven by the borrowing of \$30.0 million against the revolving line of credit compared to cash used in financing activities of \$(8.5) million during the same period of fiscal 2019. This source of cash was partially offset by cash used in financing activities of \$(8.3) million primarily attributable to dividends paid, which amount was comparable to the same period of fiscal 2019. The Company did not receive any financial assistance from the government including any loan under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.

### *Future sources of liquidity*

The Company’s sources of liquidity for the next twelve months are expected to consist primarily of cash generated from operations, cash on hand and, if needed, additional borrowings under the U.S. revolving credit facility. At June 30, 2020, the Company had cash of \$65.5 million and an outstanding balance of \$30.0 million under its \$120.0 million U.S. revolving credit facility with access to an additional \$90.0 million, subject to a borrowing base formula and certain reserves. Management believes that the resources described above will be sufficient to fund planned capital expenditures, any quarterly dividends as approved by the board and working capital requirements over the next twelve months.

The aforementioned Credit Facility matures in July 2021. The Company expects to enter into new financing arrangements to meet its obligations as they become due, which management believes is probable based on current discussions with lenders and assessment of the current lending environment. The Company believes that cash on hand, net cash provided by operations, and the entry into new financing arrangements will be sufficient to meet its obligations as they become due in the ordinary course of business for at least 12 months following the date these financial statements are issued.

### *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 borrower. Borrowings under the U.S. revolving credit facility bear interest, at the Company’s option, at either Wells Fargo’s “prime rate”, plus 0.00% to 0.75% per annum, or the adjusted Eurodollar rate used by the lender, plus 1.5% to 2.0% per annum (depending on the amount borrowed). The Company is currently borrowing in the lowest point in the range. As of June 30, 2020, the U.S. revolving credit facility had a balance of \$30.0 million.

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 June 30, 2020, 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. The Company currently believes it is not at material risk of not meeting its financial covenants over the next twelve months. 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 8 in the Notes to Condensed Consolidated Financial Statements in this report). The U.S. revolving credit facility is also secured by a pledge of a 65% equity interest in each of the Company’s direct foreign subsidiaries.

### *Future uses of liquidity*

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

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

Capital investment in the first nine months of fiscal 2020 was \$7.1 million, and the forecast for capital spending in fiscal 2020 is between \$9.0 and \$10.0 million to allow for maintaining reliability within operations.

### Contractual Obligations

The following table sets forth the Company's contractual obligations for the periods indicated, as of June 30, 2020:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
			(in thousands)		
Credit facility fees <sup>(1)</sup>	\$ 30,349	\$ 334	\$ 30,015	\$ —	\$ —
Operating lease obligations	3,577	1,967	1,166	444	—
Finance lease obligations	15,940	999	2,030	2,066	10,845
Raw material contracts (primarily nickel)	10,404	10,404	—	—	—
Capital projects and other commitments	2,733	2,733	—	—	—
Pension plan <sup>(2)</sup>	96,879	6,000	12,000	7,500	71,379
Non-qualified pension plans	647	95	190	190	172
Other postretirement benefits <sup>(3)</sup>	47,234	4,155	9,281	9,859	23,939
Environmental post-closure monitoring	606	97	144	151	214
Total	<u>\$ 208,369</u>	<u>\$ 26,784</u>	<u>\$ 54,826</u>	<u>\$ 20,210</u>	<u>\$ 106,549</u>

(1) As of June 30, 2020, the revolver balance was \$30,000 with interest due along with unused line fees and quarterly management fees.

(2) The Company has a funding obligation to contribute \$96,879 to the domestic pension plan. These payments will be tax deductible. All benefit payments under the domestic pension plan are provided by the plan and not the Company.

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

### New Accounting Pronouncements

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

### Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Assumptions and estimates were based on the facts and circumstances known at June 30, 2020. 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, 2019 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. For the quarter ended June 30, 2020 included herein, there have been no material changes to the critical accounting policies and estimates.

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

As of June 30, 2020, 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, 2019.

### Item 4. Controls and Procedures

The Company has performed, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness and the design and operation of the Company's disclosure controls and procedures (as defined by Exchange Act Rules 13a-15(e) and 15d-15(e)) pursuant to Rule 13a-15(b) of the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2020.

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 1a. Risk Factors

In addition to the risk factors previously disclosed in Part I Item IA of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, we are exposed to certain additional risks and uncertainties which could have a material adverse impact on our business, financial condition and operating results as a result of the recent outbreak of COVID-19.

The risks described herein and in our Annual Report on Form 10-K are not the only risks we face. New risk factors or risks that we currently deem immaterial emerge from time to time and it is not possible for us to predict all such risk factors, nor to assess the impact such risk factors might have on our business, financial condition and operating results, or the extent to which any such risk factor or combination of risk factors may impact our business, financial condition and operating results.

**Our results of operations, financial condition and cash flows have and may continue to be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19.**

Our business, results of operations, financial condition, cash flows and stock price have and may continue to be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19 which has spread from China to many other countries, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

The outbreak of COVID-19 and preventive or protective actions taken by governmental authorities may continue to have a material adverse effect on our operations, supply chain, customers and transportation networks, including business shutdowns or disruptions. The extent to which COVID-19 may continue to adversely impact our business depends on future developments, which are highly uncertain and unpredictable due to lower revenue leading to lower volumes and unfavorable fixed cost absorption, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Future financial impact cannot be estimated reasonably at this time because of the factors above, but may materially adversely affect our business, results of operations, financial condition and cash flows. The aerospace market, our largest market, has been particularly hit hard by the addition of COVID-19 issues to the pre-existing issues with the Boeing 737MAX, and we cannot determine what further effect that exacerbating factor will have on the aerospace market. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets. Our indebtedness may increase due to our need to increase borrowing to fund operations during a period of reduced revenue. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our Annual Report on Form 10-K.



## Item 6. Exhibits

Exhibits. See Index to Exhibits.

### INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
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., as amended through February 28, 2018 (incorporated by reference to Exhibit 3.2 to the Haynes International, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020).
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).
31.1**	Rule 13a-14(a)/15d-4(a) Certification of Chief Executive Officer
31.2**	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certifications
101	The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020 formatted in Inline Extensible Business Reporting Language ( <u>XBRL</u> ): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) related notes.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

---

\*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/ Michael Shor*

\_\_\_\_\_  
Michael Shor  
President and Chief Executive Officer  
Date: July 30, 2020

*/s/ Daniel Maudlin*

\_\_\_\_\_  
Daniel Maudlin  
Vice President — Finance and Chief Financial Officer  
Date: July 30, 2020