

HARDINGE INC  
Form 10-Q  
May 06, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2011**

**OR**

**o** **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: 000-15760**

**Hardinge Inc.**

(Exact name of Registrant as specified in its charter)

**New York**  
(State or other jurisdiction of  
incorporation or organization)

**16-0470200**  
(I.R.S. Employer  
Identification No.)

**Hardinge Inc.**  
**One Hardinge Drive**

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Elmira, NY 14902

(Address of principal executive offices) (Zip code)

(607) 734-2281

(Registrant's telephone number including area code)

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 to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T 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 small reporting company. See definitions of large accelerated filer, accelerated filer, and small reporting company in Rule 12b-2 in 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 by Exchange Act Rule 12b-2). Yes ☐ No ☒

As of March 31, 2011 there were 11,618,012 shares of Common Stock of the registrant outstanding.

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**HARDINGE INC. AND SUBSIDIARIES**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HARDINGE INC. AND SUBSIDIARIES**

(In Thousands Except Share and Per Share Data)

|  | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|--|----------------------------------|----------------------|
| <b>Assets</b>  |                                  |                      |
| Cash and cash equivalents  | \$ 24,945                        | \$ 30,945            |
| Restricted cash  | 5,144                            | 5,225                |
| Accounts receivable, net   | 46,567                           | 45,819               |
| Notes receivable, net  | 3,669                            | 1,753                |
| Inventories, net   | 115,786                          | 105,306              |
| Deferred income taxes  | 1,383                            | 1,364                |
| Prepaid expenses   | 12,777                           | 11,518               |
| Total current assets   | 210,271                          | 201,930              |
| Net property, plant and equipment  | 59,945                           | 56,628               |
| Deferred income taxes  | 618                              | 451                  |
| Intangible assets  | 13,422                           | 13,642               |
| Pension assets   | 2,228                            | 2,111                |
| Other long-term assets   | 51                               | 85                   |
| Total non-current assets   | 76,264                           | 72,917               |
| Total assets   | \$ 286,535                       | \$ 274,847           |
| <b>Liabilities and shareholders' equity</b>  |                                  |                      |
| Accounts payable   | \$ 34,599                        | \$ 33,533            |
| Notes payable to bank  | 7,000                            | 1,650                |
| Accrued expenses   | 21,200                           | 22,791               |
| Customer deposits  | 15,681                           | 10,468               |
| Accrued income taxes   | 3,487                            | 3,656                |
| Deferred income taxes  | 2,686                            | 2,546                |
| Current portion of long-term debt  | 612                              | 617                  |
| Total current liabilities  | 85,265                           | 75,261               |
| Long-term debt   | 2,602                            | 2,777                |
| Accrued pension liability  | 28,553                           | 29,949               |
| Accrued postretirement benefits  | 2,210                            | 2,274                |
| Accrued income taxes   | 2,187                            | 2,106                |
| Deferred income taxes  | 2,549                            | 2,516                |
| Other liabilities  | 1,974                            | 2,062                |
| Total non-current liabilities  | 40,075                           | 41,684               |
| Common Stock - \$0.01 par value, 12,472,992 issued   | 125                              | 125                  |
| Additional paid-in capital   | 114,200                          | 114,183              |
| Retained earnings  | 54,960                           | 53,637               |
| Treasury shares - 854,980 shares at March 31, 2011 and 865,703 shares at December 31, 2010 | (10,890)                         | (11,022)             |
| Accumulated other comprehensive income   | 2,800                            | 979                  |
| Total shareholders' equity   | 161,195                          | 157,902              |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Total liabilities and shareholders' equity | \$ | 286,535 | \$ | 274,847 |
|--|----|---------|----|---------|

*See accompanying notes to the financial statements*

Table of Contents**HARDINGE INC. AND SUBSIDIARIES****Consolidated Statements of Operations**

(In Thousands Except Per Share Data)

|  | <b>Three Months Ended<br/>March 31,<br/>(Unaudited)</b> |    |             |
|--|---|----|-------------|
|  | <b>2011</b>   |    | <b>2010</b> |
| Net sales                                    | \$ 73,482   | \$ | 43,170      |
| Cost of sales                                | 54,406  |    | 34,230      |
| Gross profit                                 | 19,076  |    | 8,940       |
| Selling, general and administrative expenses | 16,673  |    | 14,398      |
| Gain on sale of assets                       | (25)  |    | (272)       |
| Other expense                                | 177   |    | 71          |
| Income (loss) from operations                | 2,251   |    | (5,257)     |
| Interest expense                             | 78  |    | 110         |
| Interest income                              | (39)  |    | (35)        |
| Income (loss) before income taxes            | 2,212   |    | (5,332)     |
| Income tax expense (benefit)                 | 831   |    | (146)       |
| Net income (loss)                            | \$ 1,381  | \$ | (5,186)     |
| Per share data:                              |   |    |             |
| Basic earnings (loss) per share:             | \$ 0.12   | \$ | (0.45)      |
| Diluted earnings (loss) per share:           | \$ 0.12   | \$ | (0.45)      |
| Cash dividends declared per share            | \$ 0.005  | \$ | 0.005       |

*See accompanying notes to the financial statements*

Table of Contents**HARDINGE INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(In Thousands)

|  | <b>Three Months Ended<br/>March 31,<br/>(Unaudited)</b> |             |
|--|---|-------------|
|  | <b>2011</b>   | <b>2010</b> |
| <b>Operating activities</b>  |   |             |
| Net income (loss)  | \$ 1,381  | \$ (5,186)  |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |   |             |
| Depreciation and amortization  | 1,916   | 1,807       |
| Debt issuance amortization   | 26  | 80          |
| Provision for deferred income taxes  | (1,085)   | (8)         |
| (Gain) on sale of assets   | (25)  | (273)       |
| Unrealized intercompany foreign currency transaction (gain) loss                                   | (215)   | 59          |
| Changes in operating assets and liabilities:   |   |             |
| Accounts receivable  | (449)   | 9,152       |
| Notes receivable   | (1,859)   | (504)       |
| Inventories  | (9,311)   | (5,917)     |
| Prepays and other assets   | (1,079)   | (1,071)     |
| Accounts payable   | 1,081   | 5,641       |
| Accrued expenses   | 2,388   | (346)       |
| Accrued postretirement benefits  | 176   | (149)       |
| Net cash (used in) provided by operating activities  | (7,055)   | 3,285       |
| <b>Investing activities</b>  |   |             |
| Capital expenditures   | (4,354)   | (657)       |
| Proceeds on sale of assets   | 25  | 283         |
| Net cash (used in) investing activities  | (4,329)   | (374)       |
| <b>Financing activities</b>  |   |             |
| Borrowings under short-term notes payable to bank  | 5,380   | 884         |
| (Decrease) in long-term debt   | (154)   | (141)       |
| Purchase of treasury stock, net  | 33  |             |
| Debt issuance fees paid  | (13)  | (67)        |
| Dividends paid   | (58)  | (58)        |
| Net cash provided by financing activities  | 5,188   | 618         |
| Effect of exchange rate changes on cash  | 196   | (131)       |
| Net (decrease) increase in cash  | (6,000)   | 3,398       |
| Cash at beginning of period  | 30,945  | 20,419      |
| Cash at end of period  | \$ 24,945   | \$ 23,817   |

*See accompanying notes to the financial statements*





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**March 31, 2011**

**NOTE 1. BASIS OF PRESENTATION**

In these notes, the terms Hardinge, Company, we, us, or our mean Hardinge Inc. and its predecessors together with its subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and, therefore, should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the timing and amount of assets, liabilities, equity, revenue, and expenses reported and disclosed. Actual amounts could differ from our estimates. In our opinion, we made all adjustments that are necessary for a fair presentation, and those adjustments are of a normal recurring nature unless otherwise noted. Due to differing business conditions and some seasonality, our operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected in subsequent quarters or for the full year ended December 31, 2011.

We operate in one business segment industrial machine tools. Certain amounts in the 2010 consolidated balance sheet have been reclassified to conform to the March 31, 2011 presentation.

**NOTE 2. NET INVENTORIES**

Net inventories are stated at the lower of cost (computed in accordance with the first-in, first-out method) or market. Elements of the cost include materials, labor and overhead.

Net inventories consist of the following:

|  | March 31,<br>2011 | December 31,<br>2010 |
|--|-------------------|----------------------|
|  | (in thousands)    |                      |
| Raw materials and purchased components | \$ 41,718         | \$ 34,113            |
| Work-in-process                        | 26,612            | 22,834               |
| Finished products                      | 47,456            | 48,359               |
| Inventories, net                       | \$ 115,786        | \$ 105,306           |



[Table of Contents](#)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consisted of the following:

|  | <b>March 31,<br/>2011</b> |                | <b>December 31,<br/>2010</b> |
|--|---------------------------|----------------|------------------------------|
|  |                           | (in thousands) |                              |
| Land, buildings and improvements               | \$ 73,452                 |                | \$ 68,992                    |
| Machinery, equipment and fixtures              | 70,173                    |                | 70,328                       |
| Office furniture, equipment and vehicles       | 17,447                    |                | 17,389                       |
|  | 161,072                   |                | 156,709                      |
| Less accumulated depreciation and amortization | 101,127                   |                | 100,081                      |
| Property, plant and equipment, net             | \$ 59,945                 |                | \$ 56,628                    |

**NOTE 4. INTANGIBLE ASSETS**

Total net intangible assets were \$13.4 million at March 31, 2011 and \$13.6 million at December 31, 2010.

At March 31, 2011, the intangible assets not subject to amortization were valued at \$7.5 million, representing the value of the name, trademarks, and copyrights associated with the former worldwide operations of Bridgeport. At March 31, 2011 the amortizable intangible assets were valued at \$5.9 million, including the Jones & Shipman trade name, Bridgeport technical information, patents, customer lists, land use rights, and other items.

**NOTE 5. INCOME TAXES**

We continue to maintain a full valuation allowance on the tax benefits of our U.S., U.K., German, and Canadian net deferred tax assets related to tax loss carryforwards in those jurisdictions, as well as all other deferred tax assets of those entities.

Each quarter, we estimate our full year tax rate for jurisdictions not subject to valuation allowances based upon our most recent forecast of full year anticipated results and adjust year-to-date tax expense to reflect our full year anticipated tax rate. The estimated effective tax rate used for calculating the income tax provision for the three months ended March 31, 2011 was approximately 19.5%. The rate is an estimate based upon

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projected annual income, estimated annual permanent differences, the statutory tax rates in the various jurisdictions in which we operate, and the non-recognition of tax benefits for certain entities in a loss position for which a full valuation allowance has been recorded. The overall effective tax rate was 37.6% for the three months ended March 31, 2011.

The tax years 2007 to 2010 remain open to examination by United States taxing authorities, and for our other major jurisdictions, including Switzerland, United Kingdom, Taiwan, Germany, Canada, and China, the tax years between 2005 to 2010 generally remain open to routine examination by foreign taxing authorities, depending on the jurisdiction.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 5. INCOME TAXES****(Continued)**

At March 31, 2011 and December 31, 2010, we had a \$2.2 million and \$2.1 million liability recorded for uncertain income tax positions, both of which included interest and penalties of \$0.8 million. If recognized, the uncertain tax benefits, with related penalties and interest at March 31, 2011 and December 31, 2010, would be recorded as a benefit to income tax expense on the consolidated statement of operations.

**NOTE 6. WARRANTIES**

A reconciliation of the changes in our product warranty accrual is as follows:

|   |             | <b>Three Months Ended<br/>March 31,</b> |             |
|---|-------------|---|-------------|
|   | <b>2011</b> |   | <b>2010</b> |
|   |             | <b>(in thousands)</b>                   |             |
| Balance at the beginning of period              | \$          | 3,297                                   | \$ 2,470    |
| Warranties issued                               |             | 1,018                                   | 526         |
| Warranty settlement costs                       |             | (622)                                   | (279)       |
| Changes in accruals for pre-existing warranties |             | (56)                                    | (386)       |
| Currency translation adjustments                |             | 29                                      | (27)        |
| Balance at the end of period                    | \$          | 3,666                                   | \$ 2,304    |

Warranty liabilities are reported as accrued expenses on our consolidated balance sheet.

**NOTE 7. PENSION AND POST RETIREMENT PLANS**

A summary of the components of net periodic pension costs and post retirement costs for the consolidated company for the three months ended March 31, 2011 and 2010 is presented below.

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|                                    | Pension Benefits<br>Three Months Ended<br>March 31, |         | Postretirement Benefits<br>Three Months Ended<br>March 31, |         |
|------------------------------------|---|---------|--|---------|
|                                    | 2011  | 2010    | 2011   | 2010    |
|                                    | (in thousands)                                      |         | (in thousands)   |         |
| Service cost                       | \$ 377  | \$ 350  | \$ 5   | \$ 4    |
| Interest cost                      | 2,114   | 2,139   | 34   | 39      |
| Expected return on plan assets     | (2,479)   | (2,350) |  |         |
| Amortization of prior service cost | (17)  | (30)    | (88)   | (92)    |
| Amortization of transition (asset) | (67)  | (54)    |  |         |
| Amortization of loss               | 429   | 215     |  |         |
| Net periodic cost (benefit)        | \$ 357  | \$ 270  | \$ (49)  | \$ (49) |

The expected contributions to be paid during the year ending December 31, 2011 to the domestic defined benefit plans are \$1.9 million. Contributions to the domestic plans as of March 31, 2011 and 2010 were \$0.7 million and \$0.03 million, respectively. The Company also provides defined benefit pension plans for some of its foreign subsidiaries. The expected contributions to be paid during the year ending December 31, 2011 to the foreign defined benefit plans are \$2.3 million. For each of the Company's foreign plans, contributions are made on a monthly or quarterly basis and are determined by applicable governmental regulations. As of March 31, 2011 and 2010, \$0.6 million and \$0.5 million of contributions have been made to the foreign plans, respectively. Each of the foreign plans requires employee and employer contributions, except for Taiwan, to which only employer contributions are made.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 8. DERIVATIVE INSTRUMENTS AND FAIR VALUE**

Cash and cash equivalents, restricted cash, accounts receivable, notes receivable, accounts payable, notes payable to bank, and variable interest rate debt meet the definition of financial instruments. The carrying amounts of these assets and liabilities approximate their fair values either due to the short period to maturity of the instruments or due to the nature of underlying assets or liabilities.

*Derivative Instruments*

We utilize foreign currency forward contracts to mitigate the impact of currency fluctuations on assets and liabilities denominated in foreign currencies as well as on forecasted transactions denominated in foreign currencies. These contracts are considered derivative instruments and are recognized as either assets or liabilities that are measured at fair value using internal models based on observable market inputs such as spot and forward rates. For contracts that are designated and qualify as cash flow hedges, the gain or loss on the contracts is reported as a component of other comprehensive income ( OCI ) and reclassified from accumulated other comprehensive income ( AOCI ) into other income and expense on the consolidated statement of operations when the hedged transaction affects earnings. As of March 31, 2011, we do not expect any material amount will be reclassified from AOCI into other income and expense in the next 12 months. For contracts that are not designated as hedges, the gain and loss on the contract is recognized in current earnings as other income and expense.

As of March 31, 2011 and December 31, 2010, the notional amounts of the derivative financial instruments not qualifying or designated as hedges were \$28.4 million and \$19.9 million, respectively. We recorded \$0.4 million loss in the statement of operation during the three months ended March 31, 2011. The loss recorded during the same period in 2010 was immaterial.

Derivative financial instruments qualifying and designated as hedges are as follows:

|                           | March 31, 2011     |                           | December 31, 2010  |                           |
|---------------------------|--------------------|---------------------------|--------------------|---------------------------|
|                           | Notional<br>Amount | Unrealized<br>Gain (Loss) | Notional<br>Amount | Unrealized<br>Gain (Loss) |
|                           |                    | (in thousands)            |                    |                           |
| Foreign currency forwards | \$ 3,375           | \$ 3                      | \$ 2,161           | \$ (90)                   |
|                           | \$ 3,375           | \$ 3                      | \$ 2,161           | \$ (90)                   |

*Fair Value*

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The inputs to the valuation techniques used to measure fair value are classified into the following categories:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.



Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 8. DERIVATIVE INSTRUMENTS AND FAIR VALUE****(Continued)**

The following table presents the fair values and classification of our financial instruments measured on a recurring basis:

|                           |                  | Total                   | Level 1<br>(in thousands) | Level 2 | Level 3 |
|---------------------------|------------------|-------------------------|---------------------------|---------|---------|
| Classification            |                  | As of March 31, 2011    |                           |         |         |
| Foreign currency forwards | Prepaid expenses | \$ 60                   | \$                        | \$ 60   | \$      |
| Foreign currency forwards | Accrued expenses | \$ 133                  | \$                        | \$ 133  | \$      |
|                           |                  | As of December 31, 2010 |                           |         |         |
| Foreign currency forwards | Prepaid expenses | \$ 254                  | \$                        | \$ 254  | \$      |
| Foreign currency forwards | Accrued expenses | \$ 106                  | \$                        | \$ 106  | \$      |

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

Our operations are subject to extensive federal and state legislation and regulation relating to environmental matters.

Certain environmental laws can impose joint and several liability for releases or threatened releases of hazardous substances upon certain statutorily defined parties regardless of fault or the lawfulness of the original activity or disposal. Hazardous substances and adverse environmental effects have been identified with respect to properties we own or previously owned and on adjacent areas.

In particular, our Elmira, New York manufacturing facility is located within the Kentucky Avenue Wellfield on the National Priorities List of hazardous waste sites designated for cleanup by the United States Environmental Protection Agency ( EPA ) because of groundwater contamination. The Kentucky Avenue Wellfield Site (the Site ) encompasses an area which includes sections of the Town of Horseheads and the Village of Elmira Heights in Chemung County, New York. In February 2006, we received a Special Notice Concerning a Remedial Investigation/Feasibility Study ( RI/FS ) for the Koppers Pond (the Pond ) portion of the Site. The EPA documented the release and threatened release of hazardous substances into the environment at the Site, including releases into and in the vicinity of the Pond. The hazardous substances, including metals and polychlorinated biphenyls, have been detected in sediments in the Pond.

A substantial portion of the Pond is located on our property. Hardinge, along with Beazer East, Inc., the Village of Horseheads, the Town of Horseheads, the County of Chemung, CBS Corporation, and Toshiba America, Inc., the Potentially Responsible Parties (the PRPs ) have agreed

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to voluntarily participate in the Remedial Investigation and Feasibility Study ( RI/FS ) by signing an Administrative Settlement Agreement and Order of Consent on September 29, 2006. On September 29, 2006, the Director of Emergency and Remedial Response Division of the U.S. Environmental Protection Agency, Region II, approved and executed the Agreement on behalf of the EPA. The PRPs also signed a PRP Member Agreement, agreeing to share the cost of the RI/FS study on a per capita basis. The cost of the RI/FS was estimated to be approximately \$0.84 million. We estimated our portion of the study to be \$0.12 million for which we established a reserve of \$0.13 million. As of March 31, 2011, we have incurred total expenses of \$0.12 million with respect to the study and other activities relating to the Site, thus the remaining reserve balance at March 31, 2011 was \$0.01 million.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**March 31, 2011**

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

**(Continued)**

The PRPs developed a Draft RI/FS with their consultants and, following EPA comments, submitted a Revised RI/FS on December 6, 2007. In May 2008, the EPA approved the RI/FS Work Plan. The PRPs commenced field works in the spring of 2008 and submitted a Draft Site Characterization Report to EPA in the fall. The PRPs currently are performing Risk Assessments in accordance with the Remedial Investigation portion of the RI/FS.

Until receipt of this Special Notice, Hardinge had never been named as a PRP at the Site nor had we received any requests for information from the EPA concerning the site. Environmental sampling on our property within this Site under supervision of regulatory authorities had identified off-site sources for such groundwater contamination and sediment contamination in the Pond and found no evidence that our operations or property have or are contributing to the contamination. Other than as described above, we have not established a reserve for any potential costs relating to this Site, as it is too early in the process to determine our responsibility as well as to estimate any potential costs to remediate. We have notified all appropriate insurance carriers and are actively cooperating with them, but whether coverage will be available has not yet been determined and possible insurance recovery cannot now be estimated with any degree of certainty.

Although we believe, based upon information currently available, that, except as described in the preceding paragraphs, we will not have material liabilities for environmental remediation, it is possible that future remedial requirements or changes in the enforcement of existing laws and regulations, which are subject to extensive regulatory discretion, may result in material liabilities to Hardinge.

**NOTE 10. STOCK-BASED COMPENSATION**

All of our equity-based payments to employees are recognized in our statement of operations based on the grant date fair value of the award.

During the first quarter of 2011 and 2010, we did not issue any new stock options. Expense related to stock options was not material for the three months ended March 31, 2011 and 2010.

During the first quarter of 2011 and 2010, we granted 0 and 70,340 restricted stock awards/units, respectively. The fair value of 2010 awards was \$0.4 million.

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During the first quarter of 2011 and 2010, we recorded \$0.1 million and \$0.1 million, respectively, with regards to stock-based compensation related to restricted stock awards/units. Unrecognized compensation and the expected weighted-average recognition periods as of March 31, 2011 and December 31, 2010, are as follows:

|   | March 31,<br>2011      | December 31,<br>2010 |
|---|------------------------|----------------------|
|   | (dollars in thousands) |                      |
| Unrecognized compensation cost  | \$ 695                 | \$ 821               |
| Expected weighted-average recognition period for unrecognized compensation cost, in years | 1.4                    | 1.4                  |

[Table of Contents](#)**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 11. EARNINGS PER SHARE**

Details of the computation of earnings per share are as follows:

|  | Three Months Ended<br>March 31,      |            |
|--|--------------------------------------|------------|
|  | 2011                                 | 2010       |
|  | (in thousands except per share data) |            |
| Basic earnings (loss) per share computation:           |                                      |            |
| Net earnings (loss)                                    | \$ 1,381                             | \$ (5,186) |
| Less earnings allocated to participating equity awards | 21                                   | 1          |
| Net earnings (loss) applicable to common shareholders  | \$ 1,360                             | \$ (5,187) |
|  |                                      |            |
| Weighted average common shares outstanding             | 11,450                               | 11,408     |
| Basic earnings (loss) per share                        | \$ 0.12                              | \$ (0.45)  |
|  |                                      |            |
| Diluted earnings (loss) per share computation:         |                                      |            |
| Net earnings (loss)                                    | \$ 1,381                             | \$ (5,186) |
| Earnings allocated to participating equity awards      | 21                                   | 1          |
| Net earnings (loss) applicable to common shareholders  | \$ 1,360                             | \$ (5,187) |
|  |                                      |            |
| Weighted average common shares outstanding             | 11,450                               | 11,408     |
| Assumed exercise of stock options                      | 26                                   |            |
| Assumed satisfaction of restricted stock conditions    |                                      |            |
| Weighted -average diluted shares outstanding           | 11,476                               | 11,408     |
|  |                                      |            |
| Diluted earnings (loss) per share                      | \$ 0.12                              | \$ (0.45)  |

Certain share based awards of 212,166 and 110,519 shares were excluded from the calculation of earnings per share as they were anti-dilutive for the three months ended March 31, 2011 and 2010, respectively.

**NOTE 12. COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income (loss) are as follows:

**Three Months Ended**

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|  | 2011 | March 31,<br>(in thousands) | 2010       |
|--|------|-----------------------------|------------|
| Net income (loss)                              | \$   | 1,381                       | \$ (5,186) |
| Other comprehensive income (loss), net of tax: |      |                             |            |
| Retirement plan related adjustments            |      | (140)                       | 402        |
| Foreign currency translation adjustments       |      | 1,868                       | (2,482)    |
| Unrealized gain on cash flow hedge             |      | 93                          |            |
| Other comprehensive income (loss)              |      | 1,821                       | (2,080)    |
| Total comprehensive income (loss)              | \$   | 3,202                       | \$ (7,266) |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2011****NOTE 12. COMPREHENSIVE INCOME (LOSS)****(Continued)**

Balances of the components of accumulated other comprehensive income (loss), net of tax, are as follows:

|   | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|---------------------------|------------------------------|
|   | <b>(in thousands)</b>     |                              |
| Retirement plan related adjustments (net of tax of \$6,653 in 2011 and \$6,639 in 2010) | \$ (32,886)               | \$ (32,746)                  |
| Foreign currency translation adjustments (net of tax \$293 in 2011 and \$317 in 2010)   | 35,683                    | 33,815                       |
| Unrealized gain (loss) on cash flow hedges  | 3                         | (90)                         |
| Accumulated other comprehensive income  | \$ 2,800                  | \$ 979                       |

**NOTE 13. NEW ACCOUNTING STANDARDS**

On January 1, 2011, we adopted Accounting Standards Update No. 2009-13, Revenue Recognition ASC Topic 605: Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 addresses the accounting for sales arrangements that include multiple products or services by revising the criteria for when deliverables may be accounted for separately rather than as a combined unit. Specifically, this guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is necessary to separately account for each product or service. This hierarchy provides more options for establishing selling price than existing guidance. The adoption of this standard did not have material impact on our consolidated results of operations and financial condition.

**NOTE 14. SUBSEQUENT EVENTS**

At the Company's 2011 Annual Meeting of Shareholders on May 3, 2011, our shareholders approved the 2011 Incentive Stock Plan (the "Plan"). The Plan's purpose is to enhance the profitability and value of the Company for the benefit of its shareholders by attracting, retaining and motivating officers and other key employees who make important contributions to the success of the Company. The Plan reserves 750,000 shares of the Company's Common Stock (as such amount may be adjusted in accordance with the terms of the Plan, the "Authorized Plan Amount") to be issued for grants of several different types of incentives including incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock incentives and performance share incentives. Any shares of Common Stock granted under options or stock appreciation rights shall be counted against the Authorized Plan Amount on a one-for-one basis and any shares of Common Stock granted as awards other than options or stock appreciation rights shall be counted against the Authorized Plan Amount as two (2) shares of Common Stock for every one (1) share of Common Stock subject to such award. Authorized and issued shares of Common Stock or previously issued shares of

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Common Stock purchased by the Company for purposes of the Plan may be issued under the Plan.

Our 2002 Incentive Stock Plan authorized various long-term incentives (the 2002 Plan ). As of May 3, 2011, no future grants have been made or may in the future be made under the 2002 Plan. However, all outstanding awards and grants under the 2002 Plan will remain in effect until the end of the corresponding terms of such awards and grants.



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**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview.** The following Management's Discussion and Analysis ( MD&A ) contains information that the Company believe is necessary to an understanding of the Company's financial condition and associated matters, including the Company's liquidity, capital resources and results of operations. The MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited financial statements, the accompanying notes to the financial statements ( Notes ) appearing elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2010.

Our primary business is designing, manufacturing, and distributing high-precision computer controlled metal-cutting turning machines, grinding machines, vertical machining centers, and related accessories. We are geographically diversified with manufacturing facilities in Switzerland, Taiwan, the United States, China, and the United Kingdom, with sales to most industrialized countries. Approximately 77% of our 2010 sales were to customers outside of North America, 78% of our 2010 products sold were manufactured outside of North America, and 69% of our employees in 2010 were located outside of North America.

Our machine products are considered to be capital goods and are part of what has historically been a highly cyclical industry. Our management believes that a key performance indicator is our order level as compared to industry measurement of market activity.

During the first quarter of 2011, the global economic conditions continued to improve. As a result, we experienced higher levels of incoming orders and higher sales activity in almost all of the regions in which we conduct business.

Metrics on machine tool market activity monitored by our management include world machine tool consumption (domestic production plus imports, less exports) as reported annually by Gardner Publications in the Metalworking Insiders Report and metal-cutting machine orders as reported by the Association of Manufacturing Technology ( AMT ), the primary industry group for U.S. machine tool manufacturers. Other closely followed U.S. market indicators are tracked to determine activity levels in U.S. manufacturing plants that are among the set of prospective customers for our products. One such measurement is the Purchasing Manager's Index ( PMI ), as reported by the Institute for Supply Management. Another measurement is capacity utilization of U.S. manufacturing plants, as reported by the Federal Reserve Board. Similar information regarding machine tool consumption in foreign countries is published in various trade journals.

Non-machine sales, which include collets, accessories, repair parts, and service revenue, have typically accounted for approximately 24% of overall sales and are an important part of our business, especially in the U.S. where Hardinge has an installed base of thousands of machines. In the past, sales of these products and services have not fluctuated on a year-to-year basis as significantly as the sales of our machines have from time to time, but demand for these products and services does typically track the direction of the related machine metrics.

Other key performance indicators are geographic distribution of net sales and orders, gross profit as a percent of net sales, income from operations, working capital changes, and debt level trends. In an industry where constant product technology development has led to an average model life of three- to- five years, effectiveness of technological innovation and development of new products are also key performance

indicators.

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We are exposed to financial market risk resulting from changes in interest and foreign currency rates. The current global recessionary conditions, though improved from prior periods, have increased our exposure to the possible liquidity and credit risks of our counterparties.

We believe we have sufficient liquidity to fund our foreseeable business needs, including cash and cash equivalents, cash flows from operations, and our bank financing arrangements.

We monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety of principal. Our cash and cash equivalents are diversified among counterparties to minimize exposure to any one of these entities.

We are also subject to credit risks relating to the ability of counterparties of hedging transactions to meet their contractual payment obligations. The risks related to creditworthiness and nonperformance has been considered in the fair value measurements of our foreign currency forward exchange contracts.

We also expect that some of our customers and vendors may experience difficulty in maintaining the liquidity required to buy inventory or raw materials. We continue to monitor our customers' financial condition in order to mitigate our accounts receivable collectability risks.

Foreign currency exchange rate changes can be significant to reported results for several reasons. Our primary competitors, particularly for the most technologically advanced products, are now largely manufacturers in Japan, Germany, Switzerland, Korea, and Taiwan which causes the worldwide valuation of their respective currencies to be central to competitive pricing in all of our markets. The major functional currencies of our subsidiaries are, in alphabetical order, British Pound Sterling ( GBP ), Chinese Renminbi ( CNY ), Euro ( EUR ), New Taiwanese Dollar ( TWD ), and Swiss Franc ( CHF ). Under U.S. generally accepted accounting standards, results of foreign subsidiaries are translated into U.S. Dollars ( USD ) at the average exchange rate during the periods presented. Period-to-period changes in the exchange rate between their local currency and the USD may affect comparative data significantly. During the first quarter of 2011, as compared to the respective average values of these functional currencies in the first quarter of 2010, the value of USD decreased by a range of 3% to 12%, except EUR which remained relatively flat. The weaker USD resulted in favorable currency translation impact of \$3.5 million on orders and \$3.0 million on net sales in the first quarter of 2011. We also purchase computer controls and other components from suppliers throughout the world, with purchase costs reflecting currency changes.

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## Results of Operations

Summarized selected financial data for the three months ended March 31, 2011 and 2010:

|  | Three Months Ended<br>March 31,         |           | \$ Change  | % Change |
|--|---|-----------|------------|----------|
|  | 2011                                    | 2010      |            |          |
|  | (in thousands except per share amounts) |           |            |          |
| Orders   | \$ 113,758                              | \$ 57,487 | \$ 56,271  | 98%      |
| Net sales  | 73,482                                  | 43,170    | 30,312     | 70%      |
| Gross profit                                       | 19,076                                  | 8,940     | 10,136     | 113%     |
| % of net sales                                     | 26.0%                                   | 20.7%     | 5.3pts.    |          |
| Selling, general and administrative expenses       | 16,673                                  | 14,398    | 2,275      | 16%      |
| % of net sales                                     | 22.7%                                   | 33.4%     | (10.7)pts. |          |
| Gain on sale of assets                             | (25)                                    | (272)     | 247        | (91)%    |
| Other expenses                                     | 177                                     | 71        | 106        | 149%     |
| Income (loss) from operations                      | 2,251                                   | (5,257)   | 7,508      | (143)%   |
| % of net sales                                     | 3.1%                                    | (12.2)%   | 15.3pts.   |          |
| Income (loss) before income taxes                  | 2,212                                   | (5,332)   | 7,544      | (142)%   |
| Net income (loss)                                  | 1,381                                   | (5,186)   | 6,567      | (127)%   |
| % of net sales                                     | 1.9%                                    | (12.0)%   | 13.9pts.   |          |
| Basic & diluted earnings (loss) per share          | \$ 0.12                                 | \$ (0.45) | \$ 0.57    |          |
| Weighted average shares outstanding (in thousands) | 11,450                                  | 11,408    | 42         |          |

## Reconciliation of net income (loss) to EBITDA

|  | Three Months Ended<br>March 31, |            | Change   |
|--|---------------------------------|------------|----------|
|  | 2011                            | 2010       |          |
|  | (dollars in thousands)          |            |          |
| GAAP net income (loss)                   | \$ 1,381                        | \$ (5,186) | \$ 6,567 |
| Plus:                                    |                                 |            |          |
| Interest expense, net of interest income | 39                              | 75         | (36)     |
| Income tax expense (benefit)             | 831                             | (146)      | 977      |
| Depreciation and amortization            | 1,916                           | 1,807      | 109      |
| EBITDA (1)                               | \$ 4,167                        | \$ (3,450) | \$ 7,617 |

- (1) EBITDA, a non-GAAP financial measure, is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business.

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**Orders:** The table below summarizes new orders by geographical regions for the three months ended March 31, 2011 compared to the same period in 2010:

|               | Three Months Ended<br>March 31, |           |           |           |          |
|---------------|---------------------------------|-----------|-----------|-----------|----------|
|               | 2011                            | 2010      |           | \$ Change | % Change |
|               | (dollars in thousands)          |           |           |           |          |
| North America | \$ 23,205                       | \$ 12,820 | \$ 10,385 | 81%       |          |
| Europe        | 29,425                          | 18,422    | 11,003    | 60%       |          |
| Asia & Other  | 61,128                          | 26,245    | 34,883    | 133%      |          |
|               | \$ 113,758                      | \$ 57,487 | \$ 56,271 | 98%       |          |

Orders in the quarter ended March 31, 2011 were \$113.8 million, an increase of \$56.3 million or 98% compared to the same quarter in 2010. Increased worldwide demand for machine tools contributed to the improved order levels in all of our major markets. In addition, favorable foreign currency impact contributed approximately \$3.5 million to the overall increase when compared to the same period in 2010.

North American orders increased by \$10.4 million, or 81%, in the first quarter of 2011 compared to the same quarter in 2010. The increase was driven by strong orders from our U.S. distributors as the global economy rebounds and our distribution partners gain traction in the marketplace with our product lines.

European orders increased by \$11.0 million, or 60%, in the first quarter of 2011 compared to the same quarter in 2010. The increase in orders for the quarter compared to the same period in 2010 was driven by improving economic conditions in the region as well as the current year impact of the Jones & Shipman acquisition. Currency exchange rates had a favorable impact on new orders of approximately \$1.9 million when compared to the same period in 2010.

Asia and Other orders represent 54% of the total first quarter 2011 orders. Compared to the same period in 2010, Asia and Other orders increased by \$34.9 million or 133%. The increase was driven by strong demand for machine tools in Asia, particularly in China. Orders from a China-based supplier to the consumer electronics industry were \$11.0 million in the first quarter of 2011, a \$9.0 million increase compared to the same period in 2010. Currency exchange rates had a favorable impact on new orders of approximately \$1.6 million when compared to the same period in 2010.

**Net Sales.** The table below summarizes net sales by geographical regions for the three months period ended March 31, 2011 compared to the same period in 2010:

|               | Three Months Ended<br>March 31, |           |          |           |          |
|---------------|---------------------------------|-----------|----------|-----------|----------|
|               | 2011                            | 2010      |          | \$ Change | % Change |
|               | (dollars in thousands)          |           |          |           |          |
| North America | \$ 17,214                       | \$ 11,550 | \$ 5,664 | 49%       |          |
| Europe        | 19,815                          | 12,418    | 7,397    | 60%       |          |
| Asia & Other  | 36,453                          | 19,202    | 17,251   | 90%       |          |

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|    |        |    |        |    |        |     |
|----|--------|----|--------|----|--------|-----|
| \$ | 73,482 | \$ | 43,170 | \$ | 30,312 | 70% |
|----|--------|----|--------|----|--------|-----|

Net sales in the quarter ended March 31, 2011 were \$73.5 million, an increase of \$30.3 million, or 70%, compared to the same quarter in 2010. The increases were driven by higher demand for machine tools as the global economy rebounded from recent economic crisis. The increased sales levels were noted in all of our regions, particularly in Asia and Other which was primarily driven by sales activity in China. In addition, favorable foreign currency impact contributed \$3.0 million to the overall increase.

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North American net sales increased by \$5.7 million, or 49%, in the first quarter of 2011 compared to the same quarter in 2010. The increase was primarily driven by strong demand in the United States for machine tools as the general economic conditions in the country have improved as well as the favorable impact of our distribution partners as they gain traction in the marketplace with our product lines.

European net sales increased by \$7.4 million, or 60%, in the first quarter of 2011 compared to the same quarter in 2010. The increases, as in our other regions, were driven by higher demand for machine tools as the global economy rebounded from the recession. Currency exchange rates had a favorable impact on net sales of approximately \$2.2 million when compared to the same period in 2010.

Asia & Other net sales increased by \$17.3 million, or 90%, in the first quarter of 2011 compared to the same quarter in 2010. The increase was primarily driven by demand in China, which was up by \$15.9 million or 105%. Net sales to a China-based supplier to the consumer electronics industry were \$7.5 million in the first quarter of 2011, a \$5.8 million increase compared to the same period in 2010. Currency exchange rates had a favorable impact on net sales of approximately \$0.8 million when compared to the same period in 2010.

Net sales of machines accounted for approximately 77% of consolidated net sales for the three months ended March 31, 2011. Sales of non-machine products and services consist of collets, accessories, repair parts, and services.

**Gross Profit.** Gross profit for the three months ended March 31, 2011 was \$19.1 million, an increase of \$10.1 million, or 113%, compared to the same period in 2010. Gross profit increased as a result of significant increase in sales volume, the favorable impact of the cost management initiatives taken in the prior periods, and increased factory utilization coupled with improved demand for machine tools. Gross margin percentage for the three months ended March 31, 2011 was 26.0%, an increase of 5.3 percentage points compared to the same period in 2010.

**Selling, General and Administrative Expenses & Other.** Selling, general and administrative ( SG&A ) expenses were \$16.7 million, or 22.7% of net sales, for the three months ended March 31, 2011, an increase of \$2.3 million, or 16% compared to \$14.4 million, or 33.4% of net sales for the three months ended March 31, 2010. The increase was primarily due to higher variable selling related expenses due to increased sales volumes as well as the incremental impact of expenses associated with the Jones & Shipman acquisition. In addition, currency exchange rates had an unfavorable impact on SG&A expenses of approximately \$0.9 million when compared to the same period in 2010. SG&A expense in the first quarter of 2010 included charges of \$0.9 million for professional services expenses related to an unsolicited tender offer and \$0.2 million related to acquisition costs.

**Gain on sale of assets.** Gain on sale of assets was \$0.03 million for the quarter ended March 31, 2011 compared to \$0.3 million for the same period in the prior year.

**Other Expense.** Other expense, net, was \$0.2 million for the quarter ended March 31, 2011 compared to \$0.1 million for the same period in the prior year.

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***Income (loss) from Operations.*** In the first quarter of 2011, we generated \$2.3 million income from operations. In the same quarter last year, we generated \$5.3 million loss from operations.

***Interest Expense & Interest Income.*** Net interest expense was \$0.04 million for the three months ended March 31, 2011 compared to \$0.08 million for the same period in 2010.

***Income Taxes.*** The provision for income taxes was \$0.8 million for the three months ended March 31, 2011, compared to a tax benefit of \$0.1 million for the three months ended March 31, 2010. The effective tax rate was 37.6% for the three months ended March 31, 2010, compared to (2.7)% for the three months ended March 31, 2010.



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This difference was driven by the non-recognition of tax benefits for certain entities in a loss position for which a full valuation allowance has been recorded (U.S., U.K., Germany, and Canada), and by the mix of earnings by country.

Each quarter, an estimate of the full year tax rate for jurisdictions not subject to a full valuation allowance is developed based upon anticipated annual results and an adjustment is made, if required, to the year-to-date income tax expense to reflect the full year anticipated effective tax rate.

We continue to maintain a full valuation allowance on the tax benefits of our U.S. net deferred tax assets and we expect to continue to record a full valuation allowance on future tax benefits until an appropriate level of profitability in the U.S. is sustained. We also maintain a valuation allowance on our U.K., German, and Canadian deferred tax assets related to tax loss carryforwards in those jurisdictions, as well as all other deferred tax assets of those entities.

The effective tax rate for the period ended March 31, 2011 of 37.6% differs from the U.S. statutory rate primarily due to no tax benefit being recorded for certain entities in a loss position for which a full valuation allowance has been recorded.

**Net Income (Loss).** Net income for the three months ended March 31, 2011 was \$1.4 million, or 1.9% of net sales, compared to a net loss of \$5.2 million, or (12.0%) of net sales, for the three months ended March 31, 2010. The increase in net income was primarily a result of higher gross profits due to higher net sales. Earnings per share, both basic and diluted, for the three months ended March 31, 2011 were \$0.12 compared to loss per share, both basic and diluted, of (\$0.45) for the three months ended March 31, 2010.

***Summary of Cash Flows for the three month ended March 31, 2011 and 2010:***

|   | <b>Three Months Ended<br/>March 31,</b> |         |             |
|---|---|---------|-------------|
|   | <b>2011</b>                             |         | <b>2010</b> |
|   | <b>(in thousands)</b>                   |         |             |
| Net cash (used in) provided by operating activities     | \$                                      | (7,055) | \$ 3,285    |
| Net cash (used in) investing activities                 |   | (4,329) | (374)       |
| Net cash provided by financing activities               |   | 5,188   | 618         |
| Effect of exchange rate changes on cash                 |   | 196     | (131)       |
| (Decrease) increase in cash and cash equivalent         | \$                                      | (6,000) | \$ 3,398    |
| Capital expenditures (included in investing activities) | \$                                      | (4,354) | \$ (657)    |

During the three months ended March 31, 2011, we used \$7.1 million net cash in operating activities. Primarily, cash was used for inventory purchases which increased due to higher demand for our products and related increase in production levels. Cash was also used to fund account and notes receivables and prepaids and other assets as the business activity levels increased. The outflow of cash was offset by cash provided by accounts payables and accrued expenses which increased due to higher production levels and higher customer deposits related to order activity.

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During the three months ended March 31, 2010, we generated \$3.3 million net cash from operating activities. Primarily, cash was provided by decreased accounts receivable to improve working capital. Additionally, cash was used in inventory purchases which increased due to the increased order activity, which was offset by an increase in accounts payable due to the increased inventory purchasing activity.

Net cash used in investing activities was \$4.3 million for the three months ended March 31, 2011 compared to \$0.4 million for the same period in 2010. The increase was related to investment in facilities and equipment in Switzerland and China.

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Cash flow provided by financing activities was \$5.2 million for the three months ended March 31, 2011 compared to \$0.6 million for the same period in 2010. The increase was due to additional borrowings under our existing credit facilities to facilitate hedging of foreign currency exposures and to fund working capital needs.

**Liquidity and Capital Resources**

Our liquidity requirements primarily include funding for operations, including working capital requirements, and funding for capital investments and acquisitions. We expect to meet these requirements in the long term through cash provided by operating activities and availability under various credit facilities and other financing arrangements. Cash flows from operating activities are primarily driven by earnings before noncash charges and change in working capital needs. In the first quarter of 2011, cash flows from financing activities and available cash were sufficient to fund our investment activities, primarily capital expenditures for property, plant and equipment and other productive assets. We had additional borrowing capacity of \$26.2 million at March 31, 2011, and \$31.4 million at December 31, 2010, available under various credit facilities maintained by the Company and certain subsidiaries.

We assess on an ongoing basis our portfolio of operations, as well as our financial and capital structures, to ensure we have sufficient capital and liquidity to meet our strategic objectives. As part of this process, from time to time we evaluate and pursue acquisition opportunities that we believe will enhance our strategic position.

*Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are 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. These forward-looking statements generally are identified by the words believes, project, expects, anticipates, estimates, intends, strategy, plan, may, will, would, will be, will continue, will likely result, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Accordingly, there can be no assurance that our expectations will be realized. Such statements are based upon information known to management at this time. The Company cautions that such statements necessarily involve uncertainties and risk and deal with matters beyond the Company's ability to control, and in many cases the Company cannot predict what factors would cause actual results to differ materially from those indicated. Among the many factors that could cause actual results to differ from those set forth in the forward-looking statements are fluctuations in the machine tool business cycles, changes in general economic conditions in the U.S. or internationally, the mix of products sold and the profit margins thereon, the relative success of the Company's entry into new product and geographic markets, the Company's ability to manage its operating costs, actions taken by customers such as order cancellations or reduced bookings by customers or distributors, competitors' actions such as price discounting or new product introductions, governmental regulations and environmental matters, changes in the availability and cost of materials and supplies, the implementation of new technologies and currency fluctuations. Any forward-looking statement should be considered in light of these factors. The Company undertakes no obligation to revise its forward-looking statements if unanticipated events alter their accuracy.*

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**PART I.**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

There have been no material changes to our market risk exposures during the first three months of 2011. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risks, contained in our 2010 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

Management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2011, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, and determined that these controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2011 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 1.a. Risk Factors**

There is no change to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information about issuer repurchases of our common stock by month for the quarter ended March 31, 2011:

**Issuer Purchases of Equity Securities**

| Period                         | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share |
|--------------------------------|---|------------------------------------|
| January 1 - January 31, 2011   | 4,433                                     | \$ 9.15                            |
| February 1 - February 29, 2011 |   |                                    |
| March 1 - March 31, 2011       | 11,015                                    | \$ 13.06                           |
| Total                          | 15,448                                    |                                    |

The above shares repurchased during the quarter were part of the Company's Incentive Compensation Plan to satisfy tax withholding obligations.

**Item 3. Default upon Senior Securities**

None

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None

**Item 6. Exhibits**

- 31.1 - Chief Executive Officer Certification pursuant to Rule 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Chief Financial Officer Certification pursuant to Rule 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 - Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

**Hardinge Inc.**

May 6, 2011  
Date

By: /s/ Richard L. Simons  
Richard L. Simons  
President and Chief Executive Officer  
(Principal Executive Officer)

May 6, 2011  
Date

By: /s/ Edward J. Gaio  
Edward J. Gaio.  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

May 6, 2011  
Date

By: /s/ Douglas J. Malone  
Douglas J. Malone  
Corporate Controller and Chief Accounting Officer  
(Principal Accounting Officer)