

REFINITIV

DELTA REPORT

10-Q

HAYN - HAYNES INTERNATIONAL INC

10-Q - DECEMBER 31, 2022 COMPARED TO 10-Q - JUNE 30, 2022

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TOTAL DELTAS 818

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**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 **ende** **June 30, 2022** **d** **December 31, 2022**

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

06-1185400

(State or other jurisdiction of
incorporation or organization)

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

1020 West Park Avenue, Kokomo, Indiana

46904-9013

(Address of principal executive offices)

(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 \$0.001 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

Accelerated filer

Non-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 28, 2022** **January 30, 2023**, the registrant had **12,462,478** **12,617,383** shares of Common Stock, \$0.001 par value, outstanding.

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PART 1 FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

HAYNES INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share and per share data)

	September 30, 2021	June 30, 2022	September 30, 2022	December 31, 2022
	2021	2022	2022	2022
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 47,726	\$ 9,438	\$ 8,440	\$ 11,527
Accounts receivable, less allowance for doubtful accounts of \$553 and \$739 at September 30, 2021 and June 30, 2022, respectively	57,964	79,562		
Accounts receivable, less allowance for credit losses of \$428 and \$476 at September 30, 2022 and December 31, 2022, respectively			94,912	91,967
Inventories	248,495	344,088	357,556	390,535
Income taxes receivable	1,292	12	—	172
Other current assets	6,129	4,595	3,514	4,328
Total current assets	361,606	437,695	464,422	498,529
Property, plant and equipment, net	147,248	144,216	142,772	142,210
Deferred income taxes	16,397	12,077	5,680	5,632
Other assets	10,829	10,708	9,723	9,614
Goodwill	4,789	4,789	4,789	4,789
Other intangible assets, net	5,586	5,039	4,909	5,028
Total assets	<u>\$ 546,455</u>	<u>\$ 614,524</u>	<u>\$ 632,295</u>	<u>\$ 665,802</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	\$ 47,680	\$ 66,437	\$ 54,886	\$ 63,255
Accrued expenses	20,100	17,871	19,294	17,213
Income taxes payable	379	1,751	828	2,580
Accrued pension and postretirement benefits	3,554	3,554	3,371	3,371
Revolving credit facilities	—	46,500		
Deferred revenue—current portion	2,500	2,500	2,500	2,500
Total current liabilities	74,213	138,613	80,879	88,919
Revolving credit facilities - Long-term			74,721	88,025
Long-term obligations (less current portion)	8,301	8,030	7,848	7,777

Deferred revenue (less current portion)	10,329	8,454	7,829	7,204
Deferred income taxes	3,459	3,361	3,103	3,263
Operating lease liabilities	664	764	576	570
Accrued pension benefits (less current portion)	26,663	20,698	21,090	19,585
Accrued postretirement benefits (less current portion)	79,505	80,531	60,761	61,315
Total liabilities	203,134	260,451	256,807	276,658
Commitments and contingencies	—	—	—	—
Stockholders' equity:				
Common stock, \$0.001 par value (40,000,000 shares authorized, 12,757,778 and 12,825,922 shares issued and 12,562,140 and 12,462,478 shares outstanding at September 30, 2021 and June 30, 2022, respectively)	13	13	13	13
Common stock, \$0.001 par value (40,000,000 shares authorized, 12,854,773 and 12,988,622 shares issued and 12,479,741 and 12,597,607 shares outstanding at September 30, 2022 and December 31, 2022, respectively)			13	13
Preferred stock, \$0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding)	—	—	—	—
Additional paid-in capital	262,057	265,154	266,193	270,340
Accumulated earnings	101,015	121,495	135,040	139,976
Treasury stock, 195,638 shares at September 30, 2021 and 363,444 shares at June 30, 2022	(7,423)	(14,218)		
Treasury stock, 375,032 shares at September 30, 2022 and 391,015 shares at December 31, 2022			(14,666)	(15,504)
Accumulated other comprehensive loss	(12,341)	(18,371)	(11,092)	(5,681)
Total stockholders' equity	343,321	354,073	375,488	389,144
Total liabilities and stockholders' equity	\$ 546,455	\$ 614,524	\$ 632,295	\$ 665,802

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

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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,		Three Months Ended December 31,	
	2021		2022		2021	
	\$	2021	\$	2022	\$	2021
Net revenues	\$	88,143	\$	130,165	\$	242,383
Cost of sales		74,485		96,943		219,353
Gross profit		13,658		33,222		23,030
Selling, general and administrative expense		11,475		11,847		32,465
Research and technical expense		831		957		2,482
Operating income (loss)		1,352		20,418		(11,917)
Operating income						36,615
Nonoperating retirement benefit expense (income)		359		(1,088)		1,077
Interest income		(4)		(1)		(9)
Interest expense		298		750		900
Income (loss) before income taxes		699		20,757		(13,885)
Provision for (benefit from) income taxes		277		5,149		(2,648)
						9,579
						1,647
						2,245

Net income (loss)	\$ 422	\$ 15,608	\$ (11,237)	\$ 28,751	
Net income (loss) per share:					
Net income					\$ 4,659 \$ 7,739
Net income per share:					
Basic	\$ 0.03	\$ 1.25	\$ (0.91)	\$ 2.30	\$ 0.37 \$ 0.62
Diluted	\$ 0.03	\$ 1.24	\$ (0.91)	\$ 2.28	\$ 0.37 \$ 0.61
Weighted Average Common Shares Outstanding					
Basic	12,515	12,339	12,507	12,346	12,369 12,455
Diluted	12,676	12,459	12,507	12,507	12,587 12,699
Dividends declared per common share	\$ 0.22	\$ 0.22	\$ 0.66	\$ 0.66	\$ 0.22 \$ 0.22

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

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

	Nine Months Ended				Three Months Ended December 31,	
	Three Months Ended June 30,		June 30,		2021	2022
	2021	2022	2021	2022		
Net income (loss)	\$ 422	\$ 15,608	\$ (11,237)	\$ 28,751		
Other comprehensive income (loss), net of tax:						
Net income					\$ 4,659	\$ 7,739
Other comprehensive income, net of tax:						
Pension and postretirement	1,528	—	4,583	(1)	—	(393)
Foreign currency translation adjustment	827	(5,169)	5,409	(6,029)	569	5,804
Other comprehensive income (loss)	2,355	(5,169)	9,992	(6,030)		
Comprehensive income (loss)	\$ 2,777	\$ 10,439	\$ (1,245)	\$ 22,721		
Other comprehensive income					569	5,411
Comprehensive income					\$ 5,228	\$ 13,150

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

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

	Three Months Ended June 30, 2021 and 2022						
			Additional		Other		Total
	Common Stock		Paid-in	Accumulated	Treasury	Comprehensive	Stockholders'
	Shares	Par	Capital	Earnings	Stock	Income (Loss)	Equity
Balance March 31, 2021	12,688,730	\$ 13	259,796	\$ 103,721	\$ (2,675)	\$ (66,964)	\$ 293,891
Net income (loss)				422			422
Dividends paid and accrued (\$0.22 per share)				(2,814)			(2,814)
Other comprehensive income (loss)						2,355	2,355
Stock compensation			1,158				1,158
Balance June 30, 2021	12,688,730	\$ 13	\$ 260,954	\$ 101,329	\$ (2,675)	\$ (64,609)	\$ 295,012
Balance March 31, 2022	12,458,953	\$ 13	\$ 264,098	\$ 108,619	\$ (14,218)	\$ (13,202)	\$ 345,310
Net income (loss)				15,608			15,608
Dividends paid and accrued (\$0.22 per share)				(2,732)			(2,732)
Other comprehensive income (loss)						(5,169)	(5,169)
Exercise of stock options	3,025		124				124
Issue restricted stock (less forfeitures)	500						—
Stock compensation			932				932
Balance June 30, 2022	12,462,478	\$ 13	\$ 265,154	\$ 121,495	\$ (14,218)	\$ (18,371)	\$ 354,073

	Nine Months Ended June 30, 2021 and 2022							Three Months Ended December 31, 2021 and 2022						
								Accumulated						
	Common Stock		Additional		Other		Total	Common Stock		Additional		Other		
	Shares	Par	Capital	Earnings	Stock	Income (Loss)	Stockholders' Equity	Shares	Par	Capital	Earnings	Stock	Income (Loss)	Stockholders' Equity
Balance September 30, 2020	12,622,371	\$ 13	\$ 257,583	\$ 120,943	\$ (2,437)	\$ (74,601)	\$ 301,501							
Net income (loss)				(11,237)			(11,237)							
Dividends paid and accrued (\$0.66 per share)				(8,377)			(8,377)							
Other comprehensive income (loss)						9,992	9,992							
Balance September 30, 2021	12,562,140	\$ 13	\$ 262,057	\$ 101,015	\$ (7,423)	\$ (4,659)	\$ (12,562,140)							
Net income														

Dividends paid and accrued (\$0.22 per share)							(2,809)
Other comprehensive income							
Exercise of stock options						3,650	115
Issue restricted stock (less forfeitures)	55,518				—	31,704	
Vesting of restricted stock	21,280				—	20,911	
Purchase of treasury stock	(10,439)			(238)	(238)	(162,566)	(6,600)
Stock compensation		3,371			3,371		954
Balance June 30, 2021	12,688,730	\$13	\$260,954	\$ 101,329	\$ (2,675)	\$ (64,609)	\$ 295,012
Balance December 31, 2021						12,455,839	\$13 \$263,126 \$ 102,865 \$(14,023) \$ (
Balance September 30, 2021	12,562,140	\$13	\$262,057	\$ 101,015	\$ (7,423)	\$ (12,341)	\$ 343,321
Balance September 30, 2022						12,479,741	\$13 \$266,193 \$ 135,040 \$(14,666) \$ (
Net income (loss)		28,751			28,751		7,739
Dividends paid and accrued (\$0.66 per share)		(8,271)			(8,271)		
Dividends paid and accrued (\$0.22 per share)							(2,803)
Other comprehensive income (loss)				(6,030)	(6,030)		
Exercise of stock options	9,558	347			347	87,687	3,377
Issue restricted stock (less forfeitures)	25,682				—	33,733	
Vesting of restricted stock	32,904				—	12,429	
Purchase of treasury stock	(167,806)			(6,795)	(6,795)	(15,983)	(838)
Stock compensation		2,750			2,750		770
Balance June 30, 2022	12,462,478	\$13	\$265,154	\$ 121,495	\$ (14,218)	\$ (18,371)	\$ 354,073

Balance						
December 31,						
2022						

12,597,607 \$13 \$270,340 \$ 139,976 \$(15,504) \$

The accompanying notes are an integral part of these financial statements

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HAYNES INTERNATIONAL, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine Months Ended June 30,		Three Months Ended December 31,	
	2021	2022	2021	2022
Cash flows from operating activities:				
Net income (loss)	\$ (11,237)	\$ 28,751	\$ 4,659	\$ 7,739
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Net income			\$ 4,659	\$ 7,739
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	14,383	13,810	4,636	4,447
Amortization	350	547	118	126
Pension and post-retirement expense - U.S. and U.K.	6,119	1,650	550	653
Change in long-term obligations	(24)	(15)	(9)	(28)
Stock compensation expense	3,371	2,750	954	770
Deferred revenue	(1,875)	(1,875)	(625)	(625)
Deferred income taxes	(3,865)	4,182	1,678	322
Loss on disposition of property	23	5	—	34
Change in assets and liabilities:				
Accounts receivable	145	(24,312)	1,176	5,223
Inventories	18,468	(98,880)	(22,655)	(29,202)
Other assets	(275)	1,666	1,429	(596)
Accounts payable and accrued expenses	18,009	18,045	(13,220)	4,585
Income taxes	2,830	2,666	(323)	1,568
Accrued pension and postretirement benefits	(6,232)	(6,589)	(2,202)	(2,115)
Net cash provided by (used in) operating activities	40,190	(57,599)	(23,834)	(7,099)
Cash flows from investing activities:				
Additions to property, plant and equipment	(4,155)	(11,464)	(3,335)	(3,320)
Net cash used in investing activities	(4,155)	(11,464)	(3,335)	(3,320)
Cash flows from financing activities:				
Revolving credit facility borrowings	—	64,500	8,000	39,674
Revolving credit facility repayments	—	(18,000)	(5,000)	(26,370)
Dividends paid	(8,395)	(8,329)	(2,811)	(2,796)

Proceeds from exercise of stock options	—	347	115	3,377
Payment for purchase of treasury stock	(238)	(6,795)	(6,600)	(838)
Payment for debt issuance cost	(997)	—	—	(245)
Payments on long-term obligations	(161)	(183)	(58)	(67)
Net cash used in financing activities	(9,791)	31,540		
Net cash provided by (used in) financing activities			(6,354)	12,735
Effect of exchange rates on cash	682	(765)	59	771
Increase (decrease) in cash and cash equivalents:	26,926	(38,288)	(33,464)	3,087
Cash and cash equivalents:				
Beginning of period	47,238	47,726	47,726	8,440
End of period	\$ 74,164	\$ 9,438	\$ 14,262	\$ 11,527
Supplemental disclosures of cash flow information:				
Interest (net of capitalized interest)	\$ 654	\$ 1,004	\$ 199	\$ 1,160
Income taxes paid (refunded), net	\$ (1,658)	\$ 2,521		
Income taxes paid, net			\$ 254	\$ 453
Capital expenditures incurred but not yet paid	\$ 53	\$ 424	\$ 775	\$ 293
Dividends declared but not yet paid	\$ 121	\$ 152	\$ 207	\$ 206

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

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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, 2021** **September 30, 2022** 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, 2022** **December 31, 2022** are not necessarily indicative of the results to be expected for the full fiscal year ending **September 30, 2022** **September 30, 2023** or any other 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.

Note 2. Recently Issued Accounting Standards

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This new update provides optional expedients to ease the potential burden of accounting for the effects of reference rate reform as it pertains to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. These amendments are effective immediately and may be applied prospectively to modifications made or relationships entered into or evaluated on or before December 31, 2022. The Company is in This standard did not have a material impact on the process of evaluating the impact of the pronouncement. Company's Consolidated Financial Statements.

Note 3. Revenues from Contracts with Customers

Contract Balances

As of September 30, 2021 September 30, 2022 and June 30, 2022 December 31, 2022, accounts receivable with customers were \$58,517 \$95,340 and \$80,301 \$92,443, respectively. Allowance for doubtful accounts credit losses as of September 30, 2021 September 30, 2022 and June 30, 2022 December 31, 2022 were \$53,428 and \$739 \$476, respectively, and are presented within accounts receivable, less allowance for doubtful accounts credit losses 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, 2021 September 30, 2022 and June 30, 2022 December 31, 2022, no contract liabilities have been recorded except for \$12,829 of \$10,329 and \$10,954, \$9,704, respectively, for the Titanium Metals Corporation agreement, as described in Note 8 to the Condensed Consolidated Financial Statements Statement have been recorded. Additionally, contract liabilities of \$700 and \$1,060 and \$630 \$1,000, respectively, were recorded for accrued product returns.

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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, 2021 December 31, 2021 and 2022.

	Three Months Ended		Nine Months Ended		Three Months Ended	
	June 30,		June 30,		December 31,	
	2021	2022	2021	2022	2021	2022
Net revenues						
Aerospace	\$ 33,950	\$ 60,981	\$ 89,106	\$ 162,354	\$ 48,455	\$ 64,518
Chemical processing	17,010	24,180	47,334	64,480	17,450	22,715
Industrial gas turbine	17,835	23,991	48,238	63,377	14,598	26,025
Other markets	13,709	14,518	42,034	38,760	14,487	14,722
Total product revenue	82,504	123,670	226,712	328,971	94,990	127,980
Other revenue	5,639	6,495	15,671	17,680	4,440	4,693
Net revenues	\$ 88,143	\$ 130,165	\$ 242,383	\$ 346,651	\$ 99,430	\$ 132,673

Note 4. Inventories

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

	September 30,		June 30,		September 30, December 31,	
	2021		2022		2022	
Raw Materials	\$ 22,711		\$ 26,819		\$ 31,887	\$ 50,631
Work-in-process	138,609		231,864		226,572	218,633
Finished Goods	85,797		83,939		97,657	119,755
Other	1,378		1,466		1,440	1,516
	\$ 248,495		\$ 344,088		\$ 357,556	\$ 390,535

Note 5. Income Taxes

Income tax (benefit) expense for the three and nine months ended June 30, 2021 December 31, 2021 and 2022 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 (benefit) in these periods. The effective tax rate for the three months ended June 30, 2022 December 31, 2022 was 24.8% 22.5% on \$20,757 \$9,984 of income before income taxes compared to 39.6% 26.1% on income before income taxes of \$699 \$6,306 for the three months ended June 30, 2021 December 31, 2021. The effective tax rate for the nine months ended June 30, 2022 was 25.0% on \$38,330 of income before income taxes compared to 19.1% on loss before income taxes of \$(13,885) for the nine months ended June 30, 2021. Income tax expense in the first nine months of fiscal 2021 was unfavorably impacted by the lower stock price at the time of vesting of restricted stock as compared to the price when the stock was granted, which resulted in the Company not being able to fully utilize the deferred tax assets attributable to those shares. The unfavorable tax expense resulted in a lower effective tax in a period in which the Company incurred a loss before income taxes.

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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, 2021 December 31, 2021 and 2022 were as follows:

	Three Months Ended June 30,				Nine Months Ended June 30,				Three Months Ended December 31,			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Service cost	\$ 1,407	\$ 1,182	\$ 274	\$ 456	\$ 4,221	\$ 3,546	\$ 822	\$ 1,368	\$ 1,182	\$ 672	\$ 456	\$ 347
Interest cost	1,808	1,923	572	559	5,424	5,769	1,718	1,677	1,923	2,772	559	800
Expected return	(3,978)	(3,561)	—	—	(11,934)	(10,683)	—	—	(3,561)	(3,419)	—	—
Amortizations	1,956	51	—	(60)	5,868	153	—	(180)	51	51	(60)	(570)
Net periodic benefit cost	\$ 1,193	\$ (405)	\$ 846	\$ 955	\$ 3,579	\$ (1,215)	\$ 2,540	\$ 2,865	\$ (405)	\$ 76	\$ 955	\$ 577

The Company contributed \$4,500 \$1,500 to Company-sponsored U.S. pension plans and \$2,018 \$593 to its other post-retirement benefit plans for the nine months ended June 30, 2022 December 31, 2022. The Company expects to make contributions of \$1,500 \$4,500 to its U.S. pension plan and

\$1,441 \$2,683 to its other post-retirement benefit plan for the remainder of fiscal 2022, 2023. Additional contributions may be made to the U.S. pension plan as part of the Company's capital allocation strategy, however, the amounts and timing have not yet been determined. determined.

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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, asbestos, 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.

Environmental

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

The Company is required to, among other things, monitor groundwater and to continue post-closure maintenance of the former disposal areas at each site. As a result, the Company is aware of elevated levels of certain contaminants in the groundwater, and additional testing and corrective action by the Company could be required. The Company is unable to estimate the costs of any further corrective action at these sites, if required. Accordingly, the Company cannot assure that the costs of any future corrective action at these or any other current or former sites would not have a material effect on the Company's financial condition, results of operations or liquidity.

As of September 30, 2021 September 30, 2022 and June 30, 2022 December 31, 2022, the Company had has accrued \$566 \$407 for post-closure monitoring and maintenance activities, of which \$496 \$341 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.

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Expected maturities of post-closure monitoring and maintenance activities (discounted) included in long-term obligations are as follows at June 30, 2022 December 31, 2022.

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

Year Ending September 30,

2023	\$	68
2024		89 \$ 82
2025		67 60
2026		68 58
2027 and thereafter		204
2027		62
2028 and thereafter		79

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 up to an additional 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

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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. Customer relationships have a definite life and are amortized over a period of fifteen 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), and 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, 2022, December 31, 2022 because the fair value exceeds the carrying values.

During the first nine three months of fiscal 2022, 2023, there were no changes in the carrying amount of goodwill.

Amortization of customer relationships and other intangibles was \$118 and \$126 for the three-month periods ended December 31, 2021 and 2022, respectively. The following represents a summary of intangible assets at September 30, 2022 and December 31, 2022.

	Gross		Accumulated	Carrying
	Amount	Amortization	Amount	
September 30, 2022				
Trademarks	\$ 3,800	\$ —	\$ 3,800	
Customer relationships	2,100	(1,128)	972	
Other	1,100	(963)	137	
	\$ 7,000	\$ (2,091)	\$ 4,909	

	Gross		Accumulated	Carrying
	Amount	Amortization	Amount	
December 31, 2022				
Trademarks	\$ 3,800	\$ —	\$ 3,800	
Customer relationships	2,100	(1,161)	939	
Other	1,345	(1,056)	289	
	\$ 7,245	\$ (2,217)	\$ 5,028	

Estimated future Aggregate Amortization Expense:

Year Ending September 30,

2023	\$ 259
2024	252
2025	123
2026	120
2027	116
Thereafter	358

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Amortization of customer relationships and other intangibles was \$119 and \$225 for the three-month periods ended June 30, 2021 and 2022, respectively, and \$350 and \$547 for the nine-month periods ended June 30, 2021 and 2022, respectively. The following represents a summary of intangible assets at September 30, 2021 and June 30, 2022.

	Gross		Accumulated	Carrying
	Amount	Amortization	Amount	
September 30, 2021				
Trademarks	\$ 3,800	\$ —	\$ 3,800	
Customer relationships	2,100	(995)	1,105	
Other	997	(316)	681	
	\$ 6,897	\$ (1,311)	\$ 5,586	

June 30, 2022	Gross	Accumulated	Carrying
	Amount	Amortization	Amount
Trademarks	\$ 3,800	\$ —	\$ 3,800
Customer relationships	2,100	(1,095)	1,005
Other	997	(763)	234
	<u>\$ 6,897</u>	<u>\$ (1,858)</u>	<u>\$ 5,039</u>

Estimated future Aggregate Amortization Expense:

Year Ending September 30,	
2022	\$ 229
2023	167
2024	126
2025	123
2026	120
Thereafter	474

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.

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

(in thousands, except share and per share data)	Three Months Ended		Nine Months Ended		Three Months Ended	
	June 30,		June 30,		December 31,	
	2021	2022	2021	2022	2021	2022
<i>Numerator: Basic and Diluted</i>						
Net income (loss)	\$ 422	\$ 15,608	\$ (11,237)	\$ 28,751	\$ 4,659	\$ 7,739
Net income					\$ 4,659	\$ 7,739
Dividends paid and accrued	(2,814)	(2,732)	(8,377)	(8,271)	(2,809)	(2,803)
Undistributed income (loss)	(2,392)	12,876	(19,614)	20,480	1,850	4,936
Percentage allocated to common shares (a)	100.0 %	99.0 %	100.0 %	99.0 %	98.9 %	99.2 %
Undistributed income (loss) allocated to common shares	(2,392)	12,749	(19,614)	20,271	1,830	4,897

Dividends paid on common shares outstanding	2,776	2,705	8,263	8,187	2,779	2,783
Net income (loss) available to common shares	384	15,454	(11,351)	28,458		
Net income available to common shares					4,609	7,680
<i>Denominator: Basic and Diluted</i>						
Weighted average common shares outstanding	12,515,161	12,339,308	12,507,373	12,346,372	12,368,821	12,454,858
Adjustment for dilutive potential common shares	161,133	119,947	—	160,566	218,318	244,388
Weighted average shares outstanding - Diluted	12,676,294	12,459,255	12,507,373	12,506,938	12,587,139	12,699,246
Basic net income (loss) per share	\$ 0.03	\$ 1.25	\$ (0.91)	\$ 2.30		
Diluted net income (loss) per share	\$ 0.03	\$ 1.24	\$ (0.91)	\$ 2.28		
Basic net income per share					\$ 0.37	\$ 0.62
Diluted net income per share					\$ 0.37	\$ 0.61
Number of stock option shares excluded as their effect would be anti-dilutive	411,917	218,787	376,203	254,133	236,861	203,999
Number of restricted stock shares excluded as their effect would be anti-dilutive	68,345	51,830	173,636	56,536	61,264	47,098
Number of deferred restricted stock shares excluded as their effect would be anti-dilutive	2,778	2,976	31,094	3,427	3,780	7,225
Number of performance share awards excluded as their effect would be anti-dilutive	48,373	47,896	62,975	51,466	55,008	43,266
(a) Percentage allocated to common shares - Weighted average						
Common shares outstanding	12,515,161	12,339,308	12,507,373	12,346,372	12,368,821	12,454,858
Unvested participating shares	—	123,336	—	127,219	135,486	98,897
	12,515,161	12,462,644	12,507,373	12,473,591	12,504,307	12,553,755

Note 11. Stock-Based Compensation

Restricted Stock

The following table summarizes the activity under the 2016 and 2020 Incentive Compensation Plans with respect to restricted stock for the **nine** months ended **June 30, 2022** **December 31, 2022**:

	Weighted	
	Average Fair	
	Number of	Value At
	Shares	Grant Date
Unvested at September 30, 2021	142,269	\$ 26.78
Granted	32,204	\$ 43.98
Forfeited / Canceled	(6,522)	\$ 28.79
Vested	(44,615)	\$ 29.88
Unvested at June 30, 2022	123,336	\$ 30.04
Expected to vest	123,336	\$ 30.04

Compensation expense related to restricted stock for the three months ended June 30, 2021 and 2022 was \$529 and \$375, respectively and for the **nine** months ended June 30, 2021 and 2022 was \$1,547 and \$1,120, respectively. The remaining unrecognized compensation expense related to restricted stock at June 30, 2022 was \$1,593, to be recognized over a weighted average period of 1.06 years. During the first nine months of fiscal 2022, the Company repurchased 13,798 shares of stock from employees at an average purchase price of \$42.52 to satisfy required withholding taxes upon vesting of restricted stock-based compensation.

	Weighted Average Fair	
	Number of Shares	Value At Grant Date
Unvested at September 30, 2022	96,536	\$ 33.23
Granted	26,159	\$ 48.86
Forfeited / Canceled	—	\$ 0.00
Vested	(31,372)	\$ 38.39
Unvested at December 31, 2022	<u>91,323</u>	<u>\$ 35.93</u>
Expected to vest	<u>91,323</u>	<u>\$ 35.93</u>

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Compensation expense related to restricted stock for the three months ended December 31, 2021 and 2022 was \$392 and \$306, respectively. The remaining unrecognized compensation expense related to restricted stock at December 31, 2022 was \$2,211, to be recognized over a weighted average period of 1.89 years. During the first three months of fiscal 2023, the Company repurchased 10,509 shares of stock from employees at an average purchase price of \$52.41 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, 2022 December 31, 2022.

	Weighted Average Fair		Weighted Average Fair	
	Number of Shares	Value At Grant Date	Number of Shares	Value At Grant Date
Unvested and deferred at September 30, 2021	7,398	\$ 22.64		
Unvested and deferred at September 30, 2022			3,801	\$ 44.07
Granted	3,801	\$ 44.07	7,574	\$ 48.85
Vested and deferred	(7,398)	\$ 22.64	(3,801)	\$ 44.07
Unvested and deferred at June 30, 2022	<u>3,801</u>	<u>\$ 44.07</u>		
Vested and deferred at June 30, 2022	<u>20,050</u>	<u>\$ 29.23</u>		
Unvested and deferred at December 31, 2022			7,574	\$ 48.85
Vested and deferred at December 31, 2022			<u>23,851</u>	<u>\$ 31.60</u>

Compensation expense related to deferred restricted stock for the three months ended June 30, 2021 December 31, 2021 and 2022 was \$42 and \$42, respectively, and for the nine months ended June 30, 2021 and 2022 was \$146 and \$126, \$59, respectively. The remaining unrecognized compensation expense related to deferred restricted stock at June 30, 2022 December 31, 2022 was \$70, \$339, to be recognized over a weighted average period of 0.42 0.92 years. During the first nine months of fiscal 2022, the Company repurchased 1,151 shares of stock from employees at an average purchase price of \$41.78 to satisfy required withholding taxes upon release of deferred restricted stock-based compensation.

Performance Shares

The following table summarizes the activity under the 2016 and 2020 Incentive Compensation Plans with respect to performance shares for the **nine** **three** months ended **June 30, 2022** **December 31, 2022**.

	Weighted		Weighted	
	Number of Shares	Average Fair Value At Grant Date	Number of Shares	Average Fair Value At Grant Date
Unvested at September 30, 2021	87,193	\$ 37.24		
Unvested at September 30, 2022			76,420	\$ 41.37
Granted	21,520	\$ 61.04	19,555	\$ 69.39
Vested	(24,121)	\$ 43.42	(21,306)	\$ 44.13
Forfeited / Canceled	(8,172)	\$ 42.97	—	\$ 0.00
Unvested at June 30, 2022	76,420	\$ 41.37		
Unvested at December 31, 2022			74,669	\$ 47.92

During the first three months of fiscal 2023, 21,306 performance share awards vested which resulted in the issuance of 12,429 shares of stock to certain employees. The Company repurchased 5,474 shares of stock from employees at an average purchase price of \$52.41 to satisfy required withholding taxes upon release of performance share awards. Compensation expense related to the performance shares for the three months ended **June 30, 2021** **December 31, 2021** and 2022 was **\$287** **\$229** and **\$284**, respectively, and for the nine months ended June 30, 2021 and 2022 was **\$796** and **\$737**, **\$241**, respectively. The remaining unrecognized compensation expense related to performance shares at **June 30, 2022** **December 31, 2022** was **\$1,527**, **\$2,358** to be recognized over a weighted average period of **1.34** **1.84** 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 2022:

Grant Date	Fair Value	Dividend Yield	Risk-free Interest Rate	Expected Volatility	Expected Life
November 23, 2021	\$ 15.02	2.00 %	1.22 %	45 %	5 years

The stock-based employee compensation expense for stock options for the three months ended June 30, 2021 and 2022 was \$301 and \$231, respectively, and for the nine months ended June 30, 2021 and 2022 was \$882 and \$768, respectively. The remaining unrecognized compensation expense at June 30, 2022 was \$886, to be recognized over a weighted average vesting period of 1.23 years.

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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 2023:

Grant Date	Fair Value	Dividend Yield	Risk-free Interest Rate	Expected Volatility	Expected Life
November 22, 2022	\$ 20.52	1.80 %	3.97 %	51 %	5 years

The stock-based employee compensation expense for stock options for the three months ended December 31, 2021 and 2022 was \$292 and \$164, respectively. The remaining unrecognized compensation expense at December 31, 2022 was \$1,132, to be recognized over a weighted average vesting period of 1.80 years.

The following table summarizes the activity under the 2007, 2016 and 2020 Incentive Compensation Plans with respect to stock options for the ~~nine~~three months ended ~~June 30, 2022~~ December 31, 2022 and provides information regarding outstanding stock options:

	Weighted				Weighted			
	Aggregate		Weighted	Average	Aggregate		Weighted	Average
	Number of Shares	Intrinsic Value	Average Exercise Prices	Remaining Contractual Life	Number of Shares	Intrinsic Value	Average Exercise Prices	Remaining Contractual Life
		(000s)	Prices	Life		(000s)	Prices	Life
Outstanding at September 30, 2021	702,576		\$ 34.68					
Outstanding at September 30, 2022					697,220		\$ 34.75	
Granted	42,080		\$ 44.07		31,035		\$ 48.85	
Exercised	(9,558)		36.35		(87,687)		\$ 39.16	
Forfeited/Canceled	(22,478)		\$ 42.32					
Outstanding at June 30, 2022	712,620	\$ 1,596	\$ 34.97	6.33 yrs.				
Surrendered					(13,081)		\$ 47.96	
Outstanding at December 31, 2022					627,487	\$ 7,258	\$ 34.55	6.50 yrs.
Vested or expected to vest	647,629	\$ 1,438	\$ 34.97	4.13 yrs.	606,194	\$ 6,924	\$ 34.70	6.43 yrs.
Exercisable at June 30, 2022	549,696	\$ 640	\$ 36.33	5.70 yrs.				
Exercisable at December 31, 2022					525,538	\$ 6,190	\$ 34.24	6.06 yrs.

Note 12. Dividend

In the first ~~second and third quarters~~ quarter of fiscal ~~2022~~ 2023, 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 15, 2021~~ December 19, 2022 to stockholders of record at the close of business on ~~December 1, 2021~~, the second quarter dividend was paid on March 15, 2022 to stockholders of record at the close of business on ~~March 1, 2022~~ and the third quarter dividend was paid on June 15, 2022 to stockholders of record at the close of business on ~~June 1, 2022~~ December 5, 2022. The dividend cash pay-outs were \$2,811, \$2,776 and \$2,742 pay-out was \$2,796 for the first ~~second and third quarters~~ quarter of fiscal ~~2022~~, respectively. ~~2023~~.

On ~~July 28, 2022~~ February 2, 2023, 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, 2022~~ March 15, 2023 to stockholders of record at the close of business on ~~September 1, 2022~~ March 1, 2023.

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. 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. The valuation model used depends on the specific asset or liability being valued.

Fixed income securities are held as individual bonds and are valued as either level 1 assets as they are quoted in active markets or level 2 assets. U.S and International equities, and Other Investments held in the Company's pension plan are held as individual bonds or 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)*.

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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.

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Accumulated Other Comprehensive Income (Loss)

Three Months Ended June 30, 2021					
	Pension	Postretirement	Foreign		
	Plan	Plan	Exchange	Total	
Accumulated other comprehensive income (loss) as of March 31, 2021	\$ (62,338)	\$ 613	\$ (5,239)	\$ (66,964)	
Other comprehensive income (loss) before reclassifications	—	—	827	827	
Amounts reclassified from accumulated other comprehensive income (loss)					
Amortization of Pension and Postretirement Plan items (1)	51	—	—	51	
Actuarial losses (1)	1,940	—	—	1,940	
Tax benefit	(463)	—	—	(463)	
Net current-period other comprehensive income (loss)	1,528	—	827	2,355	
Accumulated other comprehensive income (loss) as of June 30, 2021	<u>\$ (60,810)</u>	<u>\$ 613</u>	<u>\$ (4,412)</u>	<u>\$ (64,609)</u>	
Three Months Ended June 30, 2022					
	Pension	Postretirement	Foreign		

	Plan	Plan	Exchange	Total
Accumulated other comprehensive income (loss) as of March 31, 2022	\$ (14,700)	\$ 8,925	\$ (7,427)	\$ (13,202)
Other comprehensive income (loss) before reclassifications	—	—	(5,169)	(5,169)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan				
items (1)	51	—	—	51
Actuarial losses (1)	8	(60)	—	(52)
Tax benefit	(12)	13	—	1
Net current-period other comprehensive income (loss)	47	(47)	(5,169)	(5,169)
Accumulated other comprehensive income (loss) as of June 30, 2022	\$ (14,653)	\$ 8,878	\$ (12,596)	\$ (18,371)
Nine Months Ended June 30, 2021				
	Pension	Postretirement	Foreign	
	Plan	Plan	Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2020	\$ (65,393)	\$ 613	\$ (9,821)	\$ (74,601)
Other comprehensive income (loss) before reclassifications	—	—	5,409	5,409
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan				
items (1)	154	—	—	154
Actuarial losses (1)	5,819	—	—	5,819
Tax provision (benefit)	(1,390)	—	—	(1,390)
Net current-period other comprehensive income (loss)	4,583	—	5,409	9,992
Accumulated other comprehensive income (loss) as of June 30, 2021	\$ (60,810)	\$ 613	\$ (4,412)	\$ (64,609)
Nine Months Ended June 30, 2022				
	Pension	Postretirement	Foreign	
	Plan	Plan	Exchange	Total
Accumulated other comprehensive income (loss) as of September 30, 2021	\$ (14,791)	\$ 9,017	\$ (6,567)	\$ (12,341)
Other comprehensive income (loss) before reclassifications	—	—	(6,029)	(6,029)
Amounts reclassified from accumulated other comprehensive income (loss)				
Amortization of Pension and Postretirement Plan				
items (1)	154	—	—	154
Actuarial losses (1)	25	(180)	—	(155)
Tax provision (benefit)	(41)	41	—	(13)
Net current-period other comprehensive income (loss)	138	(139)	(6,029)	(6,030)
Accumulated other comprehensive income (loss) as of June 30, 2022	\$ (14,653)	\$ 8,878	\$ (12,596)	\$ (18,371)
Accumulated other comprehensive income (loss) as of December 31, 2021				
	\$ (14,745)	\$ 8,971	\$ (5,998)	\$ (11,772)

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

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Note 15. Long-term Obligations

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

	September 30,		June 30,		September 30, 2022		December 31, 2022	
	2021	2022	2022	2022	2022	2022	2022	2022
Finance lease obligations	\$ 7,613	\$ 7,444	\$ 7,384	\$ 7,321				
Environmental post-closure monitoring and maintenance activities	566	566	407	407				
Long-term disability	231	215	210	205				
Deferred dividends	210	152	199	206				
Less amounts due within one year	(319)	(347)	(352)	(362)				
Long-term obligations (less current portion)	\$ 8,301	\$ 8,030	\$ 7,848	\$ 7,777				

Note 16. Debt

U.S. revolving credit facility

On October 19, 2020, the Company and JPMorgan Chase Bank, N.A. entered into a Credit Agreement (the "Credit Agreement") and related Pledge and Security Agreement with certain other lenders (the "Security Agreement", and, together with the Credit Agreement, the "Credit Documents"). The Credit Documents were subsequently amended to extend the maturity of the agreement to April 19, 2024 and switch from a LIBOR-based interest rate calculation to a SOFR-based interest rate calculation. On October 7, 2022, the Company again amended the Credit Agreement to implement an accordion feature that increased the maximum borrowing amount from \$100.0 million to \$160.0 million, subject to a borrowing base and certain reserves.

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As of December 31, 2022, the amounts borrowed by the Company under the Credit Agreement totalled \$88.0 million which is classified as long-term on the Consolidated Balance Sheet. With the amendment executed on October 7, 2022, the Credit Agreement provides for revolving loans in the maximum amount of \$160.0 million, subject to a borrowing base and certain reserves. The Credit Agreement has a remaining accordion which permits an increase in the maximum revolving loan amount from \$160.0 million up to an aggregate amount of \$170.0 million at the request of the borrower if certain conditions are met. Borrowings under the Credit Agreement bear interest, at the Company's option, at either JPMorgan's "prime rate", plus 1.25% - 1.75% per annum, or the adjusted SOFR rate (SOFR plus 0.10%) by the lender, plus 2.25% - 2.75% per annum (with a SOFR floor of 0.5%).

The Company must pay monthly, in arrears, a commitment fee of 0.425% per annum on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay a fronting fee of 0.125% per annum as well as 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 the greater of (i) 12.5% of the maximum credit revolving loan amount and (ii) \$12.5 million. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met. The Company may pay quarterly cash dividends up to \$3.5 million per fiscal quarter so long as the Company is not in default under the Credit Documents.

Borrowings under the Credit Agreement 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). Borrowings under the Credit Agreement are also secured by a pledge of a 100% equity interest in each of the Company's direct foreign subsidiaries.

Note 16.17. 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, 2022** **December 31, 2022**, 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, 2021** **September 30, 2022** or **June 30, 2022** **December 31, 2022**. Foreign exchange contract 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.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2022	2021	2022
Foreign currency transactional gain (loss)	\$ 14	\$ 1,994	\$ (528)	\$ 2,284
Foreign exchange forward contract gain (loss)	\$ (176)	\$ (2,183)	\$ (3)	\$ (3,642)

Net gain (loss) included in selling, general and administrative expense	\$ (162)	\$ (189)	\$ (531)	\$ (1,358)
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	Three Months Ended December 31,	
	2021	2022
Foreign currency transactional gain (loss)	\$ (220)	\$ (1,851)
Foreign exchange forward contract gain (loss)	\$ (340)	\$ 1,873
Net gain (loss) included in selling, general and administrative expense	\$ (560)	\$ 22

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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 2022 2023 and beyond, overall volume and pricing trends, cost reduction strategies and their anticipated impact on our results, capital expenditures, capital allocation strategies and their expected results, demand for our products and operations, dividends and the impact of COVID-19 on the economy and our business, 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 COVID-19 pandemic. events. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based upon those assumptions also could be incorrect. Risks and uncertainties may affect the accuracy of forward-looking statements. Some, but not all, of these risks are described in Item 1A. of Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 September 30, 2022.

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", "the Company", "we", "our" or "the Company" "us") is one of the world's largest **developers**, **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 **distributors** of technologically advanced high-performance alloys, **nickel- and cobalt-based alloys**. The Company's products, which are sold primarily **in** **into** the aerospace, chemical processing and industrial gas turbine **industries**. The Company's products **industries**, consist of high-temperature resistant alloys, or **HTA** "HTA" products, and corrosion-resistant alloys, or **CRA** "CRA" products. HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace market, gas turbine engines **used for power generation** 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** **sales** in sheet, coil and plate forms, and **sales** of these forms, in the aggregate, represented approximately **60%** **62%** of net product revenues in fiscal **2021** **2022**. The Company also produces its products as seamless and welded tubulars, which represented approximately **14%** **13%** of fiscal **2021** **2022** net product **revenue** **revenues** and in wire form, which represented approximately **10%** **7%** of fiscal **2021** **2022** net product **revenue** **revenues**. The Company also produces its products in slab, bar and billet **forms** **form** and **sales** of these forms, in the aggregate, represented approximately **16%** **18%** of fiscal **2022** net product **revenue** in fiscal **2021**.

revenues.

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 11 service and/or sales centers in the United States, Europe and Asia. All of these centers are **Company operated**.

Raw Material Sourcing and Availability

Recent geopolitical events with the Russian invasion of Ukraine have prompted economic sanctions on Russia. Prior to the war in Ukraine, the Company sourced approximately 95% of its nickel requirements from Canada with the remaining 5% from Russia. In reaction to the Russian invasion into the Ukraine, the Company has ceased all future purchases of nickel from Russia as well as other

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raw materials such as chrome. At this time, the Company believes it has secured sufficient supply of raw materials from sources outside of Russia to meet its nickel requirements.

COVID-19 Pandemic

COVID-19 related disruptions negatively impacted the Company's financial and operating results in the second half of fiscal 2020 and the first half of fiscal 2021. The Company returned to profitability in the third quarter of fiscal 2021 and has continued to expand profitability in the fourth quarter of fiscal 2021 and the first nine months of fiscal 2022. The Company expects continued increase in volume and profitability primarily driven by the expected continued recovery of the aerospace market. The aerospace supply chain in particular was negatively impacted by the pandemic. Based upon published projections of aircraft engine builds, the Company currently expects monthly aerospace revenues to return to pre-pandemic levels by the end of fiscal 2022. Company-operated.

Dividends Paid and Declared

In the first **second and third quarters** **quarter** of fiscal **2022** **2023**, 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 15, 2021** **December 19, 2022** to stockholders of record at the close of business on **December 1, 2021**, the second quarter dividend was paid on **March 15, 2022** to stockholders of record at the close of business on **March 1, 2022** and the third quarter dividend was paid on **June 15, 2022** to stockholders of record at the close of business on **June 1, 2022** **December 5, 2022**.

The total dividend cash pay-outs pay-out in each of the first second and third quarters were quarter was approximately \$2.8 million based on the number of shares outstanding.

On **July 28, 2022** **February 2, 2023**, 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, 2022** **March 15, 2023** to stockholders of record at the close of business on **September 1, 2022** **March 1, 2023**. Any future dividends will be at the discretion of the Board of Directors.

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Capital Spending

During the first **nine months quarter** of fiscal **2022, 2023**, capital investment was **\$11.5 million** **\$3.3 million**, and total planned capital expenditures for fiscal **2022, 2023** are expected to be **approximately \$15.0 million**, which is lower than the previous estimate of **\$17.7 million** due to equipment supply constraints. The Company does not expect any impact on operations as a result of these constraints. **between \$20.0 million and \$24.0 million.**

Pension and Postretirement Plans

The Company's U.S. pension glide path strategy, adopted in fiscal 2021, is in place with changes to the asset allocation including a customized liability-driven investing strategy, which is intended to reduce interest rate and equity risks. The Company expects significantly reduced volatility going forward related to the pension funding percentage (the U.S. pension plan is currently approximately 92% funded) and reduced pension and postretirement expense (\$6.0 million less in fiscal year 2021 vs. 2022). As of the end of the third quarter of fiscal 2022, the U.S. net pension liability was approximately \$20.7 million, a reduction of \$85.1 million below the \$105.8 million on the balance sheet at the beginning of fiscal 2021. Inclusive of the retiree healthcare liability and U.K. pension asset, the net liability decrease is \$98.1 million since the beginning of fiscal year 2021.

Volume and Pricing

Demand continues to improve and volumes continue to increase with 4.5 million pounds. Volume shipped in the **third** **first** quarter of fiscal 2023 was 4.6 million pounds. First quarter volume is typically impacted by holidays, planned maintenance outages and customers managing their calendar year-end balance sheets. As a result, volume dropped sequentially by 6.8% in the first quarter of fiscal 2023 compared to the **fourth** quarter of fiscal 2022, representing a sequential increase of 4.7% and a year-over-year increase of 21.7% however compared to the same quarter in the prior fiscal year, volume increased 17.4%. Aerospace volumes were 2.1 million pounds volume increased 17.3% along with a 13.5% increase in aerospace average selling price resulting in a 33.2% or \$16.1 million aerospace revenue increase compared to the **quarter**, representing a sequential prior year. The volume increase of 18.5% and a year-over-year increase of 58.2%. This quarter's aerospace volume was 83% of the pre-pandemic levels of the average fiscal 2019 volume (aerospace net sales were 95% of pre-pandemic 2019 average). The Company continues to expect to return to fiscal 2019 monthly run-rate shipment levels is primarily driven by the **end of fiscal 2022**. Chemical processing volume increased sequentially 1.4% and year-over-year 8.4% driven by continued recovery from the pandemic and higher capital spending single-aisle aircraft recovery. Volumes in the chemical sector. processing industry (CPI) decreased by 1.0%, however CPI average selling price increased 31.5% resulting in a 30.2% or \$5.2 million CPI revenue increase compared to the prior year. Industrial gas turbine shipments decreased sequentially (23.0%), after last quarter's sequential (IGT) volumes were up 61.3% along with a 10.5% increase of 77% in the IGT average selling price resulting in a 78.3% or \$11.4 million IGT revenue increase compared to the prior year. Other markets revenue increased 1.6%, and a (5.0)% decrease year-over-year, due to timing of certain shipments. Other markets sequentially other revenue increased 75.0%, due to lower shipments into the flue-gas desulphurization market in the previous quarter, and year-over-year by 2.9% 5.7%. Overall, volumes are expected to continue to increase with the extremely high level of incoming orders backlog.

The Company has an ongoing strategy of increasing pricing and margins, recognizing the high-value, differentiated products and services it offers. The Company implemented multiple price increases for contract and non-contract business as market conditions improved and in response to higher inflation. Customer long-term agreements typically have adjustors for specific raw material prices and for changes in the producer price index to help cover general inflationary items. The product average selling price per pound in the **third**

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first quarter of fiscal 2022/2023 was \$27.23, \$28.12, which increased 7.1% sequentially and 23.1% 14.8% year-over-year primarily due to the noted price increases and raw material adjustors as well as a higher value product mix adjustors.

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

Net Revenue and Gross Profit Margin Performance

(dollars in thousands)	Comparison by Quarter of Net Revenues, Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2021 and YTD 2022						
	Quarter Ended						
	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022
Net Revenues	\$ 72,177	\$ 82,063	\$ 88,143	\$ 95,278	\$ 99,430	\$ 117,056	\$ 130,165
Gross Profit Margin	\$ 987	\$ 8,385	\$ 13,658	\$ 16,700	\$ 17,777	\$ 23,413	\$ 33,222
Gross Profit Margin %	1.4 %	10.2 %	15.5 %	17.5 %	17.9 %	20.0 %	25.5 %

(dollars in thousands)	Comparison by Quarter of Net Revenues, Gross Profit Margin and Gross Profit Margin Percentage for Fiscal 2022 and YTD 2023				
	Quarter Ended				
	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Net Revenues	\$ 99,430	\$ 117,056	\$ 130,165	\$ 143,810	\$ 132,673
Gross Profit Margin	\$ 17,777	\$ 23,413	\$ 33,222	\$ 31,921	\$ 23,038
Gross Profit Margin %	17.9 %	20.0 %	25.5 %	22.2 %	17.4 %

This Gross profit margin was 17.4% in the first quarter showed significant profitability leverage with increasing volumes of fiscal 2023 compared to 4.5 million pounds shipped, showing continued traction 17.9% in the same period last year and momentum as volumes recover along with 22.2% in fourth quarter of fiscal 2022. Volatility of raw materials, specifically nickel and cobalt, have impacted gross margins. During fiscal 2022 this impact was favorable due to rising raw material tailwinds. Gross prices which increased gross margins, continued however in the first quarter of fiscal 2023 this impact was unfavorable due to increase with decreasing raw material prices which lowered gross margins. The estimated impact from raw material volatility in the first quarter of fiscal 2023 was a 25.5% headwind of \$5.6 million compressing gross margin percentage by approximately 4.2%, which resulted in a gross margin percentage of 17.4%. This compares to the previous year's estimated impact in the first quarter of fiscal 2022 which was a favorable tailwind of approximately \$1.7 million which increased gross margin percentage by approximately 1.7%, resulting in gross margin percentage of 17.9%.

A significant strategic effort to improve gross margins has occurred over the past few years. As a result of this quarter compared strategy, the Company reduced the volume breakeven point by over 25%. The Company previously struggled to 20.0% last quarter (a 550 basis point improvement) and 15.5% be profitable at roughly 5.0 million pounds. With the current product mix, the Company can generate profits at lower volumes as first demonstrated in the third quarter of last year (a 1,000 basis point improvement). The Company has implemented focus initiatives designed fiscal 2021, producing a positive net income at only 3.7 million pounds shipped. As volumes continue to increase pricing and reduce costs. These initiatives, combined rise, margin leverage is expected to continue with improved volumes compared to the same quarter last year, has driven growth in gross margins and profitability at a much lower volume breakeven point. The Company previously needed to sell more than five million pounds to be profitable. Recent quarters demonstrate the Company's successful reduction (excluding raw material impacts) of its breakeven point by roughly 25% over 20% even with the current mix, inflation headwind.

Backlog

	Quarter Ended							
	December 31,		March 31,		June 30,		September 30,	
	2020	2021	2021	2021	2021	2021	2022	2022
Backlog⁽¹⁾								
Dollars (in thousands)	\$ 145,143	\$ 140,892	\$ 150,915	\$ 175,299	\$ 217,477	\$ 280,687	\$ 338,178	
Pounds (in thousands)	5,607	5,622	6,642	7,084	8,931	10,654	12,125	
Average selling price per pound	\$ 25.89	\$ 25.06	\$ 22.72	\$ 24.75	\$ 24.35	\$ 26.35	\$ 27.89	
Average nickel price per pound								
London Metals Exchange ⁽²⁾	\$ 7.62	\$ 7.47	\$ 8.14	\$ 8.80	\$ 9.10	\$ 15.47	\$ 11.71	
Backlog⁽¹⁾								
Dollars (in thousands)	\$ 217,477	\$ 280,687	\$ 338,178	\$ 373,736	\$ 408,181			
Pounds (in thousands)	8,931	10,654	12,125	12,798	13,640			
Average selling price per pound	\$ 24.35	\$ 26.35	\$ 27.89	\$ 29.20	\$ 29.93			
Average nickel price per pound								
London Metals Exchange ⁽²⁾	\$ 9.10	\$ 15.47	\$ 11.71	\$ 10.28	\$ 13.08			

(1) Approximately 50% of the orders in the backlog include prices that are subject to adjustment based on changes in raw material costs. Historically, approximately 70% of the backlog orders have shipped within six months and approximately 90% have shipped within 12 months. The backlog figures do not reflect that portion of the business conducted at service and sales centers on a spot or "just-in-time" basis.

(2) Represents the average price for a cash buyer as reported by the London Metals Exchange for the 30 days ending on the last day of the period presented.

The Company experienced continued high levels of order entry over the past quarter across each of its core markets totaling \$181.5 million, led by aerospace, which had a \$100.1 million order entry and a 1.6 book-to-bill ratio (customer orders divided by net revenues). Backlog was a record \$338.2 million at June 30, 2022 December 31, 2022, an increase of \$57.5 million \$34.4 million, or 20.5% 9.2% from the fourth quarter of fiscal 2022 and an increase of \$190.7 million, or 87.7% from \$280.7 million at March 31, 2022 the first quarter of fiscal 2022. In addition, the backlog has increased for 21 consecutive months. Backlog pounds at June 30, 2022 increased 13.8% 6.6% during the third first quarter to approximately 12.1 million pounds, which is the highest level of backlog pounds 13.6 million pounds. The growth was predominately in the Company's history. The average selling price of products in the Company's backlog increased to \$27.89 per pound at June 30, 2022 from \$26.35 per pound at March 30, 2022 aerospace and industrial gas turbine markets.

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Quarterly Market Information

	Quarter Ended							
	December 31,		March 31,		June 30,		September 30,	
	2020	2021	2021	2021	2021	2021	2022	2022
Net revenues (in thousands)								
Aerospace	\$ 24,555	\$ 30,601	\$ 33,950	\$ 38,966	\$ 48,455	\$ 52,918	\$ 60,981	
Chemical processing	15,256	15,068	17,010	15,813	17,450	22,850	24,180	
Industrial gas turbines	13,967	16,436	17,835	18,534	14,598	24,788	23,991	
Other markets	12,779	15,546	13,709	16,056	14,487	9,755	14,518	
Total product revenue	66,557	77,651	82,504	89,369	94,990	110,311	123,670	

Other revenue	5,620	4,412	5,639	5,909	4,440	6,745	6,495
Net revenues	\$ 72,177	\$ 82,063	\$ 88,143	\$ 95,278	\$ 99,430	\$ 117,056	\$ 130,165
<u>Shipments by markets</u> (in thousands of pounds)							
Aerospace	904	1,177	1,354	1,528	1,864	1,808	2,142
Chemical processing	601	682	814	722	794	870	882
Industrial gas turbines	798	1,064	1,147	1,178	799	1,416	1,090
Other markets	489	599	415	538	420	244	427
Total shipments	2,792	3,522	3,730	3,966	3,877	4,338	4,541
<u>Average selling price per pound</u>							
Aerospace	\$ 27.16	\$ 26.00	\$ 25.07	\$ 25.50	\$ 26.00	\$ 29.27	\$ 28.47
Chemical processing	25.38	22.09	20.90	21.90	21.98	26.26	27.41
Industrial gas turbines	17.50	15.45	15.55	15.73	18.27	17.51	22.01
Other markets	26.13	25.95	33.03	29.84	34.49	39.98	34.00
Total product (product only; excluding other revenue)	23.84	22.05	22.12	22.53	24.50	25.43	27.23
Total average selling price (including other revenue)	\$ 25.85	\$ 23.30	\$ 23.63	\$ 24.02	\$ 25.65	\$ 26.98	\$ 28.66

	Quarter Ended				
	September				
	December 31, 2021	March 31, 2022	June 30, 2022	30, 2022	December 31, 2022
<u>Net revenues</u> (in thousands)					
Aerospace	\$ 48,455	\$ 52,918	\$ 60,981	\$ 67,647	\$ 64,518
Chemical processing	17,450	22,850	24,180	27,185	22,715
Industrial gas turbines	14,598	24,788	23,991	28,501	26,025
Other markets	14,487	9,755	14,518	14,946	14,722
Total product revenue	94,990	110,311	123,670	138,279	127,980
Other revenue	4,440	6,745	6,495	5,531	4,693
Net revenues	\$ 99,430	\$ 117,056	\$ 130,165	\$ 143,810	\$ 132,673
<u>Shipments by markets</u> (in thousands of pounds)					
Aerospace	1,864	1,808	2,142	2,402	2,187
Chemical processing	794	870	882	921	786
Industrial gas turbines	799	1,416	1,090	1,242	1,289
Other markets	420	244	427	318	290
Total shipments	3,877	4,338	4,541	4,883	4,552
<u>Average selling price per pound</u>					
Aerospace	\$ 26.00	\$ 29.27	\$ 28.47	\$ 28.16	\$ 29.50
Chemical processing	21.98	26.26	27.41	29.52	28.90
Industrial gas turbines	18.27	17.51	22.01	22.95	20.19
Other markets	34.49	39.98	34.00	47.00	50.77
Total product (product only; excluding other revenue)	24.50	25.43	27.23	28.32	28.12
Total average selling price (including other revenue)	\$ 25.65	\$ 26.98	\$ 28.66	\$ 29.45	\$ 29.15

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Results of Operations for the Three Months Ended **June 30, 2022** **December 31, 2022** Compared to the Three Months Ended **June 30, 2021** **December 31, 2021**

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

	Three Months Ended June 30,				Change	
	2021		2022		Amount	%
	\$	100.0 %	\$	100.0 %		
Net revenues	\$ 88,143		\$ 130,165		\$ 42,022	47.7 %
Cost of sales	74,485	84.5 %	96,943	74.5 %	22,458	30.2 %
Gross profit	13,658	15.5 %	33,222	25.5 %	19,564	143.2 %
Selling, general and administrative expense	11,475	13.0 %	11,847	9.1 %	372	3.2 %
Research and technical expense	831	0.9 %	957	0.7 %	126	15.2 %
Operating income	1,352	1.5 %	20,418	15.7 %	19,066	1,410.2 %
Nonoperating retirement benefit expense (income)	359	0.4 %	(1,088)	(0.8)%	(1,447)	(403.1)%
Interest income	(4)	(0.0)%	(1)	(0.0)%	3	(75.0)%
Interest expense	298	0.3 %	750	0.6 %	452	151.7 %
Income before income taxes	699	0.8 %	20,757	15.9 %	20,058	2,869.5 %
Provision for income taxes	277	0.3 %	5,149	4.0 %	4,872	1,758.8 %
Net income	\$ 422	0.5 %	\$ 15,608	12.0 %	\$ 15,186	3,598.6 %
Three Months Ended December 31,						
	2021		2022		Amount	%
	\$	100.0 %	\$	100.0 %		
Net revenues	\$ 99,430		\$ 132,673		\$ 33,243	33.4 %
Cost of sales	81,653	82.1 %	109,635	82.6 %	27,982	34.3 %
Gross profit	17,777	17.9 %	23,038	17.4 %	5,261	29.6 %
Selling, general and administrative expense	11,362	11.4 %	10,952	8.3 %	(410)	(3.6)%
Research and technical expense	905	0.9 %	973	0.7 %	68	7.5 %
Operating income	5,510	5.5 %	11,113	8.4 %	5,603	101.7 %
Nonoperating retirement benefit expense (income)	(1,088)	(1.1)%	(366)	(0.3)%	722	(66.4)%
Interest income	(8)	(0.0)%	(6)	(0.0)%	2	(25.0)%
Interest expense	300	0.3 %	1,501	1.1 %	1,201	400.3 %
Income before income taxes	6,306	6.3 %	9,984	7.5 %	3,678	58.3 %
Provision for income taxes	1,647	1.7 %	2,245	1.7 %	598	36.3 %
Net income	\$ 4,659	4.7 %	\$ 7,739	5.8 %	\$ 3,080	66.1 %

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

By market	Three Months Ended					
	June 30,		Change			
	2021	2022	Amount	%		
Net revenues (dollars in thousands)						
Aerospace	\$ 33,950	\$ 60,981	\$ 27,031	79.6 %		
Chemical processing	17,010	24,180	7,170	42.2 %		
Industrial gas turbine	17,835	23,991	6,156	34.5 %		
Other markets	13,709	14,518	809	5.9 %		
Total product revenue	82,504	123,670	41,166	49.9 %		
Other revenue	5,639	6,495	856	15.2 %		
Net revenues	\$ 88,143	\$ 130,165	\$ 42,022	47.7 %		
Pounds by market (in thousands)						
Aerospace	1,354	2,142	788	58.2 %		

Chemical processing	814	882	68	8.4 %
Industrial gas turbine	1,147	1,090	(57)	(5.0)%
Other markets	415	427	12	2.9 %
Total shipments	3,730	4,541	811	21.7 %
Average selling price per pound				
Aerospace	\$ 25.07	\$ 28.47	\$ 3.40	13.6 %
Chemical processing	20.90	27.41	6.51	31.1 %
Industrial gas turbine	15.55	22.01	6.46	41.5 %
Other markets	33.03	34.00	0.97	2.9 %
Total product (excluding other revenue)	22.12	27.23	5.11	23.1 %
Total average selling price (including other revenue)	\$ 23.63	\$ 28.66	\$ 5.03	21.3 %
Three Months Ended				
By market	December 31,		Change	
	2021	2022	Amount	%
Net revenues (dollars in thousands)				
Aerospace	\$ 48,455	\$ 64,518	\$ 16,063	33.2 %
Chemical processing	17,450	22,715	5,265	30.2 %
Industrial gas turbine	14,598	26,025	11,427	78.3 %
Other markets	14,487	14,722	235	1.6 %
Total product revenue	94,990	127,980	32,990	34.7 %
Other revenue	4,440	4,693	253	5.7 %
Net revenues	\$ 99,430	\$ 132,673	\$ 33,243	33.4 %
Pounds by market (in thousands)				
Aerospace	1,864	2,187	323	17.3 %
Chemical processing	794	786	(8)	(1.0)%
Industrial gas turbine	799	1,289	490	61.3 %
Other markets	420	290	(130)	(31.0)%
Total shipments	3,877	4,552	675	17.4 %
Average selling price per pound				
Aerospace	\$ 26.00	\$ 29.50	\$ 3.50	13.5 %
Chemical processing	21.98	28.90	6.92	31.5 %
Industrial gas turbine	18.27	20.19	1.92	10.5 %
Other markets	34.49	50.77	16.28	47.2 %
Total product (excluding other revenue)	24.50	28.12	3.62	14.8 %
Total average selling price (including other revenue)	\$ 25.65	\$ 29.15	\$ 3.50	13.6 %

Net Revenues. Net revenues were \$130.2 million \$132.7 million in the third first quarter of fiscal 2022 2023, an increase of 47.7% 33.4% from the same period of fiscal 2021 2022 due to increases in volume in key markets, combined with increases in average selling price per pound in all markets. The 21.7% increase in pounds sold is due to the demand recovery and strong sales in the aerospace market, which increased by 58.2%, as well as the chemical processing industrial gas turbine market, which increased by 8.4% from compared to the third first quarter of fiscal 2021. The product average selling price was \$27.23 per pound in the third quarter of fiscal 2022, an increase of 23.1% from the same period of fiscal 2021. The increase in product average selling price per pound largely reflects price increases and other sales factors, which increased the average selling price per pound by approximately \$4.19, and higher market prices of raw materials, which increased average selling price per pound by approximately \$3.40 and price increases and other sales factors, \$1.07, partially offset by change in product mix, which increased decreased average selling price per pound by approximately \$1.03, along with a higher-value product mix, which increased average selling price per pound by approximately \$0.68. \$1.64.

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The aerospace market has experienced increased demand as inventory throughout the aerospace supply chain continues to be replenished in response to the expected increase in engine build rates. Additionally, demand in the third quarter of fiscal 2021 was depressed by the COVID-19 pandemic, that decreased demand for air travel resulting in decreased demand for new planes and maintenance parts. The increase in average selling price per pound largely reflects price increases and other pricing factors, which increased average selling price per pound by approximately \$5.43 and higher market prices of raw materials, which increased average selling price per pound by approximately \$3.36 and price increases and other pricing factors, which increased average selling price per pound by approximately \$0.97. \$1.25, partially offset by a lower-value change in product mix, which decreased average selling price per pound by approximately \$0.93. \$3.18.

Volume to the chemical processing market was higher as industrial activity increased with economies continuing to reopen from pandemic shutdowns as well as increases in oil prices resulting in expanded capital expenditures in the sector. first quarter of fiscal 2023 was similar to the same period in fiscal 2022. The increase in average selling price per pound reflects price increases and other sales factors, which increased average selling price per pound by approximately \$4.37 and higher market prices of raw materials, which increased average selling price per pound by approximately \$3.26 and \$1.21 per pound, along with a change in product mix, which increased average selling price per pound by approximately \$1.34.

The increase in volume in the industrial gas turbine market is largely attributable to the recovered demand from the same period last year. The increase in average selling price per pound reflects price increases and other sales factors, which increased average selling price per pound by approximately \$1.69 per pound, along with a higher-value product mix, which increased average selling price per pound by approximately \$1.56.

The decrease in volume in the industrial gas turbine market is largely attributable to the timing of some lower-valued shipments that occurred in the second quarter of fiscal 2022 which resulted in a lower volume available to ship in the third quarter of fiscal 2022. The increase in average selling price per pound reflects \$1.62 and higher market prices of raw materials, which increased average selling price per pound by approximately \$3.57 and \$0.92 per pound, partially offset by a change in product mix, predominately due to higher sales of ingots, which decreased average selling price per pound by approximately \$0.62.

Volume to the other markets declined in the first quarter of fiscal 2023 from the same period in fiscal 2022 mainly due to reduced sales of lower-value products into the flue-gas desulfurization market. The average selling price per pound increase to other markets reflects price increases and other sales factors, which increased average selling price per pound by approximately \$0.44 per pound, along \$8.87 combined with higher-value a change in product mix, which increased average selling price per pound by approximately \$2.45.

The average selling price per pound increase to other markets reflects higher market prices of raw materials and other pricing factors, which increased average selling price per pound by approximately \$3.43 and \$1.51, respectively, partially offset by a lower-value product mix, which decreased average selling price per pound by approximately \$3.97. \$7.41.

Other Revenue. The increase in other revenue was due primarily to increased sales of scrap material, conversion services.

Cost of Sales. The 10.0% decrease 0.5% increase in cost of sales as a percentage of revenues was primarily attributable to higher raw material costs flowing through cost of goods sold, partially offset by variable cost saving measures that enable the Company to minimize the increase in costs in periods of higher net revenues. Additionally, higher volumes sold during the quarter improved the utilization of fixed costs and eliminated the need for fixed costs to be directly expensed, as was the case in the third quarter of fiscal 2021, which had \$2.0 million of costs directly expensed to Cost of Sales, measures.

Gross Profit. As a result of the above factors, gross profit was \$33.2 million \$23.0 million for the third first quarter of fiscal 2022, 2023, an increase of \$19.6 million \$5.3 million from the same period of fiscal 2021, 2022. Gross profit as a percentage of net revenue increased decreased to 25.5% 17.4% in the third first quarter of fiscal 2022 2023 as compared to 15.5% 17.9% in the same period of fiscal 2021, 2022. The third first quarter of fiscal 2021 2023 was adversely impacted affected by increasing raw material prices included in cost of sales relative to the COVID-19 pandemic as impact of raw material prices in selling prices which lowered gross margin. Partially offsetting the compression of margins due to raw material price changes was increased gross profit generated from variable cost saving measures and a higher utilization of fixed costs driven from greater volumes were significantly reduced, shipped.

Selling, General and Administrative Expense. Selling, The 3.1% decrease in selling, general and administrative expense as a percentage of net revenues decreased to 9.1% for the third quarter of fiscal 2022 compared to 13.0% for the same period of fiscal 2021, was largely driven by higher net revenues. Investments revenues and the benefit of lower expenses in consulting costs related to information system improvements as well as general inflation were the primary drivers fiscal 2023. Additionally, exchange rate losses of the increased expense \$0.6 million recorded in the third first quarter of fiscal 2022. Additionally, the Company increased its reserves on accounts receivable which 2022 also contributed to the increase decrease in expense, expenses from the first quarter of fiscal 2022 to the first quarter of fiscal 2023.

Nonoperating retirement benefit expense (income). The difference lower benefit recorded in nonoperating retirement benefit expense was primarily driven by a favorable an increase in the discount rate used in the actuarial valuation of the U.S. pension plan liability as of September 30, 2021 caused by a higher-

than-expected return on plan assets coupled with September 30, 2022 which resulted in a higher discount rate. The amortization interest cost component of this favorable valuation is recorded as a benefit to nonoperating retirement benefit expense (income), in the first quarter of fiscal 2023 when compared to the first quarter of fiscal 2022. Partially offsetting the higher interest cost was the amortization of the actuarial gains of the U.S. pension plan liability in the first quarter of fiscal 2023.

Income Taxes. The increase in income tax expense was driven primarily by a difference in income (loss) before income taxes of \$20.1 million \$3.7 million.

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Results of Operations for the Nine Months Ended June 30, 2022 Compared to the Nine Months Ended June 30, 2021

	Nine Months Ended June 30,				Change	
	2021		2022		Amount	%
	Amount	%	Amount	%		
Net revenues	\$ 242,383	100.0 %	\$ 346,651	100.0 %	\$ 104,268	43.0 %
Cost of sales	219,353	90.5 %	272,239	78.5 %	52,886	24.1 %
Gross profit	23,030	9.5 %	74,412	21.5 %	51,382	223.1 %
Selling, general and administrative expense	32,465	13.4 %	34,991	10.1 %	2,526	7.8 %
Research and technical expense	2,482	1.0 %	2,806	0.8 %	324	13.1 %
Operating income (loss)	(11,917)	(4.9)%	36,615	10.6 %	48,532	(407.3)%
Nonoperating retirement benefit expense (income)	1,077	0.4 %	(3,264)	(0.9)%	(4,341)	(403.1)%
Interest income	(9)	(0.0)%	(15)	(0.0)%	(6)	66.7 %
Interest expense	900	0.4 %	1,564	0.5 %	664	73.8 %
Income (loss) before income taxes	(13,885)	(5.7)%	38,330	11.1 %	52,215	(376.1)%
Provision for (benefit from) income taxes	(2,648)	(1.1)%	9,579	2.8 %	12,227	(461.7)%
Net income (loss)	\$ (11,237)	(4.6)%	\$ 28,751	8.3 %	\$ 39,988	(355.9)%

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

	Nine Months Ended				Change	
	June 30,				Amount	%
	2021	2022				
Net revenues (dollars in thousands)						
Aerospace	\$ 89,106	\$ 162,354	\$ 73,248	82.2 %		
Chemical processing	47,334	64,480	17,146	36.2 %		
Industrial gas turbine	48,238	63,377	15,139	31.4 %		
Other markets	42,034	38,760	(3,274)	(7.8)%		
Total product revenue	226,712	328,971	102,259	45.1 %		
Other revenue	15,671	17,680	2,009	12.8 %		
Net revenues	\$ 242,383	\$ 346,651	\$ 104,268	43.0 %		
Pounds by market (in thousands)						
Aerospace	3,435	5,814	2,379	69.3 %		
Chemical processing	2,097	2,546	449	21.4 %		
Industrial gas turbine	3,009	3,305	296	9.8 %		
Other markets	1,503	1,091	(412)	(27.4)%		

Total shipments	10,044	12,756	2,712	27.0 %
Average selling price per pound				
Aerospace	\$ 25.94	\$ 27.92	\$ 1.98	7.6 %
Chemical processing	22.57	25.33	2.76	12.2 %
Industrial gas turbine	16.03	19.18	3.15	19.7 %
Other markets	27.97	35.53	7.56	27.0 %
Total product (excluding other revenue)	22.57	25.79	3.22	14.3 %
Total average selling price (including other revenue)	\$ 24.13	\$ 27.18	\$ 3.05	12.6 %

Net Revenues. Net revenues were \$346.7 million in the first nine months of fiscal 2022, an increase of 43.0% from \$242.4 million in the same period of fiscal 2021 due primarily to volume increases in key markets and average selling price per pound increases in all markets. The 27.0% increase in pounds sold is due to the demand recovery and strong sales in the aerospace market, which increased by 69.3%, as well as the chemical processing and industrial gas turbine markets, which increased by 21.4% and 9.8%, respectively, from the first nine months of fiscal 2021. The product average selling price was \$25.79 per pound in the first nine months of fiscal 2022, an increase of 14.3% in the same period of fiscal 2021. The increase in product average selling price per pound largely reflects higher market prices of raw materials, which increased average selling price per pound by approximately \$3.31, partially offset by a lower-value product mix, which decreased average selling price per pound by approximately \$0.09.

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The aerospace market has experienced increased demand as inventory throughout the aerospace supply chain continues to be replenished in response to the expected increase in engine build rates. Additionally, demand in the first nine months of fiscal 2021 was depressed by the COVID-19 pandemic, that decreased demand for air travel resulting in decreased demand for new planes and maintenance parts. The increase in average selling price per pound largely reflects higher market prices of raw materials, which increased average selling price per pound by approximately \$3.15 partially offset with a lower-value product mix, which decreased average selling price per pound by approximately \$1.17.

Volume to the chemical processing market was higher as industrial activity increased with economies continuing to reopen from pandemic shutdowns as well as increases in oil prices resulting in expanded capital expenditures in the sector. The increase in average selling price per pound reflects higher market prices of raw materials, which increased average selling price per pound by approximately \$3.27, partially offset by a lower-value product mix, which decreased average selling price per pound by approximately \$0.51.

The higher volume to the industrial gas turbine market was a result of overall increased demand in the market as well as timing of deliveries to one of the Company's larger customers. The increase in average selling price per pound reflects higher market prices of raw materials, which increased average selling price per pound by approximately \$3.39, partially offset by a lower-value product mix, which decreased average selling price per pound by approximately \$0.24.

The decrease in volume to other markets was primarily attributable to lower shipments into the flue-gas desulphurization market which also contributed to an improved product mix. The average selling price per pound increase reflects higher market prices of raw materials, which increased average selling price per pound by approximately \$4.03 as well as a higher-value product mix and other pricing factors, which increased average selling price per pound by approximately \$3.53.

Other Revenue. The 12.8% increase in other revenue was primarily due to increased sales of scrap material.

Cost of Sales. The decrease in cost of sales as a percentage of revenues was primarily attributable to variable cost saving measures that enable the Company minimize the increase in costs in periods of higher net revenues. Additionally, higher volumes sold during the first nine months of fiscal 2022 eliminated the need for fixed costs be directly expensed, as was the case first nine months of fiscal 2021, which had \$10.7 million of costs directly expensed to cost of sales.

Gross Profit. As a result of the above factors, gross profit was \$74.4 million for the first nine months of fiscal 2022, an increase of \$51.4 million from the same period of fiscal 2021. Gross profit as a percentage of net revenue increased to 21.5% in the first nine months of fiscal 2021 as compared to 9.5% in the

same period of fiscal 2021 which continued to be impacted by the COVID-19 pandemic.

Selling, General and Administrative Expense. Selling, general and administrative expense as a percentage of net revenues decreased to 10.1 % for the first nine months of fiscal 2022 compared to 13.4% for the same period of fiscal 2021, largely driven by a 43.0% increase in net revenues. Higher foreign exchange losses as well as general inflation were the primary drivers of the increased expense in the first nine months of fiscal 2022. Additionally, some temporary cost containment initiatives that were in place during the first quarter of fiscal 2021, in response to the COVID-19 pandemic, were subsequently ended, which contributed to the higher expense in the first nine months of fiscal 2022 as compared to the same period of fiscal 2021.

Nonoperating retirement benefit expense (income). The \$4.3 million difference in nonoperating retirement benefit expense (income) was primarily driven by a favorable actuarial valuation of the U.S. pension plan liability as of September 30, 2021 caused by a higher-than-expected return on plan assets coupled with a higher discount rate. The amortization of this favorable valuation is recorded as a benefit to nonoperating retirement benefit expense (income).

Income Taxes. Income tax expense was \$9.6 million in the first nine months of fiscal 2022, a \$12.2 million difference from an income tax benefit of \$2.7 million during the same period of fiscal 2021, driven primarily by a difference in income (loss) before income taxes of \$52.2 million.

Working Capital

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was \$339.3 million \$402.0 million at June 30, 2022 December 31, 2022, an increase of \$100.7 million \$23.7 million, or 42.2% 6.3%, from \$238.7 million \$378.3 million at September 30, 2021 September 30, 2022. The increase resulted primarily from inventory increasing by \$95.6 million and accounts receivable increasing by \$21.6 million \$33.0 million during the first nine three months of fiscal 2022, 2023, partially offset by accounts payable and accrued expenses increasing by \$16.5 million \$6.3 million and accounts receivable decreasing by \$2.9 million during the same period. The Company continued to build work-in-process inventory during the nine-month period in response to the rapidly growing backlog.

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Liquidity and Capital Resources

Comparative cash flow analysis

The Company had cash and cash equivalents of \$9.4 million \$11.5 million at June 30, 2022 December 31, 2022, inclusive of \$9.1 million \$10.8 million that was held by foreign subsidiaries in various currencies, compared to \$47.7 million \$8.4 million at September 30, 2021 September 30, 2022. Additionally, the Company had \$46.5 million \$88.0 million of borrowings against the \$160.0 million line of credit outstanding with remaining capacity available of \$72.0 million as of June 30, 2022 December 31, 2022, putting total liquidity at \$83.5 million.

Net cash used in operating activities in the first nine three months of fiscal 2022, 2023 was \$57.6 million \$7.0 million compared to net cash provided by used in operating activities of \$40.2 million \$23.8 million in the first nine three months of fiscal 2021, a difference of \$97.8 million. Cash 2022. The decrease in cash used in operating activities in the first nine three months of fiscal 2022, 2023 was driven by an increase in inventory accounts payable and accrued expenses of \$98.9 million during the first nine months of fiscal 2022 \$4.6 million as compared to a decrease in inventory of \$18.5 million \$13.3 million during the same period of fiscal 2021, 2022, a difference of \$17.8 million, and an increase in accounts receivable higher net income of \$24.3 million during \$7.7 million the first nine three months of fiscal 2022, 2023 as compared to a decrease in accounts receivable net income of \$0.1 million \$4.7 million during the same period of fiscal 2021, 2022. This was partially offset by net income an increase in inventory of \$28.8 million in \$29.2 million during the first nine three months of fiscal 2022, 2023 as compared to net loss an increase in inventory of \$(11.2) million \$22.7 million during the same period of fiscal 2021, 2022.

Net cash used in investing activities was \$11.5 million \$3.3 million in the first nine three months of fiscal 2022, 2023, which was higher than cash used in comparable to investing activities of \$4.2 million \$3.3 million during the same period of fiscal 2021, 2022 due to higher a similar level of additions to property, plant and equipment. Capital spending in fiscal 2022 reflects a more normal level of investment, however, below the rate of depreciation, after lower than historical levels of investment in fiscal 2021.

Net cash provided by financing activities was \$31.5 million \$12.7 million in the first nine three months of fiscal 2022, a difference of \$41.3 million \$19.1 million from cash used in financing activities of \$9.8 million \$6.4 million during the first nine three months of fiscal 2021, 2022. This difference was primarily driven by a net borrowing of \$46.5 million \$13.3 million against the revolving line of credit during the first nine three months of fiscal 2022, partially offset by share repurchases of \$6.8 million in the first nine months of fiscal 2022 as 2023 compared to \$0.2 million a net borrowing of \$3.0 million during the same period of fiscal 2021, 2022 and proceeds from the exercise of stock options of \$3.4 million during the first three months of fiscal 2023 as compared to proceeds from exercise of stock options of \$0.1 million during the same period of fiscal 2022 and lower share repurchases of \$0.8 million in the first three months of fiscal 2023 as compared to \$6.6 million during the same period of fiscal 2022. Dividends paid of \$8.3 million \$2.8 million during the first nine three months of fiscal 2022, 2023 were comparable to same period of fiscal 2021, 2022.

U.S. revolving credit facility

On October 19, 2020, the Company and JPMorgan Chase Bank, N.A. entered into a Credit Agreement (the "Credit Agreement") and related Pledge and Security Agreement with certain other lenders (the "Security Agreement", and, together with the Credit Agreement, the "Credit Documents"). The Credit Documents which have were subsequently amended to extend the maturity of the agreement to April 19, 2024 and switch from a three-year term expiring in October 2023, replaced the Third Amended and Restated Loan and Security Agreement and related agreements, dated as of July 14, 2011 LIBOR-based interest rate calculation to a SOFR-based interest rate calculation. On October 7, 2022, as amended, previously entered into between the Company Wells Fargo Capital Finance, LLC and certain other lenders. The again amended the Credit Agreement provides for revolving loans to implement an accordion feature that increased the maximum borrowing amount from \$100.0 million to \$160.0 million, subject to a borrowing base and certain reserves. The Credit Agreement has a remaining accordion which permits an increase in the maximum revolving loan amount from \$100.0 million \$160.0 million up to an aggregate amount of \$170.0 million at the request of the borrower if certain conditions are met. Borrowings under the Credit Agreement bear interest, at the Company's option, at either JPMorgan's "prime rate", plus 1.25% - 1.75% per annum, or the adjusted Eurodollar rate used by the lender, plus 2.25% - 2.75% per annum (with a LIBOR floor of 0.5%). As of June 30, 2022, the Credit Agreement had a \$46.5 million balance.

The Company must pay monthly, in arrears, a commitment fee of 0.425% per annum on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay a fronting fee of 0.125% per annum as well as 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 the greater of (i) 12.5% of the maximum credit revolving loan amount and (ii) \$12.5 million. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met. The Company may pay quarterly cash dividends up to \$3.5 million per fiscal quarter so long as the Company is not in default under the Credit Documents. As of June 30, 2022, the most recent required measurement date under the Credit Agreement, management believes the Company was in compliance with all applicable financial covenants under the Credit Agreement. The Company currently believes it is not at material risk of not meeting its financial covenants over the next twelve months.

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Borrowings under the Credit Agreement 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 met (See Note 8 in the Company's Notes to Consolidated Financial Statements in this Quarterly Report on Form 10-Q) 16). Borrowings under the Credit Documents are also secured by a pledge of a 100% equity interest in each of the Company's direct foreign subsidiaries.

Future sources and uses 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 borrowings under the U.S. revolving credit facility. At June 30, 2022 December 31, 2022, the Company had cash of \$9.4 \$11.5 million, an outstanding balance of \$46.5 million \$88.0 million on the U.S. revolving credit facility (described above) and total remaining borrowing availability against the revolving credit facility of approximately \$53.5 \$72.0 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 regular quarterly dividends declared and working capital requirements over the next twelve months.

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

- Funding operations; operations, including raw material purchases, labor costs, insurance, utilities, equipment maintenance;
- Capital spending, including for purchases of new plant and equipment;
- Dividends to stockholders; and
- Pension and postretirement plan contributions, including an anticipated contribution to the U.S. pension plan of \$4.5 million during the remainder of fiscal 2023.

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The Company expects to fund these uses of cash with existing cash on-hand, cash generated from net income over the next twelve months and additional borrowings from the revolving credit facility.

Capital investment The Company anticipates that cash generated from net income, as a result of increased revenue as the Company works through the record backlog, will have a favorable result on the Company's cash flow from operations in the first nine months later quarters of fiscal 2022 was \$11.5 million, 2023 and total forecasted capital spending in into fiscal 2022 is 2024. Additional demands for inventory are expected to be \$15.0 million, lower than in previous quarters as much of the necessary work-in-process inventory is currently in place. Conversely, the Company has several capital projects underway which will result in higher capital spending than amounts spent in recent quarters which are expected to be funded by cash generated from operations or increased borrowings on the U.S. credit facility, if needed.

[Contractual Obligations](#)

The following table sets forth the Company's contractual obligations and anticipated material uses of cash for the periods indicated, as of June 30, 2022:

Contractual Obligations	Payments Due by Period					
	Less than		More than		(in thousands)	
	Total	1 year	1-3 Years	3-5 Years		
Credit facility(1)	\$ 49,652	\$ 49,521	\$ 131	\$ —	\$ —	
Operating lease obligations	3,237	1,695	1,192	350	—	
Finance lease obligations	13,932	1,021	2,066	2,090	8,755	
Raw material contracts (primarily nickel)	43,427	43,427	—	—	—	
Capital projects and other commitments	1,833	1,833	—	—	—	
Pension plan(2)	20,793	6,095	12,000	2,698	—	
Non-qualified pension plans	551	95	190	190	76	
Other postretirement benefits(3)	83,990	3,459	6,817	6,234	67,480	
Environmental post-closure monitoring	566	71	163	144	188	
Total	\$ 217,981	\$ 107,217	\$ 22,559	\$ 11,706	\$ 76,499	

(1) As of June 30, 2022, the revolver balance was \$46,500. The current obligation also consists of unused line fees and interest on the revolver balance.

(2) The Company has a funding obligation to contribute \$20,793 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.

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See Note 2. Recently Issued Accounting Standards 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, 2022** **December 31, 2022**. 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, 2021** **September 30, 2022** 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, 2022** **December 31, 2022**, there were no material changes to the critical accounting policies and estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of **June 30, 2022** **December 31, 2022**, 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, 2021** **September 30, 2022**.

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, 2022** **December 31, 2022**.

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.

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Item 1. Legal Proceedings

For a discussion of certain legal proceedings, see Note 7 to the Condensed Consolidated Financial Statements included in Part I, Item 1 of the Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to other connection with information set forth in this report, you should consider the risk factors previously disclosed in Part I Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021 and in Part II, Item 1A Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 which September 30, 2022 should be considered. These risks and uncertainties could have a material adverse impact on our business, financial condition and operating results.

The risks described herein and in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q 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.

Item 2. Unregistered Sales of Ukraine Equity Securities and the international community's response have created substantial political and economic disruption, uncertainty and risk.

U.S. and global markets are experiencing volatility and disruption following the escalation Use of geopolitical tensions and the military conflict between Russia and Ukraine. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions, increased cyber-attacks and social unrest in certain regions in which we operate. Although we do not have operations in Russia or Ukraine, we are continuing to monitor the situation and assessing its potential impact on our business. Proceeds

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

Period	Total Number of Shares (or Units) Purchased			Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Value[000's]) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs		
	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)					
		Purchased	Share (or Unit)				
October 1-31, 2022	—	\$	—	—	\$ —		
November 1-30, 2022	15,983		52.41	—	—		
December 1-31, 2022	—		—	—	—		
Total	15,983	\$	52.41	—			

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Exhibits. See Index to Exhibits.

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Second Restated Certificate of Incorporation of Haynes International, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registration Statement on Form S-1, Registration No. 333-140194 filed with the SEC on January 25, 2007).
3.2	Amended and Restated By-Laws of Haynes International, Inc., as amended (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2020 filed with the SEC on April 30, 2020).
10.1	Amendment No. 2 to Credit Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on October 11, 2022).
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, 2022 December 31, 2022 formatted in Inline Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of 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)

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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 28, 2022** February 2, 2023

/s/ Daniel Maudlin

Daniel Maudlin

Vice President — Finance and Chief Financial Officer

Date: **July 28, 2022** February 2, 2023

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Exhibit 31.1

CERTIFICATIONS

I, Michael L. Shor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-159f) and 15(d)-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **July 28, 2022** February 2, 2023

/s/ MICHAEL L. SHOR

Michael L. Shor

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Daniel W. Maudlin, certify that:

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

Date: **July 28, 2022** February 2, 2023

/s/ DANIEL W. MAUDLIN

Daniel W. Maudlin

*Vice President of Finance and
Chief Financial Officer*

Exhibit 32.1

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

I, Daniel W. Maudlin, the Vice President Finance and Chief Financial Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for fiscal quarter ended **June 30, 2022** **December 31, 2022** (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

/s/ DANIEL W. MAUDLIN

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

July 28, 2022 **February 2, 2023**

Date

I, Michael, L. Shor, the President and Chief Executive Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for the fiscal quarter ended **June 30, 2022** **December 31, 2022** (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

/s/ MICHAEL L. SHOR

Michael, L. Shor
President and Chief Executive Officer

July 28, 2022 **February 2, 2023**

Date

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