# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2013**

**or**

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

**For the transition period from to**

**Commission File Number: 001-33288**

# HAYNES INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **06-1185400**<br>(I.R.S. Employer Identification No.) |
| **1020 West Park Avenue, Kokomo, Indiana**<br>(Address of principal executive offices) | **46904-9013**<br>(Zip Code) |

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

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

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

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |

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

As of August 8, 2013, the registrant had 12,332,592 shares of Common Stock, $.001 par value, outstanding.

**HAYNES INTERNATIONAL, INC. AND SUBSIDIARIES**
**QUARTERLY REPORT ON FORM 10-Q**
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**PART 1 FINANCIAL INFORMATION**

Item 1. Financial Statements

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

| | September 30, 2012 | June 30, 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $46,740 | $43,566 |
| Accounts receivable, less allowance for doubtful accounts of $1,249 and $1,181 respectively | 100,631 | 90,243 |
| Inventories | 263,236 | 255,788 |
| Income taxes receivable | 4,153 | 2,325 |
| Deferred income taxes | 9,933 | 9,354 |
| Other current assets | 1,532 | 1,996 |
| Total current assets | 426,225 | 403,272 |
| Property, plant and equipment, net | 124,652 | 147,982 |
| Deferred income taxes—long term portion | 68,255 | 63,658 |
| Prepayments and deferred charges | 1,777 | 1,878 |
| Intangible assets, net | 6,017 | 5,705 |
| Total assets | $626,926 | $622,495 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $37,471 | $30,740 |
| Accrued expenses | 15,157 | 16,014 |
| Revolving credit facility | — | — |
| Accrued pension and postretirement benefits | 21,065 | 21,065 |
| Deferred revenue—current portion | 2,500 | 2,500 |
| Total current liabilities | 76,193 | 70,319 |
| Long-term obligations (less current portion) | 980 | 980 |
| Deferred revenue (less current portion) | 32,829 | 30,954 |
| Non-current income taxes payable | 339 | — |
| Accrued pension and postretirement benefits | 215,487 | 205,784 |
| Total liabilities | 325,828 | 308,037 |
| Commitments and contingencies (Note 6) | — | — |
| Stockholders' equity: | | |
| Common stock, $0.001 par value (40,000,000 shares authorized, 12,287,790 and 12,342,585 shares issued, and 12,287,790 and 12,332,592 outstanding at September 30, 2012 and June 30, 2013, respectively) | 12 | 12 |
| Preferred stock, $0.001 par value (20,000,000 shares authorized, 0 shares issued and outstanding) | — | — |
| Additional paid-in capital | 236,751 | 239,040 |
| Accumulated earnings | 163,426 | 172,858 |
| Treasury stock, 0 shares at September 30, 2012 and 9,993 shares at June 30, 2013 | — | (505) |
| Accumulated other comprehensive loss | (99,091) | (96,947) |
| Total stockholders' equity | 301,098 | 314,458 |
| Total liabilities and stockholders' equity | $626,926 | $622,495 |

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2013** | **2012** | **2013** |
| Net revenues | $141,574 | $123,587 | $429,307 | $367,088 |
| Cost of sales | 109,185 | 104,982 | 338,892 | 309,625 |
| Gross profit | 32,389 | 18,605 | 90,415 | 57,463 |
| Selling, general and administrative expense | 10,382 | 9,761 | 30,885 | 28,986 |
| Research and technical expense | 835 | 853 | 2,414 | 2,563 |
| Operating income | 21,172 | 7,991 | 57,116 | 25,914 |
| Interest income | (57) | (29) | (152) | (83) |
| Interest expense | 19 | 18 | 69 | 52 |
| Income before income taxes | 21,210 | 8,002 | 57,199 | 25,945 |
| Provision for income taxes | 7,478 | 2,705 | 19,873 | 8,377 |
| Net income | $13,732 | $5,297 | $37,326 | $17,568 |
| Net income per share: | | | | |
| Basic | $1.12 | $0.43 | $3.05 | $1.43 |
| Diluted | $1.11 | $0.43 | $3.03 | $1.42 |
| Dividend declared per common share | $0.22 | $0.22 | $0.66 | $0.66 |

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2012** | **2013** | **2012** | **2013** |
| Net income | $13,732 | $5,297 | $37,326 | $17,568 |
| Other comprehensive income, net of tax: | | | | |
| Pension and post-retirement | — | 4,304 | — | 4,304 |
| Foreign currency translation adjustment | (1,589) | 240 | (651) | (2,160) |
| Comprehensive income | $12,143 | $9,841 | $36,675 | $19,712 |

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

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

| | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 37,326 | $ 17,568 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 9,366 | 9,975 |
| Amortization | 319 | 312 |
| Pension and post-retirement expense - U.S. and U.K. | 11,784 | 12,094 |
| Stock compensation expense | 1,559 | 1,197 |
| Excess tax benefit from option exercises and restricted stock vesting | (1,147) | (494) |
| Deferred revenue | (1,875) | (1,875) |
| Deferred income taxes | 2,057 | 2,250 |
| Loss on disposal of property | 167 | 183 |
| Change in assets and liabilities: | | |
| Accounts receivable | 5,975 | 9,072 |
| Inventories | (41,436) | 5,500 |
| Other assets | 595 | (567) |
| Accounts payable and accrued expenses | 1,123 | (4,502) |
| Income taxes | 4,031 | 2,633 |
| Accrued pension and postretirement benefits | (15,880) | (15,155) |
| Net cash provided by operating activities | 13,964 | 38,191 |
| **Cash flows from investing activities:** | | |
| Additions to property, plant and equipment | (17,134) | (33,650) |
| Net cash used in investing activities | (17,134) | (33,650) |
| **Cash flows from financing activities:** | | |
| Dividends paid | (8,101) | (8,136) |
| Proceeds from exercise of stock options | 1,635 | 598 |
| Payment for purchase of treasury stock | — | (505) |
| Excess tax benefit from option exercises and restricted stock vesting | 1,147 | 494 |
| Net cash used in financing activities | (5,319) | (7,549) |
| Effect of exchange rates on cash | (227) | (166) |
| Decrease in cash and cash equivalents | (8,716) | (3,174) |
| Cash and cash equivalents, beginning of period | 60,062 | 46,740 |
| Cash and cash equivalents, end of period | $ 51,346 | $ 43,566 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during period for: | | |
| Interest (net of capitalized interest) | $ 20 | $ 4 |
| Income taxes paid (net of refunds) | $ 13,801 | $ 3,354 |
| Capital expenditures incurred but not yet paid | $ 513 | $ 2,272 |

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

**(in thousands, except share and per share data)**

## Note 1. Basis of Presentation

*Interim Financial Statements*

The accompanying unaudited condensed interim consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and such principles are applied on a basis consistent with information reflected in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012 filed with the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC related to interim financial statements. In the opinion of management, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments, which are necessary for a fair presentation of results for the respective interim periods. The results of operations for the three or nine months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full fiscal year ending September 30, 2013 or any interim period.

*Principles of Consolidation*

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

## Note 2. New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The standard revises the guidance for providing information about the amounts reclassified out of accumulated other comprehensive income. It became effective for fiscal years beginning after December 15, 2012. The Company adopted this accounting standard on January 1, 2013, and the impact to the consolidated financial statements was not material.

No new accounting pronouncements applicable to the Company were issued in the third quarter of fiscal 2013.

## Note 3. Inventories

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

| | September 30, 2012 | June 30, 2013 |
|---|---|---|
| Raw Materials | $27,654 | $29,987 |
| Work-in-process | 129,642 | 119,681 |
| Finished Goods | 104,875 | 105,005 |
| Other | 1,065 | 1,115 |
| | $263,236 | $255,788 |

## Note 4. Income Taxes

Income tax expense for the three and nine months ended June 30, 2012 and 2013 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and differing tax rates on foreign earnings. The effective tax rate for the three months ended June 30, 2013 was 33.8% compared to 35.3% in the same period of fiscal 2012. The effective tax rate for the nine months ended June 30, 2013 was 32.3% compared to 34.7% in the same period of fiscal 2012. The decrease in the nine month effective tax rate is attributable to a reversal of certain tax reserves no longer required and a change in law in the state of California related to apportionment. This change resulted in an increase to the deferred tax asset which caused a favorable impact on the effective tax rate.

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

Components of net periodic pension and post-retirement benefit cost for the three and nine months ended June 30, 2012 and 2013 were as follows:

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | Pension Benefits | | Other Benefits | | Pension Benefits | | Other Benefits | |
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| Service cost | $1,000 | $1,220 | $72 | $97 | $3,001 | $3,661 | $218 | $291 |
| Interest cost | 2,567 | 2,556 | 1,146 | 1,082 | 8,115 | 7,751 | 3,436 | 3,246 |
| Expected return | (2,537) | (3,138) | — | — | (8,102) | (9,500) | — | — |
| Amortizations | 2,436 | 2,727 | (749) | (518) | 7,359 | 8,198 | (2,243) | (1,553) |
| Net periodic benefit cost | $3,466 | $3,365 | $469 | $661 | $10,373 | $10,110 | $1,411 | $1,984 |

The Company contributed $11,250 to Company-sponsored domestic pension plans, $3,150 to its other post-retirement benefit plans and $703 to the U.K. pension plan for the nine months ended June 30, 2013. The Company expects future contributions of $3,750 to its domestic pension plans, $1,850 to its other post-retirement benefit plans and $267 to the U.K. pension plan for the remainder of fiscal 2013.

**Note 6. Legal, Environmental and Other Contingencies**

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

The Company is currently, and has in the past, been subject to claims involving personal injuries allegedly relating to its products. For example, the Company is presently involved in two actions involving welding rod-related injuries, which were filed in California state court against numerous manufacturers, including the Company, in May 2006 and February 2007, respectively, alleging that the welding-related products of the defendant manufacturers harmed the users of such products through the inhalation of welding fumes containing manganese. The Company believes that it has defenses to these allegations and that, if the Company were to be found liable, the cases would not have a material effect on its financial position, results of operations or liquidity.

The Company has received permits from the Indiana Department of Environmental Management, or IDEM, to close and to provide post-closure monitoring and care for certain areas at the Kokomo facility previously used for the storage and disposal of wastes, some of which are classified as hazardous under applicable regulations. Closure certification was received in fiscal 1988 for the South Landfill at the Kokomo facility and post-closure monitoring and care is ongoing there. Closure certification was received in fiscal 1999 for the North Landfill at the Kokomo facility and post-closure monitoring and care are permitted and ongoing there. In fiscal 2007, IDEM issued a single post-closure permit applicable to both the North and South Landfills, which contains monitoring and post-closure care requirements. In addition, IDEM required that a Resource Conservation and Recovery Act, or RCRA, Facility Investigation, be conducted in order to further evaluate one area of concern and one solid waste management unit. The Facility Investigation commenced in fiscal 2008 and is ongoing.

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

On August 3, 2012, the Company received an information request from the United States Environmental Protection

Agency. The information requested relates to the Company's compliance with laws relating to air quality. The Company has responded to the request and is awaiting further communication from the agency.

As of September 30, 2012 and June 30, 2013, the Company has accrued $1,071 for post-closure monitoring and maintenance activities. 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 30-year post-closure monitoring period referred to above. At each fiscal year end, or earlier if necessary, the Company evaluates the accuracy of the estimates for these monitoring and maintenance costs for the upcoming fiscal year. The accrual was based upon the undiscounted amount of the obligation of $1,254 which was then discounted using an appropriate discount rate.

**Note 7. Deferred Revenue**

On November 17, 2006, the Company entered into a twenty-year agreement to provide conversion services to Titanium Metals Corporation ("TIMET") for up to ten million pounds of titanium metal annually. TIMET paid the Company a $50,000 up-front fee and will also pay the Company for its processing services to the extent TIMET places orders for such services during the term of the agreement (20 years) at prices established by the terms of the agreement. TIMET may exercise an option to have ten million additional pounds of titanium converted annually, provided that it offers to loan up to $12,000 to the Company for certain capital expenditures which may be required to expand capacity. In addition to the volume commitment, the Company has granted TIMET a 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 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 the Company being required to return the unearned portion of the upfront fee. The up-front fee received of $50,000 is recognized in income on a straight-line basis over the 20-year term of the agreement. The portion of the up-front fee not recognized in income is shown as deferred revenue on the consolidated balance sheet.

**Note 8. Intangible Assets**

The Company has patents, trademarks and other intangibles. As the patents have a definite life, they are amortized over lives ranging from two to fourteen years. The Company reviews patents for impairment whenever events or circumstances indicate that the carrying amount of a patent may not be recoverable. Recoverability of the patent asset is measured by a comparison of the carrying amount of the asset to the undiscounted future 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.

As the trademarks have an indefinite life, the Company tests them for impairment at least annually as of August 31 (the annual impairment testing date). If the carrying value exceeds the fair value (determined by calculating a fair value 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. No impairment was recognized in the year ended September 30, 2012 because the fair value exceeded the carrying values. The Company also has non-compete agreements with remaining lives of 2 years.

Amortization of the patents, non-competes and other intangibles was $104 for the three months ended June 30, 2012 and 2013, and $319 and $312 for the nine months ended June 30, 2012 and 2013, respectively.

The following represents a summary of intangible assets at September 30, 2012 and June 30, 2013:

| **September 30, 2012** | **Gross Amount** | **Accumulated Amortization** | **Carrying Amount** |
|---|---|---|---|
| Patents | $8,667 | $(6,891) | $1,776 |
| Trademarks | 3,800 | - | 3,800 |
| Non-compete | 1,090 | (900) | 190 |
| Other | 330 | (79) | 251 |
| | $13,887 | $(7,870) | $6,017 |

| June 30, 2013 | Gross Amount | Accumulated Amortization | Carrying Amount |
|---|---|---|---|
| Patents | $4,030 | $(2,463) | $1,567 |
| Trademarks | 3,800 | — | 3,800 |
| Non-compete | 500 | (363) | 137 |
| Other | 330 | (129) | 201 |
| | $8,660 | $(2,955) | $5,705 |

| Estimate of Aggregate Amortization Expense: Year Ended September 30, | |
|---|---|
| 2013 (remainder of fiscal year) | 104 |
| 2014 | 416 |
| 2015 | 393 |
| 2016 | 332 |
| 2017 | 279 |
| Thereafter | 381 |

**Note 9. Net Income Per Share**

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

Basic and diluted net income per share were computed as follows:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands, except share and per share data)** | **2012** | **2013** | **2012** | **2013** |
| *Numerator:* | | | | |
| Net income | $13,732 | $5,297 | $37,326 | $17,568 |
| Less amount allocable to participating securities | (123) | (41) | (335) | (138) |
| Net income available for basic shareholders | 13,609 | 5,256 | 36,991 | 17,430 |
| Adjustment for dilutive potential common shares | 1 | — | 2 | — |
| Net income available for diluted common shares | $13,610 | $5,256 | $36,993 | $17,430 |
| *Denominator:* | | | | |
| Weighted average shares - Basic | 12,175,935 | 12,235,842 | 12,137,237 | 12,219,793 |
| Adjustment for dilutive potential common shares | 64,600 | 40,121 | 74,588 | 42,566 |
| Weighted average shares - Diluted | 12,240,535 | 12,275,963 | 12,211,825 | 12,262,359 |
| Basic net income per share | $1.12 | $0.43 | $3.05 | $1.43 |
| Diluted net income per share | $1.11 | $0.43 | $3.03 | $1.42 |
| Number of stock option shares excluded as their effect would be anti-dilutive | 80,380 | 156,540 | 80,380 | 175,317 |

Anti-dilutive shares with respect to outstanding stock options have been properly excluded from the computation of diluted net income per share.

**Note 10. Stock-Based Compensation**

**Restricted Stock Plan**

On February 23, 2009, the Company adopted a restricted stock plan that reserved 400,000 shares of common stock for issuance. Shares of restricted stock vest in accordance with the terms and conditions established by the Compensation Committee. The Compensation Committee may set restrictions on certain grants based on the achievement of specific performance goals, and vesting of grants to participants may also be time-based.

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

On November 20, 2012, November 26, 2012, and December 10, 2012, the Company granted 31,950, 3,000 and 1,100 shares, respectively, of restricted stock to certain key employees and non-employee directors. The shares of restricted stock granted to employees will vest on the third anniversary of their grant date, provided that (a) the recipient is still an employee of the Company and (b) the Company has met a three-year net income performance goal, if applicable. The shares of restricted stock granted to non-employee directors will vest on the earlier of (a) the third anniversary of the date of grant or (b) the failure of such non-employee director to be re-elected at an annual meeting of the stockholders of the Company as a result of such non-employee director being excluded from the nominations for any reason other than cause. The fair value of the grants were $47.96, $47.62 and $48.39 per share, respectively, the closing price of the Company's common stock on the trading day immediately preceding the day of the applicable grant.

The following table summarizes the activity under the restricted stock plan for the nine months ended June 30, 2013:

| | **Number of Shares** | **Weighted Average Fair Value At Grant Date** |
|---|---|---|
| Unvested at September 30, 2012 ...................... | 111,000 | $42.32 |
| Granted ............................................................ | 36,050 | $47.94 |
| Forfeited / Canceled.......................................... | (11,800) | $42.23 |
| Vested ............................................................... | (38,500) | $34.00 |
| Unvested at June 30, 2013 ................................ | 96,750 | $47.74 |
| Expected to vest ............................................... | 96,750 | $47.74 |

Compensation expense related to restricted stock for the three months ended June 30, 2012 and 2013 was $387 and $379, respectively, and for the nine months ended June 30, 2012 and 2013 was $1,129 and $882, respectively. The remaining unrecognized compensation expense at June 30, 2013 was $2,331, to be recognized over a weighted average period of 1.51 years.

In the nine months ended June 30, 2013, the Company repurchased 9,993 shares of stock from employees at an average purchase price per share of $50.51 to satisfy required withholding taxes on stock-based compensation.

**Stock Option Plans**

The Company has two stock option plans that authorize the granting of non-qualified stock options to certain key employees and non-employee directors for the purchase of a maximum of 1,500,000 shares of the Company's common stock. The original option plan was adopted in August 2004 pursuant to the plan of reorganization and provides for the grant of options to purchase up to 1,000,000 shares of the Company's common stock. In January 2007, the Company's Board of Directors adopted a second option plan that provides for options to purchase up to 500,000 shares of the Company's common stock. Each plan provides for the adjustment of the maximum number of shares for which options may be granted in the event of a stock split, extraordinary dividend or distribution or similar recapitalization event.

Unless the Compensation Committee determines otherwise, options granted under the option plans are exercisable for a period of ten years from the date of grant and vest 33 1/3% per year over three years from the grant date.

The fair value of option grants was estimated as of the date of the grant. The Company has elected to use the Black-Scholes option pricing model, which incorporates various assumptions including volatility, expected life, risk-free interest rates, expected forfeitures and dividend yields. The volatility is based on historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected term of the stock option granted. The Company uses historical volatility because management believes such volatility is representative of prospective trends. The expected term of an award is based on historical exercise data. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the awards. The expected forfeiture rate is based upon historical experience. The dividend yield assumption is based on the Company's history and expectation regarding dividend payouts at the time of the grant. Valuation of future grants under the Black-Scholes model will include a dividend yield. The following assumptions were used for grants in the first quarter of fiscal 2013:

| Grant Date | Fair Value | Dividend Yield | Risk-free Interest Rate | Expected Volatility | Expected Life |
|---|---|---|---|---|---|
| November 20, 2012............. | $13.92 | 1.83% | 0.32% | 47% | 3 years |
| December 10, 2012............. | $14.12 | 1.82% | 0.33% | 47% | 3 years |

On November 20, 2012 and December 10, 2012, the Company granted 35,600 and 1,800 options, respectively, at an exercise price of $47.96 and $48.39, respectively, the fair market value of the Company’s common stock the day of the grant. During the first nine months of fiscal 2013, 30,545 options were exercised and 33,967 options were forfeited/canceled.

The stock-based employee compensation expense for stock options for the three months ended June 30, 2012 and 2013 was $130 and $107, respectively, and for the nine months ended June 30, 2012 and 2013 was $431 and $316, respectively. The remaining unrecognized compensation expense at June 30, 2013 was $630, to be recognized over a weighted average vesting period of 1.39 years.

The following table summarizes the activity under the stock option plans for the nine months ended June 30, 2013:

| | Number of Shares | Aggregate Intrinsic Value (000s) | Weighted Average Exercise Prices | Weighted Average Remaining Contractual Life |
|---|---|---|---|---|
| Outstanding at September 30, 2012... | 318,776 | | $44.05 | |
| Granted ..................................... | 37,400 | | $47.98 | |
| Exercised.................................... | (30,545) | | $19.57 | |
| Canceled .................................... | (33,967) | | $59.11 | |
| Outstanding at June 30, 2013 ........... | 291,664 | $2,080 | $45.36 | 5.42 yrs. |
| Vested or expected to vest................ | 283,214 | $2,419 | $45.30 | 5.33 yrs. |
| Exercisable at June 30, 2013 ............ | 233,962 | $2,386 | $44.51 | 4.55 yrs. |

| Grant Date | Exercise Price Per Share | Remaining Contractual Life in Years | Outstanding Number of Shares | Exercisable Number of Shares |
|---|---|---|---|---|
| August 31, 2004 ........................ | $12.80 | 1.17 | 32,207 | 32,207 |
| March 31, 2006 ......................... | 31.00 | 2.75 | 10,000 | 10,000 |
| March 30, 2007 ......................... | 72.93 | 3.75 | 47,500 | 47,500 |
| March 31, 2008 ......................... | 54.00 | 4.75 | 58,000 | 58,000 |
| October 1, 2008......................... | 46.83 | 5.25 | 20,000 | 20,000 |
| March 31, 2009 ......................... | 17.82 | 5.75 | 20,089 | 20,089 |
| January 8, 2010 ........................ | 34.00 | 6.50 | 25,801 | 25,801 |
| November 24, 2010 .................. | 40.26 | 7.42 | 20,967 | 13,800 |
| November 25, 2011 .................. | 55.88 | 8.42 | 19,700 | 6,565 |
| November 20, 2012 .................. | 47.96 | 9.42 | 35,600 | - |
| December 10, 2012................... | 48.39 | 9.42 | 1,800 | - |
| | | | 291,664 | 233,962 |

**Note 11. Dividend**

In the third quarter of fiscal 2013, the Company declared and paid a quarterly cash dividend. The dividend of $0.22 per outstanding share of the Company's common stock was paid June 17, 2013 to stockholders of record at the close of business on June 3, 2013. The dividend cash pay-out was approximately $2,713 for the quarter based on the number of shares outstanding. For the nine months ended June 30, 2013, dividend cash payouts were $8,136.

On August 8, 2013, 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 16, 2013 to stockholders of record at the close of business on September 3, 2013.

**Note 12. Fair Value Measurements**

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

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

When available, the Company uses unadjusted quoted market prices to measure fair value and classifies such items within Level 1. If quoted market prices are not available, fair value is based upon internally-developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally-generated models are classified according to the lowest level input or value driver that is significant to the valuation. If quoted market prices are not available, the valuation model used depends on the specific asset or liability being valued. A portion of the Company's pension plan assets are in a common collective trust that is considered within Level 2. To determine the fair value of these assets, the Company uses the quoted market prices of the underlying assets of the common collective trust.

The following table represents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and June 30, 2013:

| | September 30, 2012 | | | |
|---|---|---|---|---|
| | Fair Value Measurements at Reporting Date Using: | | | |
| **Assets:** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and money market funds | $46,740 | $— | $— | $46,740 |
| U.S. Pension plan assets | | | | |
| U.S. common stock mutual fund | 30,239 | — | — | 30,239 |
| Common /collective funds | | | | |
| Bonds | — | 62,554 | — | 62,554 |
| Short-term money market | — | 6,762 | — | 6,762 |
| U.S. common stock | — | 59,677 | — | 59,677 |
| International equity | — | 7,053 | — | 7,053 |
| | 30,239 | 136,046 | — | 166,285 |
| U.K. Plan Assets | | | | |
| Equity funds | 6,322 | — | — | 6,322 |
| Bond funds | 7,297 | — | — | 7,297 |
| Other funds | 2,107 | — | — | 2,107 |
| | 15,726 | — | — | 15,726 |
| Total pension plan assets | 45,965 | 136,046 | — | 182,011 |
| Total fair value | $92,705 | $136,046 | $— | $228,751 |

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Fair Value Measurements at Reporting Date Using: | | | |
| **Assets:** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and money market funds | $43,566 | $— | $— | $43,566 |
| U.S. Pension plan assets | | | | |
| U.S. common stock mutual fund | 35,868 | — | — | 35,868 |
| Common /collective funds | | | | |
| Bonds | — | 73,954 | — | 73,954 |
| Short-term money market | — | 2,739 | — | 2,739 |
| U.S. common stock | — | 60,137 | — | 60,137 |
| International equity | — | 7,542 | — | 7,542 |
| | 35,868 | 144,372 | — | 180,240 |
| U.K. Plan Assets | | | | |
| Equity funds | 6,772 | — | — | 6,772 |
| Bond funds | 1,705 | — | — | 1,705 |
| Other funds | 7,763 | — | — | 7,763 |
| | 16,240 | — | — | 16,240 |
| Total pension plan assets | 52,108 | 144,372 | — | 196,480 |
| Total fair value | $95,674 | $144,372 | $— | $240,046 |

The Company had no Level 3 assets as of September 30, 2012 or June 30, 2013.

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

| | Three Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | Pension Plan | Postretirement Plan | Foreign Exchange | Total |
| Accumulated other comprehensive income (loss) as of March 31, 2013 | $(75,262) | $ (24,778) | $ (1,451) | $(101,491) |
| Other comprehensive income (loss) before classifications | - | - | 240 | 240 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 5,314 | (1,010) | - | 4,304 |
| Net current-period other comprehensive income (loss) | 5,314 | (1,010) | 240 | 4,544 |
| Accumulated other comprehensive income (loss) as of June 30, 2013 | $(69,948) | $ (25,788) | $ (1,211) | $(96,947) |

| | Nine Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | Pension Plan | Postretirement Plan | Foreign Exchange | Total |
| Accumulated other comprehensive income (loss) as of September 30, 2012 | $(75,262) | $ (24,778) | $ 949 | $(99,091) |
| Other comprehensive income (loss) before classifications | - | - | (2,160) | (2,160) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 5,314 | (1,010) | - | 4,304 |
| Net current-period other comprehensive income (loss) | 5,314 | (1,010) | (2,160) | 2,144 |
| Accumulated other comprehensive income (loss) as of June 30, 2013 | $(69,948) | $ (25,788) | $ (1,211) | $(96,947) |

Reclassifications out of Accumulated Other Comprehensive Income

| | Three and Nine Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| Amortization of Pension and Postretirement Plan items | Pension Plan | Postretirement Plan | Total | |
| Prior Service Costs | $ (606) | $ 4,342 | $ 3,736 | (a) |
| Actuarial (losses) | (7,570) | (2,788) | (10,358) | (a) |
| Total before tax | (8,176) | 1,554 | (6,622) | |
| Tax (expense) or benefit | 2,862 | (544) | 2,318 | Provision for income taxes |
| Total reclassification for the period | $(5,314) | $ 1,010 | $ (4,304) | |

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

The total amount reclassified from Accumulated Other Comprehensive Income during the three months ended June 30, 2013 of $4,304 included $2,870 which relates to the period ended March 31, 2013.

## 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 year 2013 and beyond, overall volume and pricing trends, cost reduction strategies and their anticipated results, capital expenditures and dividends. There may also be other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, many of which are beyond the Company's control.*

*The Company has based these forward-looking statements on its current expectations and projections about future events. Although the Company believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based upon those assumptions also could be incorrect. Risks and uncertainties may affect the accuracy of forward-looking statements. Some, but not all, of those risks are listed in Item 1A. of Part 1 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012.*

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

### Business Overview

Haynes International, Inc. ("Haynes" or "the Company") is one of the world's largest producers of high-performance nickel- and cobalt-based alloys in sheet, coil and plate forms. The Company is focused on developing, manufacturing, marketing and distributing technologically advanced, high-performance alloys, which are sold primarily in the aerospace, chemical processing and land-based gas turbine industries. The Company's products consist of high-temperature resistant alloys, or HTA products, and corrosion-resistant alloys, or CRA products. HTA products are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace market, gas turbine engines used for power generation and waste incineration and industrial heating 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 four principal producers of high-performance alloy products in sheet, coil and plate forms. The Company also produces its products as seamless and welded tubulars, and in slab, bar, billet and wire forms.

The Company has manufacturing facilities in Kokomo, Indiana; Arcadia, Louisiana; and Mountain Home, North Carolina. The Kokomo facility specializes in flat products, the Arcadia facility specializes in tubular products, and the Mountain Home facility specializes in wire products. The Company's products are sold primarily through its direct sales organization, which includes 13 service and/or sales centers in the United States, Europe and Asia. All of these centers are Company-operated.

### Volumes, Competition and Pricing

The Company continues to experience lower volumes, lower nickel prices and increased price competition in the marketplace relative to fiscal 2012, particularly in commodity-type alloys in mill-direct project business. This competition continues to require the Company to aggressively price project business orders in these markets, which has unfavorably impacted the Company's gross profit margin and net income. With reduced mill-direct lead times, downward pressure on prices for service center transactional business also continues to occur. The lower volumes processed through the mill also reduce absorption of fixed costs resulting in additional margin compression. Cost reduction efforts are being implemented along with careful review of discretionary spending.

**Capital Investment**

Even though the markets in which the Company participates are currently experiencing a period of lower demand, management continues to believe in the long-term growth potential of the aerospace, land-based gas turbine and chemical processing markets. Therefore, the Company is continuing to implement its strategy regarding the previously announced capital investment projects in line with plans to meet the expected long-term growth requirements of those target markets.

An initiative has been implemented that is designed to delay spending on non-strategic projects. Each planned capital project has been analyzed to determine if, given the Company's current lower business volumes, the timing of project execution is proper. As a result of this analysis, the forecasted capital expenditures have been reduced from $70 million to approximately $48 million for fiscal year 2013. Capital investment in the third quarter of fiscal 2013 was approximately $10.9 million, which brings capital investment to approximately $33.7 million for the first nine months of fiscal 2013. The forecasts for capital investment in fiscal 2013 and fiscal 2014 are approximately $48.0 million and $50.0 million, respectively.

The actual and planned capital investments of approximately $123.9 million over the three year period of fiscal 2012 through 2014 are expected to allow the Company to increase capacity, enhance product quality, reduce costs and improve working capital management. The Company anticipates that these significant investments will help the Company improve efficiency and meet expected long-term customer demand for increased volume and quality improvements.

**Dividends Paid and Declared**

In the third quarter of fiscal 2013, the Company declared and paid a regular quarterly cash dividend of $0.22 per outstanding share of the Company's common stock. The dividend was paid June 17, 2013 to stockholders of record at the close of business on June 3, 2013. The dividend cash pay-out was approximately $2.7 million for the quarter based on the number of shares outstanding, and equal to approximately $10.8 million on an annualized basis. For the nine months ended June 30, 2013, dividend cash payouts were $8.1 million.

On August 8, 2013, 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 16, 2013 to stockholders of record at the close of business on September 3, 2013.

**Subsequent Event**

On July 2, 2013, the membership of United Steelworkers Local 2958 (USW) ratified a five-year agreement covering approximately 505 employees at the Company's Kokomo, Indiana plant and Lebanon, Indiana service center. The new agreement succeeded a three-year agreement that ran through June 30, 2013.

**Backlog**

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

| | Quarter Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | **December 31, 2011** | **March 31, 2012** | **June 30, 2012** | **September 30, 2012** | **December 31, 2012** | **March 31, 2013** | **June 30, 2013** |
| **Backlog** [1] | | | | | | | |
| Dollars (in thousands) ............ | $261,811 | $264,245 | $241,151 | $222,870 | $211,726 | $206,994 | $189,628 |
| Pounds (in thousands) ........... | 8,547 | 8,853 | 7,951 | 6,866 | 6,905 | 7,362 | 6,185 |
| Average selling price per pound | $30.63 | $29.85 | $30.33 | $32.46 | $30.66 | $28.12 | $30.66 |
| **Average nickel price per pound** | | | | | | | |
| London Metals Exchange[2] | $8.23 | $8.49 | $7.50 | $7.81 | $7.90 | $7.59 | $6.47 |

(1) The Company defines backlog to include firm commitments from customers for delivery of product at established prices. Approximately 30% of the orders in the backlog at any given time include prices that are subject to adjustment based on changes in raw material costs. Historically, approximately 75% of the backlog orders have shipped within 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.

Backlog was $189.6 million at June 30, 2013, a decrease of approximately $17.4 million, or 8.4%, from $207.0 million at March 31, 2013. The backlog dollars declined during the third quarter of fiscal 2013 due to a 16.0% decrease in backlog pounds for the quarter, partially offset by a 9.0% increase in backlog average selling price. The reduction in the backlog during the third quarter resulted from reduced order entry volumes and a change in mix of products in the backlog.

Management believes that destocking continues in the supply chain causing lower order entry volumes. In addition, customers continue to exercise caution in making purchases due to the decreasing cost of nickel. The backlog for the land-based gas turbine and chemical processing markets declined in the third quarter of fiscal 2013. The backlog for the aerospace market was comparable to that of the third quarter of fiscal 2013.

### Quarterly Market Information

The following table includes a breakdown of net revenues, shipments and average selling prices to the markets served by the Company. This should be read in conjunction with the consolidated financial statements and related notes thereto and the remainder of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-Q.

| | Quarter Ended | | | | | | |
|---|---|---|---|---|---|---|---|
| | **December 31, 2011** | **March 31, 2012** | **June 30, 2012** | **September 30, 2012** | **December 31, 2012** | **March 31, 2013** | **June 30, 2013** |
| **Net revenues** (in thousands) | | | | | | | |
| Aerospace | $52,726 | $61,901 | $55,908 | $59,378 | $52,272 | $49,319 | $51,015 |
| Chemical processing | 29,688 | 37,833 | 32,565 | 34,553 | 26,287 | 33,895 | 31,824 |
| Land-based gas turbines | 30,104 | 32,167 | 27,971 | 28,940 | 22,628 | 30,248 | 24,199 |
| Other markets | 12,721 | 23,082 | 21,280 | 24,477 | 10,618 | 12,034 | 14,677 |
| Total product revenue | 125,239 | 154,983 | 137,724 | 147,348 | 111,805 | 125,496 | 121,715 |
| Other revenue | 3,612 | 3,899 | 3,850 | 2,906 | 2,495 | 3,705 | 1,872 |
| **Net revenues** | $128,851 | $158,882 | $141,574 | $150,254 | $114,300 | $129,201 | $123,587 |
| **Shipments by markets** (in thousands of pounds) | | | | | | | |
| Aerospace | 1,970 | 2,421 | 2,175 | 2,368 | 2,116 | 1,981 | 2,077 |
| Chemical processing | 1,121 | 1,500 | 1,304 | 1,358 | 986 | 1,429 | 1,386 |
| Land-based gas turbines | 1,585 | 1,771 | 1,559 | 1,605 | 1,261 | 1,809 | 1,599 |
| Other markets | 456 | 782 | 673 | 739 | 322 | 362 | 478 |
| **Total shipments** | 5,132 | 6,474 | 5,711 | 6,070 | 4,685 | 5,581 | 5,540 |
| **Average selling price per pound** | | | | | | | |
| Aerospace | $26.76 | $25.57 | $25.70 | $25.08 | $24.70 | $24.90 | $24.56 |
| Chemical processing | 26.48 | 25.22 | 24.97 | 25.44 | 26.66 | 23.72 | 22.96 |
| Land-based gas turbines | 18.99 | 18.16 | 17.94 | 18.03 | 17.94 | 16.72 | 15.13 |
| Other markets | 27.90 | 29.52 | 31.62 | 33.12 | 32.98 | 33.24 | 30.71 |
| **Total product** (excluding other revenue) | 24.40 | 23.94 | 24.12 | 24.27 | 23.86 | 22.49 | 21.97 |
| **Total average selling price** (including other revenue) | 25.11 | 24.54 | 24.79 | 24.75 | 24.40 | 23.15 | 22.31 |

**Net Revenue and Gross Profit Margin Performance**

The following table includes a summary of net revenues, gross profit and gross profit margin percentage of the Company. This should be read in conjunction with the consolidated financial statements and related notes thereto and the remainder of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-Q.

| | Comparison by Quarter of Gross Profit and Gross Profit Margin Percentage for Fiscal 2012 and 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Quarter Ended | | | | | | |
| (dollars in thousands) | December 31, 2011 | March 31, 2012 | June 30, 2012 | September 30, 2012 | December 31, 2012 | March 31, 2013 | June 30, 2013 |
| Net Revenues .......................... | $128,851 | $158,882 | $141,574 | $150,254 | $114,300 | $129,201 | $123,587 |
| Gross Profit ............................. | $23,491 | $34,535 | $32,389 | $30,425 | $18,774 | $20,084 | $18,605 |
| Gross Profit Margin % ............. | 18.2% | 21.7% | 22.9% | 20.2% | 16.4% | 15.5% | 15.1% |

The third quarter of fiscal 2013 revenue and gross profit was lower than the second quarter of fiscal 2013, including a decline in the gross profit margin percentage. Net revenues decreased by $5.6 million from the second quarter of fiscal 2013, volume decreased by 0.04 million pounds and net income decreased by $1.1 million. Average selling price per pound continues to be negatively impacted by lower nickel prices, increased competition and lower value mix.

**Outlook**

*Guidance*

Due to the recent lower order entry volumes and pricing, management currently expects that net income for the fourth quarter of fiscal 2013 to be lower than the net income for the third quarter of fiscal 2013. Net income is expected to continue to be unfavorably impacted by lower volumes and weaker pricing similar to that experienced during the second and third quarters. Visibility in the marketplace remains poor and, based upon continued economic uncertainty, level of bookings to date and feedback from key customers, management does not anticipate a recovery during the fourth quarter of fiscal 2013.

*Working Capital*

Controllable working capital, which includes accounts receivable, inventory, accounts payable and accrued expenses, was $299.3 million at June 30, 2013, a decrease of $12.0 million or 3.8% from $311.2 million at September 30, 2012. This decrease of $12.0 million resulted from accounts receivable decreasing by $10.4 million and inventory decreasing by $7.4 million partially offset by accounts payable and accrued expenses decreasing by $5.8 million from the end of the fourth quarter of fiscal 2012. Improvement is expected in working capital as a percentage of net revenues in the fourth quarter of fiscal 2013 primarily driven by expected further decreases in inventory.

**Results of Operations for the three months ended June 30, 2012 compared to the three months ended June 30, 2013**

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

| ($ in thousands) | Three Months Ended June 30, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | Amount | % |
| Net revenues ............................................ | $141,574 | 100.0% | $123,587 | 100.0% | ($17,987) | (12.7%) |
| Cost of sales............................................. | 109,185 | 77.1% | 104,982 | 84.9% | (4,203) | (3.8%) |
| Gross profit............................................... | 32,389 | 22.9% | 18,605 | 15.1% | (13,784) | (42.6%) |
| Selling, general and administrative expense........................... | 10,382 | 7.3% | 9,761 | 7.9% | (621) | (6.0%) |
| Research and technical expense ................................................ | 835 | 0.6% | 853 | 0.7% | 18 | 2.2% |
| Operating income .................................... | 21,172 | 15.0% | 7,991 | 6.5% | (13,181) | (62.3%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest income | (57) | 0.0% | (29) | 0.0% | 28 | (49.1%) |
| Interest expense | 19 | 0.0% | 18 | 0.0% | (1) | (5.3%) |
| Income before income taxes | 21,210 | 15.0% | 8,002 | 6.5% | (13,208) | (62.3%) |
| Provision for income taxes | 7,478 | 5.3% | 2,705 | 2.2% | (4,773) | (63.8%) |
| Net income | $13,732 | 9.7% | $5,297 | 4.3% | ($8,435) | (61.4%) |

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** | |
|---|---|---|---|---|
| | **2012** | **2013** | **Amount** | **%** |
| **Net revenues** (in thousands) | | | | |
| Aerospace | $55,908 | $51,015 | ($4,893) | (8.8%) |
| Chemical processing | 32,565 | 31,824 | (741) | (2.3%) |
| Land-based gas turbines | 27,971 | 24,199 | (3,772) | (13.5%) |
| Other markets | 21,280 | 14,677 | (6,603) | (31.0%) |
| **Total product revenue** | 137,724 | 121,715 | (16,009) | (11.6%) |
| Other revenue | 3,850 | 1,872 | (1,978) | (51.4%) |
| **Net revenues** | $141,574 | $123,587 | ($17,987) | (12.7%) |
| **Pounds by market** (in thousands) | | | | |
| Aerospace | 2,175 | 2,077 | (98) | (4.5%) |
| Chemical processing | 1,304 | 1,386 | 82 | 6.3% |
| Land-based gas turbines | 1,559 | 1,599 | 40 | 2.6% |
| Other markets | 673 | 478 | (195) | (29.0%) |
| **Total shipments** | 5,711 | 5,540 | (171) | (3.0%) |
| **Average selling price per pound** | | | | |
| Aerospace | $25.70 | $24.56 | ($1.14) | (4.4%) |
| Chemical processing | 24.97 | 22.96 | (2.01) | (8.0%) |
| Land-based gas turbines | 17.94 | 15.13 | (2.81) | (15.7%) |
| Other markets | 31.62 | 30.71 | (0.91) | (2.9%) |
| **Total product** (excluding other revenue) | 24.12 | 21.97 | (2.15) | (8.9%) |
| **Total average selling price** (including other revenue) | 24.79 | 22.31 | (2.48) | (10.0%) |

*Net Revenues.* Net revenues were $123.6 million in the third quarter of fiscal 2013, a decrease of 12.7% from $141.6 million in the same period of fiscal 2012. Volume was 5.5 million pounds in the third quarter of fiscal 2013, a decrease of 3.0% from 5.7 million pounds in the same period of fiscal 2012. The aggregate average selling price was $22.31 per pound in the third quarter of fiscal 2013, a decrease of 10.0% from $24.79 per pound in the same period of fiscal 2012. Average selling price decreased due to lower raw material prices, a lower-value product mix, a higher level of competition and reduced customer demand as a result of uncertain economic conditions. The Company's consolidated backlog was $189.6 million at June 30, 2013, a decrease of 8.4% from $207.0 million at March 31, 2013. This decrease reflects a 16.0% decrease in backlog pounds partially offset by a 9.0% increase in backlog average selling price.

Sales to the aerospace market were $51.0 million in the third quarter of fiscal 2013, a decrease of 8.8% from $55.9 million in the same period of fiscal 2012, due to a 4.4% decrease in the average selling price per pound combined with a 4.5% decrease in volume. The decrease in volume is due to destocking of inventory within the supply chain and customers delaying orders as the price of nickel declined. The average selling price decline reflects both the decline in raw material prices and competitive downward pressure on prices.

Sales to the chemical processing market were $31.8 million in the third quarter of fiscal 2013, a decrease of 2.3% from $32.6 million in the same period of fiscal 2012, due to an 8.0% decrease in the average selling price per pound partially offset by a 6.3% increase in volume. The increased volume resulted from a project that shipped during the quarter. The decreased average selling price reflects continued competition, a change in product mix and lower-cost raw materials. Project delays by our customers and weak demand continue to negatively affect our sales to the chemical processing industry.

Sales to the land-based gas turbine market were $24.2 million in the third quarter of fiscal 2013, a decrease of 13.5% from $28.0 million for the same period of fiscal 2012, due to a decrease of 15.7% in the average selling price per pound partially offset by a 2.6% increase in volume. The increase in volume reflects improved original equipment manufacturer activity and higher levels of maintenance spending by our customers. The decrease in average selling price reflected lower raw material costs and continued competition in this market.

Sales to other markets were $14.7 million in the third quarter of fiscal 2013, a decrease of 31.0% from $21.3 million in the same period of fiscal 2012, due to a 29.0% decrease in volume combined with a 2.9% decrease in average selling price. The decrease in volume is due to the project-oriented nature of these markets, with one particular oil & gas project from fiscal 2012 not repeating in fiscal 2013. The decrease in the average selling price reflects a change to a lower-value product mix shipped into the other markets in the third quarter of fiscal 2013.

*Other Revenue.* Other revenue was $1.9 million in the third quarter of fiscal 2013, a decrease of 51.4% from $3.9 million in the same period of fiscal 2012. The decrease is due to lower toll conversion and lower miscellaneous sales driven by weaker customer demand.

*Cost of Sales.* Cost of sales was $105.0 million, or 84.9% of net revenues, in the third quarter of fiscal 2013 compared to $109.2 million, or 77.1% of net revenues, in the same period of fiscal 2012. Cost of sales in the third quarter of fiscal 2013 decreased by $4.2 million as compared to the same period of fiscal 2012 primarily due to lower volume.

*Gross Profit.* As a result of the above factors, gross profit was $18.6 million for the third quarter of fiscal 2013, a decrease of $13.8 million, or 42.6%, from the same period of fiscal 2012. Gross profit as a percentage of net revenue was 15.1% in the third quarter of fiscal 2013 as compared to 22.9% in the same period of fiscal 2012.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was $9.8 million for the third quarter of fiscal 2013, a decrease of $0.6 million, or 6.0%, from $10.4 million in the same period of fiscal 2012 primarily due to reduced costs for incentive compensation programs. Selling, general and administrative expenses as a percentage of net revenues increased to 7.9% for the third quarter of fiscal 2013 compared to 7.3% for the same period of fiscal 2012 due to decreased revenues.

*Research and Technical Expense.* Research and technical expense was $0.9 million, or 0.7% of revenue, for the third quarter of fiscal 2013 compared to $0.8 million, or 0.6% of revenue, for the third quarter of fiscal 2012.

*Operating Income.* As a result of the above factors, operating income in the third quarter of fiscal 2013 was $8.0 million, a decrease of 62.3% compared to operating income of $21.2 million in the same period of fiscal 2012.

*Income Taxes.* Income taxes were an expense of $2.7 million in the third quarter of fiscal 2013, a decrease of $4.8 million from an expense of $7.5 million in the same period of fiscal 2012. The effective tax rate for the third quarter of fiscal 2013 was 33.8%, compared to 35.3% in the same period of fiscal 2012. The decrease in the tax rate was primarily due to the reversal of certain tax reserves no longer required.

*Net Income.* As a result of the above factors, net income in the third quarter of fiscal 2013 was $5.3 million, a decrease of $8.4 million, or 61.4%, from net income of $13.7 million in the same period of fiscal 2012.

**Results of Operations for the nine months ended June 30, 2012 compared to the nine months ended June 30, 2013**

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

| ($ in thousands) | Nine Months Ended June 30, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | Amount | % |
| Net revenues | $ 429,307 | 100.0% | $367,088 | 100.0% | ($62,219) | (14.5%) |
| Cost of sales | 338,892 | 78.9% | 309,625 | 84.3% | (29,267) | (8.6%) |
| Gross profit | 90,415 | 21.1% | 57,463 | 15.7% | (32,952) | (36.4%) |
| Selling, general and administrative expense | 30,885 | 7.2% | 28,986 | 7.9% | (1,899) | (6.1%) |
| Research and technical | 2,414 | 0.6% | 2,563 | 0.7% | 149 | 6.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| expense | | | | | | |
| Operating income | 57,116 | 13.3% | 25,914 | 7.1% | (31,202) | (54.6%) |
| Interest income | (152) | 0.0% | (83) | 0.0% | 69 | (45.4%) |
| Interest expense | 69 | 0.0% | 52 | 0.0% | (17) | (24.6%) |
| Income before income taxes | 57,199 | 13.3% | 25,945 | 7.1% | (31,254) | (54.6%) |
| Provision for income taxes | 19,873 | 4.6% | 8,377 | 2.3% | (11,496) | (57.8%) |
| Net income | $ 37,326 | 8.7% | $17,568 | 4.8% | ($19,758) | (52.9%) |

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** | **Nine Months Ended June 30,** | | **Change** | |
|---|---|---|---|---|
| | **2012** | **2013** | **Amount** | **%** |
| **Net revenues** (in thousands) | | | | |
| Aerospace | $170,535 | $152,606 | ($17,929) | (10.5%) |
| Chemical processing | 100,086 | 92,006 | (8,080) | (8.1%) |
| Land-based gas turbines | 90,242 | 77,075 | (13,167) | (14.6%) |
| Other markets | 57,083 | 37,329 | (19,754) | (34.6%) |
| **Total product revenue** | 417,946 | 359,016 | (58,930) | (14.1%) |
| Other revenue | 11,361 | 8,072 | (3,289) | (28.9%) |
| **Net revenues** | $429,307 | $367,088 | ($62,219) | (14.5%) |
| **Pounds by market** (in thousands) | | | | |
| Aerospace | 6,566 | 6,174 | (392) | (6.0%) |
| Chemical processing | 3,925 | 3,801 | (124) | (3.2%) |
| Land-based gas turbines | 4,915 | 4,669 | (246) | (5.0%) |
| Other markets | 1,911 | 1,162 | (749) | (39.2%) |
| **Total shipments** | 17,317 | 15,806 | (1,511) | (8.7%) |
| **Average selling price per pound** | | | | |
| Aerospace | $25.97 | $24.72 | ($1.25) | (4.8%) |
| Chemical processing | 25.50 | 24.21 | (1.29) | (5.1%) |
| Land-based gas turbines | 18.36 | 16.51 | (1.85) | (10.1%) |
| Other markets | 29.87 | 32.12 | 2.25 | 7.5% |
| **Total product** (excluding other revenue) | 24.14 | 22.71 | (1.43) | (5.9%) |
| **Total average selling price** (including other revenue) | 24.79 | 23.22 | (1.57) | (6.3%) |

*Net Revenues.* Net revenues were $367.1 million in the first nine months of fiscal 2013, a decrease of 14.5% from $429.3 million in the same period of fiscal 2012, due to decreases in both volume and average selling price per pound. Volume was 15.8 million pounds in the first nine months of fiscal 2013, a decrease of 8.7% from 17.3 million pounds in the same period of fiscal 2012. The aggregate average selling price was $23.22 per pound in the first nine months of fiscal 2013, a decrease of 6.3% from $24.79 per pound in the same period of fiscal 2012. Average selling price decreased due to reduced customer demand, lower raw material prices, increased competition and lower-value product mix. The Company's consolidated backlog was $189.6 million at June 30, 2013, a decrease of 14.9% from $222.9 million at September 30, 2012. The decline in backlog is due to the backlog pounds declining by 9.9% combined with average selling price decreasing by 5.5% .

Sales to the aerospace market were $152.6 million in the first nine months of fiscal 2013, a decrease of 10.5% from $170.5 million in the same period of fiscal 2012, due to a 6.0% decrease in volume combined with a 4.8% decrease in the average selling price per pound. The decrease in the average selling price per pound reflects competitive downward pressure on selling prices and lower raw material costs. The decline in volume is due to customers delaying orders as the price of nickel decreases and continued adjustments of inventory within the supply chain.

Sales to the chemical processing market were $92.0 million in the first nine months of fiscal 2013, a decrease of 8.1% from $100.1 million in the same period of fiscal 2012, due to a 5.1% decrease in average selling price per pound combined with a 3.2% decrease in volume. The changes in average selling price and volume are predominately due to lower customer demand, lower-value product mix and a lack of large projects caused by spending delays in the chemical processing industry.

Sales to the land-based gas turbine market were $77.1 million in the first nine months of fiscal 2013, a decrease of 14.6% from $90.2 million for the same period of fiscal 2012, due to a decrease of 10.1% in the average selling price per pound combined with a 5.0% decrease in volume. The decline in volume is due primarily to lower activity of new builds by original equipment manufacturers. The decrease in average selling price is due to increased competition and lower raw material costs.

Sales to other markets were $37.3 million in the first nine months of fiscal 2013, a decrease of 34.6% from $57.1 million in the same period of fiscal 2012, due to a 39.2% decrease in volume partially offset by a 7.5% increase in average selling price per pound. The increase in average selling price reflects a change to a mix of higher-value alloys and forms sold into the other market category. The decrease in volume is due to the project-oriented nature of these markets, with one particular oil & gas project not repeating in fiscal 2013 and customers delaying orders due to the decreasing cost of nickel.

*Other Revenue.* Other revenue was $8.1 million in the first nine months of fiscal 2013, a decrease of 28.9% from $11.4 million in the same period of fiscal 2012 due to reduced levels of toll conversion and miscellaneous sales.

*Cost of Sales.* Cost of sales was $309.6 million, or 84.3% of net revenues, in the first nine months of fiscal 2013 compared to $338.9 million, or 78.9% of net revenues, in the same period of fiscal 2012. Cost of sales in the first nine months of fiscal 2013 decreased by $29.3 million as compared to the same period of fiscal 2012 due to lower volume and a lower-value product mix.

*Gross Profit.* As a result of the above factors, gross profit was $57.5 million for the first nine months of fiscal 2013, a decrease of $33.0 million, or 36.4%, from the same period of fiscal 2012. Gross profit as a percentage of net revenue was 15.7% in the first nine months of fiscal 2013 as compared to 21.1% in the same period of fiscal 2012.

*Selling, General and Administrative Expense.* Selling, general and administrative expense was $29.0 million for the first nine months of fiscal 2013, a decrease of $1.9 million, or 6.1%, from $30.9 million in the same period of fiscal 2012. Selling, general and administrative expense reductions were primarily due to reduced costs for incentive compensation programs. Selling, general and administrative expenses as a percentage of net revenues increased to 7.9% for the first nine months of fiscal 2013 compared to 7.2% for the same period of fiscal 2012 primarily due to decreased revenues.

*Research and Technical Expense.* Research and technical expense was $2.6 million, or 0.7% of revenue, for the first nine months of fiscal 2013 compared to $2.4 million, or 0.6% of net revenues, in the same period of fiscal 2012.

*Operating Income.* As a result of the above factors, operating income in the first nine months of fiscal 2013 was $25.9 million, a decrease of 54.6% compared to operating income of $57.1 million in the same period of fiscal 2012.

*Income Taxes.* Income taxes were an expense of $8.4 million in the first nine months of fiscal 2013, a decrease of $11.5 million from $19.9 million in the same period of fiscal 2012. The effective tax rate for the first nine months of fiscal 2013 was 32.3%, compared to 34.7% in the same period of fiscal 2012. The decrease in the effective tax rate was primarily due to the reversal of certain tax reserves no longer required and a change in California tax law that took effect in November 2012, which increased the deferred tax asset and lowered tax expense for the first quarter of fiscal 2013 by $0.6 million.

*Net Income.* As a result of the above factors, net income in the first nine months of fiscal 2013 was $17.6 million, a decrease of $19.8 million, or 52.9%, from net income of $37.3 million in the same period of fiscal 2012.

**Liquidity and Capital Resources**

*Comparative Cash Flow Analysis*

During the first nine months of fiscal 2013, the Company's primary sources of liquidity were cash on-hand and cash from operations, as detailed below. At June 30, 2013, the Company had cash and cash equivalents of $43.6 million compared to cash and cash equivalents of $46.7 million at September 30, 2012.

Net cash provided by operating activities was $38.2 million in the first nine months of fiscal 2013 compared to net cash provided by operating activities of $14.0 million in the same period of fiscal 2012. Items contributing to the difference include cash provided by lower inventory of $5.5 million versus $41.4 million of cash used by inventory in the same period of fiscal 2012. Cash provided by operations was unfavorably impacted by the reduction in net income to $17.6 million from $37.3 million in the same period of fiscal 2012. Net cash used in investing activities was $33.7 million in the first nine months of fiscal 2013 compared to $17.1 million in the first nine months of fiscal 2012 as a result of higher capital expenditures. Net cash used in financing activities was $7.5 million in the first nine months of fiscal 2013 compared to $5.3 million in the first nine months of fiscal 2012. Cash used in financing activities included dividend payments of $8.1 million during the first nine months of fiscal 2012 and 2013.

*Future Sources of Liquidity*

The Company’s sources of liquidity for fiscal 2013 are expected to consist primarily of cash generated from operations, cash on-hand and, if needed, borrowings under the U.S. revolving credit facility. The U.S. revolving credit facility provides for borrowings in a maximum amount of $120.0 million, subject to a borrowing base formula and certain reserves. At June 30, 2013, the Company had cash of $43.6 million, an outstanding balance of zero on the U.S. revolving credit facility and access to a total of approximately $120.0 million under the U.S. revolving credit facility, subject to a borrowing base formula and certain reserves. Management believes that the resources described above will be sufficient to fund planned capital expenditures and working capital requirements over the next twelve months.

*U.S. Revolving Credit Facility*

The Company and Wells Fargo Capital Finance, LLC ("Wells Fargo"), successor by merger to Wachovia Capital Finance Corporation (Central) ("Wachovia"), entered into a Third Amended and Restated Loan and Security Agreement (the "Amended Agreement") with certain other lenders with an effective date of July 14, 2011. The maximum revolving loan amount under the Amended Agreement is $120.0 million, subject to a borrowing base formula and certain reserves. The Amended Agreement permits an increase in the maximum revolving loan amount from $120.0 million up to an aggregate amount of $170.0 million at the request of the borrowers. Borrowings under the U.S. revolving credit facility bear interest at the Company's option at either Wells Fargo's "prime rate", plus up to 0.75% per annum, or the adjusted Eurodollar rate used by the lender, plus up to 2.0% per annum. As of June 30, 2013, the U.S. revolving credit facility had an outstanding balance of zero. In addition, the Company must pay monthly in arrears a commitment fee of 0.25% per annum on the unused amount of the U.S. revolving credit facility total commitment. For letters of credit, the Company must pay 1.5% per annum on the daily outstanding balance of all issued letters of credit, plus customary fees for issuance, amendments and processing. The Company is subject to certain covenants as to fixed charge coverage ratios and other customary covenants, including covenants restricting the incurrence of indebtedness, the granting of liens and the sale of assets. The Company is permitted to pay dividends and repurchase common stock if certain financial metrics are met. As of June 30, 2013, the most recent required measurement date under the Amended Agreement, the Company was in compliance with those covenants. The U.S. revolving credit facility matures on July 14, 2016. Borrowings under the U.S. revolving credit facility are collateralized by a pledge of substantially all of the U.S. assets of the Company, including the equity interests in its U.S. subsidiaries, but excluding the four-high Steckel rolling mill and related assets, which are pledged to Titanium Metals Corporation to secure the performance of the Company's obligations under a Conversion Services Agreement with TIMET (see discussion of TIMET at Note 7 of the notes to Consolidated Financial Statements, Part I of this report). The U.S. revolving credit facility is also secured by a pledge of a 65% equity interest in each of the Company's direct foreign subsidiaries.

*Future Uses of Liquidity*

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

- Funding operations;
- Capital investment;
- Pension plan funding; and
- Dividends to stockholders.

In the first nine months of fiscal 2013, the Company had capital investment of $33.7 million. The Company is currently forecasting capital investment of $48.0 million for fiscal 2013.

*Contractual Obligations*

The following table sets forth the Company's contractual obligations for the periods indicated, as of June 30, 2013:

(in thousands)

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| Contractual Obligations[1] | Total | Less than 1 year | 1-3 Years | 3-5 Years | More than 5 years |
| Credit facility fees[2] | $1,032 | $340 | $680 | $12 | $ — |
| Operating lease obligations | 9,503 | 2,987 | 3,480 | 1,987 | 1,049 |
| Capital lease obligations | 201 | 33 | 66 | 66 | 36 |
| Raw material contracts | 57,774 | 48,336 | 9,438 | — | — |
| Mill supplies contracts | 17 | 17 | — | — | — |
| Capital projects | 40,641 | 40,641 | — | — | — |
| Environmental post-closure monitoring | 980 | — | — | — | 980 |
| External product conversion source | 3,050 | 600 | 1,200 | 1,200 | 50 |
| Pension plan[3] | 82,514 | 15,970 | 30,000 | 22,751 | 13,793 |
| Non-qualified pension plan | 837 | 95 | 190 | 190 | 362 |
| Other postretirement benefits[4] | 50,000 | 5,000 | 10,000 | 10,000 | 25,000 |
| Total | $246,549 | $114,019 | $55,054 | $36,206 | $41,270 |

(1) Taxes are not included in the table.

(2) As of June 30, 2013, the revolver balance was zero, therefore no interest is due. However, the Company is obligated to the lenders for unused line fees and quarterly management fees.

(3) The Company has a funding obligation to contribute $81,544 to the domestic pension plan and expects its U.K. subsidiary to contribute $970 in less than one year to the U.K. 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.

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

## New Accounting Pronouncements

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

## Critical Accounting Policies and Estimates

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Assumptions and estimates were based on the facts and circumstances known at June 30, 2013; 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, 2012 are considered by management to be the most important to an understanding of the financial statements because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. These policies are also discussed in Note 2 of the consolidated financial statements included in Item 8 of that report. There have been no material changes to that information since the end of fiscal 2012.

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

As of June 30, 2013, 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, 2012.

## 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, 2013.

Effective January 1, 2013 the Company's direct and indirect European subsidiaries implemented Microsoft Dynamics AX ERP information technology solution. The implementation of these ERP modules and the related workflow capabilities resulted in material changes to the Company's internal controls over financial reporting (as that term is defined in Rule 13(a)-15(f) or 15(d)-15(f) under the Exchange Act). Therefore, modifications to the design and documentation of internal control processes and procedures relating to the new system to replace and supplement existing internal controls over financial reporting were made as appropriate. Evaluation of the operating effectiveness of these internal controls is ongoing. The system changes were undertaken to integrate systems and consolidate information, and were not undertaken in response to any actual or perceived deficiencies in the Company's internal control over financial reporting.

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

## PART II OTHER INFORMATION

### Item 6. Exhibits

Exhibits. See Index to Exhibits.

**SIGNATURES**

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

HAYNES INTERNATIONAL, INC.

*/s/ Mark Comerford*
Mark Comerford
President and Chief Executive Officer
Date: August 8, 2013

*/s/ Daniel Maudlin*
Daniel Maudlin
Vice President – Finance and Chief Financial Officer
Date: August 8, 2013

## INDEX TO EXHIBITS

| Exhibit Number | Description |
|---|---|
| 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, 2013 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statements of Cash Flows; and (v) related notes. |

*Furnished not filed.

** Filed herewith. Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those Sections.

**Exhibit 31.1**

## CERTIFICATIONS

I, Mark Comerford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Haynes International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements 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 control 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 regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2013

*/s/ Mark Comerford*
Mark Comerford
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATIONS**

I, Daniel 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 statements 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 control 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 regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2013

/s/ *Daniel Maudlin*

Daniel Maudlin
Vice President – 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 Maudlin, the Vice President - Finance and Chief Financial Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (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 Maudlin*
Daniel Maudlin
Vice President - Finance and
Chief Financial Officer

August 8, 2013
Date

I, Mark Comerford, the President and Chief Executive Officer of Haynes International, Inc., certify that (i) the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Haynes International, Inc. as of the dates and for the periods set forth therein.

*/s/ Mark Comerford*
Mark Comerford
President and Chief Executive Officer

August 8, 2013
Date