HARDINGE INC
Form 10-Q
May 09, 2012

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, 2012

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

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 _X_ 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 _X_ 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 _X_
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 _X_

As of March 31, 2012 there were 11,674,092 shares of Common Stock of the registrant outstanding.

HARDINGE INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HARDINGE INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands Except Share and Per Share Data)

		March 31, 2012 (Unaudited)		December 31, 2011
Assets				
Cash and cash equivalents	$	22,206	$	21,736
Restricted cash		4,634		4,575
Accounts receivable, net		52,720		65,909
Inventories, net		134,199		122,782
Other current assets		14,085		13,338
Total current assets		227,844		228,340
Property, plant and equipment, net		70,600		68,204
Intangible assets, net		12,808		12,765
Other non-current assets		2,221		2,360
Total non-current assets		85,629		83,329
Total assets	$	313,473	$	311,669
Liabilities and shareholders equity				
Accounts payable	$	32,122	$	36,952
Notes payable to bank		18,853		12,969
Accrued expenses		20,910		25,103
Customer deposits		19,947		18,881
Accrued income taxes		3,178		3,480
Deferred income taxes		2,530		2,556
Current portion of long-term debt		2,530		1,548
Total current liabilities		100,070		101,489
Long-term debt		6,560		7,020
Pension and postretirement liabilities		44,948		49,310
Deferred income taxes		3,105		2,391
Other liabilities		4,767		4,436
Total non-current liabilities		59,380		63,157
Common stock ($0.01 par value, 12,472,992 issued)		125		125
Additional paid-in capital		114,097		114,369
Retained earnings		67,251		65,041
Treasury shares		(10,125)		(10,379)
Accumulated other comprehensive loss		(17,325)		(22,133)
Total shareholders equity		154,023		147,023

Total liabilities and shareholders equity	$	313,473	$	311,669

See accompanying notes to the consolidated financial statements

HARDINGE INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In Thousands Except Per Share Data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Net sales	$ 74,650	$ 73,482
Cost of sales	53,427	54,406
Gross profit	21,223	19,076
Selling, general and administrative expenses	17,633	16,673
Gain on sale of assets	(2)	(25)
Other expense	204	177
Income from operations	3,388	2,251
Interest expense	140	78
Interest income	(24)	(39)
Income before income taxes	3,272	2,212
Income tax expense	829	831
Net income	$ 2,443	$ 1,381
Basic and diluted earnings per share:	$ 0.21	$ 0.12
Cash dividends declared per share:	$ 0.02	$ 0.005

See accompanying notes to the consolidated financial statements

HARDINGE INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In Thousands)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	(Unaudited)			
Net income	$	2,443	$	1,381
Other comprehensive income, net of tax		4,808		1,821
Comprehensive income, net of tax	$	7,251	$	3,202

See accompanying notes to the consolidated financial statements

HARDINGE INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In Thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Operating activities		
Net income	$ 2,443	$ 1,381
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,743	1,916
Debt issuance amortization	52	26
Provision for deferred income taxes	981	(1,085)
Gain on sale of assets	(2)	(25)
Unrealized intercompany foreign currency transaction loss (gain)	427	(215)
Changes in operating assets and liabilities:		
Accounts receivable	14,108	(2,308)
Inventories	(8,447)	(9,311)
Other assets	(295)	(1,079)
Accounts payable	(5,564)	1,081
Customer deposits	676	5,065
Accrued expenses	(9,505)	(2,677)
Accrued postretirement benefits	(124)	176
Net cash used in operating activities	(3,507)	(7,055)
Investing activities		
Capital expenditures	(2,113)	(4,354)
Proceeds on sale of assets	-	25
Net cash used in investing activities	(2,113)	(4,329)
Financing activities		
Proceeds from short-term notes payable to bank	23,900	7,016
Repayments of short-term notes payable to bank	(18,312)	(1,636)
Proceeds from long-term debt	476	-
Repayments of long-term debt	(152)	(154)
Dividends paid	(233)	(58)
Other financing activities	(49)	20
Net cash provided by financing activities	5,630	5,188
Effect of exchange rate changes on cash	460	196
Net increase (decrease) in cash	470	(6,000)
Cash and cash equivalents at beginning of period	21,736	30,945
Cash and cash equivalents at end of period	$ 22,206	$ 24,945

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2012

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, 2011. 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 months ended March 31, 2012 are not necessarily indicative of the results that may be expected in subsequent quarters or for the full year ended December 31, 2012.

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the current 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, 2012	December 31, 2011
	(in thousands)	
Finished products	$ 52,520	$ 49,476
Work-in-process	32,423	28,549
Raw materials and purchased components	49,256	44,757

Inventories, net	$	134,199	$	122,782

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	March 31, 2012	December 31, 2011
	(in thousands)	
Land, buildings and improvements	$ 76,139	$ 73,657
Machinery, equipment and fixtures	68,760	68,303
Office furniture, equipment and vehicles	17,192	16,990
Construction in progress	9,988	9,212
	172,079	168,162
Accumulated depreciation	(101,479)	(99,958)
Property, plant and equipment, net	$ 70,600	$ 68,204

NOTE 4. INTANGIBLE ASSETS

The major components of intangible assets are as follows:

	March 31, 2012	December 31, 2011
	(in thousands)	
Gross amortizable intangible assets:		
Land rights	$ 2,755	$ 2,746
Patents	2,973	2,965
Technical know-how and other	5,820	5,785
Total gross amortizable intangible assets	11,548	11,496
Accumulated amortization:		
Land rights	(74)	(59)
Patents	(2,729)	(2,704)
Technical know-how and other	(3,398)	(3,235)
Total accumulated amortization	(6,201)	(5,998)
Amortizable intangible assets, net	5,347	5,498
Intangible asset not subject to amortization	7,461	7,267

Intangible assets, net	$	12,808	$	12,765

Amortization expense related to these amortizable intangible assets was $0.2 million and $0.2 million for the three months ended March 31, 2012 and March 31, 2011, respectively.

Intangible asset not subject to amortization represents the aggregate value of the trade name, trademarks and copyrights associated with the former worldwide operations of Bridgeport. We use the Bridgeport brand name on all of our machining center lines; therefore, the asset has been determined to have an indefinite useful life. The $0.2 million increase in the value of the assets from 2011 was the impact of foreign currency exchange.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

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 rate is an estimate based upon projected result for the year, estimated annual permanent differences, the statutory tax rates in the various jurisdictions in which we operate, and the non-recognition of tax benefits for entities with full valuation allowances. The overall effective tax rate was 25.3% for the three months ended March 31, 2012.

The tax years 2008 to 2011 remain open to examination by United States taxing authorities, and for our other major jurisdictions, including Switzerland, United Kingdom, Taiwan, Germany, and China, the tax years between 2005 to 2010 generally remain open to routine examination by foreign taxing authorities, depending on the jurisdiction.

We recorded an increase of $0.1 million to the accrued liability associated with uncertain tax positions in the three months ended March 31, 2012. At March 31, 2012 and December 31, 2011, we had a $2.4 million and $2.3 million liability recorded for uncertain income tax positions. Related interest and penalties were $0.8 million at March 31, 2012, and $0.7 million at December 31, 2011. If recognized, the uncertain tax benefits, with related penalties and interest, 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:

	Three Months Ended March 31,	
	2012	**2011**
	(in thousands)	
Balance at the beginning of period	$ 3,800	$ 3,297
Warranties issued	662	1,018

Warranty settlement costs		(793)		(622)
Changes in accruals for pre-existing warranties		(344)		(56)
Currency translation adjustments		107		29
Balance at the end of period	$	3,432	$	3,666

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

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, 2012 and March 31, 2011 is presented below.

	Pension Benefits Three Months Ended March 31,		Postretirement Benefits Three Months Ended March 31,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Service cost	$ 317	$ 377	$ 4	$ 5
Interest cost	2,048	2,114	28	34
Expected return on plan assets	(2,385)	(2,479)	-	-
Amortization of prior service cost	(14)	(17)	(88)	(88)
Amortization of transition (asset)	(68)	(67)	-	-
Amortization of loss	611	429	(2)	-
Net periodic cost (benefit)	$ 509	$ 357	$ (58)	$ (49)

The expected contributions to be paid during the year ending December 31, 2012 to the domestic defined benefit plans are $6.0 million. Contributions to the domestic plans for the three months ended March 31, 2012 and March 31, 2011 were $4.2 million and $0.7 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, 2012 to the foreign defined benefit plans are $2.2 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. During the three months ended March 31, 2012 and March 31, 2011, contributions of $0.6 million and $0.6 million were 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.

NOTE 8. FAIR VALUE AND DERIVATIVE INSTRUMENTS

Fair Value

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

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

	March 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash and cash equivalents	$ 22,206	$ 22,206	$ -	$ -
Restricted cash	4,634	4,634	-	-
Notes payable to bank	18,853	-	18,853	-
Variable interest rate debt	9,090	-	9,090	-
Foreign currency forward contracts, net	(163)	-	(163)	-

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash and cash equivalents	$ 21,736	$ 21,736	$ -	$ -
Restricted cash	4,575	4,575	-	-
Notes payable to bank	12,969	-	12,969	-
Variable interest rate debt	8,568	-	8,568	-
Foreign currency forward contracts, net	(1,053)	-	(1,053)	-

The fair value of cash and cash equivalents and restricted cash are based on the fair values of identical assets in active markets. The fair value of notes payable to bank and variable interest rate debt are based on the present value of expected future cash flows. Due to the short period to maturity or the nature of the underlying liability, the fair value of notes payable to bank and variable interest rate debt approximates their respective carrying amounts. The fair value of foreign currency forward contracts is measured using internal models based on observable market inputs such as spot and forward rates.

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 and measured at fair value. 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 expense line item on the Consolidated Statements of Operations when the hedged transaction affects earnings. As of March 31, 2012, we do not expect material amount of the gain or loss will be reclassified from AOCI into other income or 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 expense line item on the Consolidated Statements of Operations.

As of March 31, 2012 and December 31, 2011, the notional amounts of the derivative financial instruments not qualifying or otherwise designated as hedges were $36.1 million and $47.6 million, respectively. For the three months ended March 31, 2012 and March 31, 2011, we recorded a gain of $0.2 million and a loss of $0.4 million, respectively, related to this type of derivative financial instruments. The gains and losses were recorded in the Other expense line item on the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

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

	March 31, 2012		December 31, 2011	
	Notional Amount	Unrealized Loss	Notional Amount	Unrealized Loss
	(in thousands)			
Foreign currency forwards	$ 38,035	$ 2	$ 48,802	$ 1,017

The following table presents the fair value on our Consolidated Balance Sheets of the foreign currency forward contracts:

	March 31, 2012	December 31, 2011
	(in thousands)	
Foreign currency forwards designated as hedges:		
Other current assets	$ 327	$ 334
Accrued expenses	(329)	(1,351)
Foreign currency forwards not designated as hedges:		
Other current assets	9	315
Accrued expenses	(170)	(351)
Foreign currency forwards, net	$ (163)	$ (1,053)

NOTE 9. COMMITMENTS AND CONTINGENCIES

Our operations are subject to extensive federal, state, local and foreign laws and regulations relating to environmental matters.

Certain environmental laws can impose joint and several liabilities 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 real property we own and on adjacent parcels of real property.

In particular, our Elmira, NY 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, NY. In February 2006, the Company 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. Hazardous substances, including metals and polychlorinated biphenyls, have been detected in sediments in the Pond.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

A substantial portion of the Pond is located on our property. The Company, 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 to voluntarily participate in the Remedial Investigation and Feasibility Study (RI/FS) by signing an Administrative Settlement Agreement and Order on 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.

In May 2008, the EPA approved the RI/FS Work Plan. The PRPs commenced field work in the spring of 2008 and on September 7, 2011 submitted the draft Remedial Investigation Report to the EPA. The PRPs are continuing to address EPA comments and to perform the tasks required by the RI/FS Work Plan and Administrative Settlement Agreement.

Until receipt of this Special Notice in February 2006, the Company had never been named as a PRP at the Site nor had the Company 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 contributed or are contributing to the contamination. 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, will result in material liabilities to the Company.

NOTE 10. STOCK BASED COMPENSATION

All of our stock based compensation to employees is recorded as selling, general and administrative expenses in our Consolidated Statements of Operations based on the fair value at the grant date of the award. These non-cash compensation costs were included in the depreciation and amortization amounts in the Consolidated Statements of Cash Flows.

A summary of stock based compensation expense is as follows:

	Three Months Ended March 31,	
	2012	2011
	(in thousands)	
Restricted stock/unit awards (RSA)	$ 123	$ 126
Performance share incentives (PSI)	35	-
Stock options	-	9
	$ 158	$ 135

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

During the first quarter of 2012, we granted 18,000 RSAs. We did not grant any RSAs during the same period in 2011. The fair value of the 2012 grant was $0.2 million. The deferred compensation is being amortized on a straight-line basis over the specified service period. Unrecognized compensation and the expected weighted-average recognition periods with respect to the outstanding RSAs as of March 31, 2012 and December 31, 2011, are as follows:

		March 31, 2012		**December 31, 2011**
Unrecognized compensation cost, in thousands	$	886	$	851
Expected weighted-average recognition period for unrecognized compensation cost, in years		1.8		1.2

During the first quarter of 2012 and 2011, we did not grant any PSIs. The deferred compensation with respect to the PSI is being recognized into earnings based on the passage of time and achievement of performance targets. All outstanding PSIs are unvested.

NOTE 11. EARNINGS PER SHARE

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

	Three Months Ended March 31,			
		2012		**2011**
	(in thousands except per share data)			
Basic earnings per share computation:				
Net income	$	2,443	$	1,381
Less earnings allocated to participating equity awards		23		21
Net earnings applicable to common shareholders	$	2,420	$	1,360
Weighted average common shares outstanding		11,524		11,450
Basic earnings per share	$	0.21	$	0.12
Diluted earnings per share computation:				
Net income	$	2,443	$	1,381
Earnings allocated to participating equity awards		23		21

Net earnings applicable to common shareholders	$	2,420	$	1,360
Weighted average common shares outstanding		11,524		11,450
Assumed exercise of stock options		24		26
Assumed satisfaction of restricted stock conditions		9		-
Weighted -average diluted shares outstanding		11,557		11,476
Diluted earnings per share	$	0.21	$	0.12

Certain share based awards of 177,859 shares and 212,166 shares were excluded from the calculation of earnings per share as they were anti-dilutive for the three months ended March 31, 2012 and March 31, 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2012

NOTE 12. NEW ACCOUNTING STANDARDS

In May 2011, the FASB issued authoritative guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. This pronouncement changes certain fair value measurement guidance and expands certain disclosure requirements. We adopted this pronouncement on January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated results of operations and financial condition.

In June 2011, the FASB issued authoritative guidance that requires companies to present items of net income, items of other comprehensive income and total comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. We adopted this pronouncement on January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated results of operations and financial condition.

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 believes 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, 2011.

Our primary business is designing, manufacturing, and distributing high-precision computer controlled metal-cutting turning, grinding, and milling machines and related accessories. We are geographically diversified with manufacturing facilities in Switzerland, Taiwan, the United States (U.S.), China, and the United Kingdom (U.K.) with sales to most industrialized countries. Approximately 74% of our 2011 sales were to customers outside of North America, 82% of our 2011 products sold were manufactured outside of North America, and 70% of our employees were 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 measures of market activity levels.

Metrics on machine tool market activity watched by our management include world machine tool consumption (a proxy for shipments), 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 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 by trade associations in those countries.

Non-machine sales, which include collets, accessories, repair parts and service revenue, have typically accounted for approximately 23% of overall sales and are an important part of our business due to an existing 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 typically track the direction of the related machine metrics.

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

We are exposed to financial market risk resulting from changes in interest and foreign currency rates. Global economic conditions and related disruptions within the financial markets have also 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 the risks associated with collection on our accounts receivable.

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 predominantly manufacturers based in Japan, Germany, Switzerland, Korea, and Taiwan. The concentration of our competitors in these countries causes the worldwide valuation of their respective currencies to be integral to competitive pricing in all of our markets. The major functional currencies of our subsidiaries are the British Pound Sterling (GBP), Chinese Renminbi (CNY), Euro (EUR), New Taiwanese Dollar (TWD), and Swiss Franc (CHF). Under U.S. generally accepted accounting principles, 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 may affect comparative data significantly. During the first quarter of 2012, as compared to the respective average values of these functional currencies in the first quarter of 2011, the value of USD decreased by 4% against CNY and 2% against CHF, and increased by 4% against EUR. The value of USD when compared to TWD and GBP remained relatively flat. The change in foreign currency exchange rates resulted in favorable currency translation impact of approximately $0.7 million on orders and approximately $0.9 million on net sales in the first quarter of 2012 compared to the same period in 2011. We also purchase computer controls and other components from suppliers throughout the world. Consequently, our purchase costs associated with these components may be affected by fluctuations of the value of currencies.

Results of Operations

Summarized selected financial data for the three months ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31,					
	2012	% of Sales	2011	% of Sales	$ Change	% Change
	(dollar and share data in thousands)					
Orders	$ 81,362		$ 113,758		$ (32,396)	(28)%
Sales	74,650		73,482		1,168	2%
Gross profit	21,223	28.4%	19,076	26.0%	2,147	11%
Selling, general and administrative expenses	17,633	23.6%	16,673	22.7%	960	6%
Other expense	204		177		27	15%
Income from operations	3,388	4.5%	2,251	3.1%	1,137	51%
Net income	2,443	3.3%	1,381	1.9%	1,062	77%
Basic and diluted earnings per share	$ 0.21		$ 0.12		$ 0.09	
Weighted average shares outstanding - basic	11,524		11,450		74	
Weighted average shares outstanding - diluted	11,557		11,476		81	

Reconciliation of net income to EBITDA

	Three Months Ended March 31,		
	2012	2011	Change
	(in thousands)		
GAAP net income	$ 2,443	$ 1,381	$ 1,062
Plus: Interest expense, net of interest income	116	39	77
Income tax expense	829	831	(2)
Depreciation and amortization	1,743	1,916	(173)
EBITDA (1)	$ 5,131	$ 4,167	$ 964

(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. We believe that monitoring EBITDA along with our GAAP results and the accompanying reconciliation provides additional information that is useful to gain an understanding of the factors and trends affecting our business.

Orders. The table below summarizes orders by each corresponding geographical region for the three months ended March 31, 2012 compared to the same period in 2011:

	Three Months Ended March 31, 2012	2011	$ Change	% Change
		(in thousands)		
North America	$ 20,699	$ 23,217	$ (2,518)	(11)%
Europe	29,796	29,417	379	1%
Asia	30,867	61,124	(30,257)	(50)%
	$ 81,362	$ 113,758	$ (32,396)	(28)%

Orders during the three months ended March 31, 2012 were $81.4 million, a decrease of $32.4 million, or 28%, when compared to the same period in 2011. The decrease over the prior year period was driven by the exceptional growth experienced by the machine tool industry during the three months ended March 31, 2011. Order volumes during the three months ended March 31, 2011 were at a record level for the Company as customers reacted to the increasing prices and extended lead times. These trends resulted from constraints on the machine tool supply chain due to significant demand caused by strong economic recovery in the industry. Favorable foreign currency impact contributed approximately $0.7 million to the change in orders when compared to the same period in 2011.

North America orders decreased by $2.5 million, or 11%, in the three months ended March 31, 2012 when compared to the same period in 2011. The decrease was primarily driven by the impact of customers in the United States accelerating purchase decisions during the fourth quarter of 2011 to take advantage of tax benefits. Additionally, January 2012 was unusually soft as businesses were slow to make purchase commitments.

Europe orders remained relatively stable, increasing by $0.4 million, or 1%, in the three months ended March 31, 2012 when compared to the same period in 2011. Currency exchange rates had an unfavorable impact of approximately $0.1 million on new orders when compared to the same period in 2011.

Asia orders represent 38% of the total orders in the three months ended March 31, 2012, compared to 54% in the same period in 2011. Asia orders decreased by $30.3 million, or 50%, when compared to the same period in 2011. The decrease was driven by declining demands for machine tools in the region due in large part to the slower growth in the Chinese economy compared to an usually high volume experienced during the three months ended March 31, 2011. Additionally, multiple machine orders from a China-based supplier to the consumer electronics industry were $2.3 million in the three months ended March 31, 2012, an $8.7 million decrease when compared to the same period in 2011. Currency exchange rates had a favorable impact on new orders of approximately $0.8 million when compared to the same period in 2011.

Sales. The table below summarizes sales by each corresponding geographical region for the three months ended March 31, 2012 compared to the same period in 2011:

	Three Months Ended March 31, 2012	2011	$ Change	% Change
		(in thousands)		
North America	$ 18,621	$ 17,195	$ 1,426	8%
Europe	24,657	19,816	4,841	24%

Asia		31,372		36,471	(5,099)	(14)%
	$	74,650	$	73,482	$ 1,168	2%

Sales in the three months ended March 31, 2012 were $74.6 million, an increase of $1.2 million, or 2%, when compared to the same period in 2011. The increases were primarily driven by higher demand in the North America and Europe regions. In addition, favorable foreign currency impact contributed $0.9 million to the overall increase when compared to the same period in 2011.

North America sales increased by $1.4 million, or 8%, in the three months ended March 31, 2012 when compared to the same period in 2011. The North America increase was noted across all product lines and can be attributed to a stable U.S. industrial economy and the effectiveness of our channels to market.

Europe sales increased by $4.8 million, or 24%, in the three months ended March 31, 2012 when compared to the same period in 2011. The increases were driven by higher demand for machine tools attributable to solid activity levels in Germany and the United Kingdom. In addition, favorable foreign currency impact contributed $0.1 million to the overall increase when compared to the same period in 2011.

Asia sales decreased by $5.1 million, or 14%, in the three months ended March 31, 2012 compared to the same period in 2011. The decrease over the prior year period was primarily attributable to a $4.7 million reduction in sales to a China-based supplier to the consumer electronics industry. Excluding the sales to this customer, Asia sales decreased by $0.4 million, or 1.2%, primarily due to the slowing down of Chinese economy. Currency exchange rates had a favorable impact on sales of approximately $0.8 million when compared to the same period in 2011.

Sales of machines accounted for approximately 74% of the consolidated sales for the three months ended March 31, 2012. Sales of non-machine products and services, primarily workholding, repair parts, and accessories, accounted for 26% of the consolidated sales for the three months ended March 31, 2012.

Gross Profit. Gross profit for the three months ended March 31, 2012 was $21.2 million, an increase of $2.1 million, or 11%, when compared to the same period in 2011. Increase in gross profit was primarily attributable to favorable product and pricing mix. Gross margin for the three months ended March 31, 2012 was 28.4%, an increase of 2.4 percentage points when compared to the same period in 2011.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses were $17.6 million, or 23.6% of sales, for the three months ended March 31, 2012, an increase of $0.9 million, or 5.8%, when compared to $16.7 million, or 22.7% of sales, for the three months ended March 31, 2011. This year over year increase is primarily inflationary.

Other Expense. Other expense was $0.2 million for the three months ended March 31, 2012 compared to $0.2 million for the same period in 2011.

Income from Operations. Income from operations was $3.4 million for the three months ended March 31, 2012 compared to $2.3 million for the same period in 2011.

Interest Expense & Interest Income. Net interest expense was $0.1 million for the three months ended March 31, 2012 compared to $0.04 million for the same period in 2011. The increase in interest expense was attributable to the Company s higher average outstanding indebtedness as of March 31, 2012 as compared to the same period in 2011.

Income Taxes. The provision for income taxes was $0.8 million for the three months ended March 31, 2012 compared to a $0.8 million for the same period in 2011. The effective tax rate was 25.3% for the three months ended March 31, 2012 compared to 37.6% for the same period in 2011.

The difference in effective tax rates between these two periods 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 three months ended March 31, 2012 of 25.3% 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, and due to an increase to the accrued liabilities associated with uncertain tax positions.

Net Income. Net income for the three months ended March 31, 2012 was $2.4 million, or 3.3% of sales, compared to a net income of $1.4 million, or 1.9% of sales, for the same period in 2011. The increase in net income was primarily a result of higher gross profits. Earnings per share, both basic and diluted, were $0.21 and $0.12 for the three months ended March 31, 2012 and March 31, 2011, respectively.

Summary of Cash Flows for the three months ended March 31, 2012 and March 31, 2011:

	Three Months Ended March 31,			
		2012		2011
	(in thousands)			
Net cash used in operating activities	$	(3,507)	$	(7,055)
Net cash used in investing activities		(2,113)		(4,329)
Net cash provided by financing activities		5,630		5,188
Effect of exchange rate changes on cash		460		196
Increase (decrease) in cash and cash equivalent	$	470	$	(6,000)
Capital expenditures (included in investing activities)	$	(2,113)	$	(4,354)

During the three months ended March 31, 2012, we used $3.5 million net cash in operating activities. Cash inflow was primarily provided by collections on accounts receivables and higher customer deposits. The cash inflow was offset by cash used in inventory purchases to support production, vendor payments, and contributions to the pension plans.

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.

Net cash used in investing activities was $2.1 million for the three months ended March 31, 2012 compared to $4.3 million for the same period in 2011. The decrease was primarily due to lower capital expenditures as we complete our facility expansion projects in Switzerland and China.

Cash flow provided by financing activities was $5.6 million for the three months ended March 31, 2012 compared to $5.2 million for the same period in 2011. 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 2012, 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 $38.6 million at March 31, 2012, and $43.4 million at December 31, 2011, available under various credit facilities maintained by the Company and certain Company 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.

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 2012. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures About Market Risks, contained in our 2011 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, 2012, 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, 2012 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.

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, 2011.

ITEM 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

ITEM 3. **DEFAULT UPON SENIOR SECURITIES**

None

ITEM 4. **MINE SAFETY DISCLOSURES**

Not Applicable

ITEM 5. **OTHER INFORMATION**

None

ITEM 6. **EXHIBITS**

3.1	Restated Certificate of Incorporation of Hardinge Inc. filed with the Secretary of State of the State of New York on May 24, 1995, incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2009.
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of Hardinge Inc. Company, incorporated by reference from the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2010.
3.3	By-Laws of Hardinge Inc., incorporated by reference from the Registrant s Annual Report on Form 10-K for the year ended December 31, 2011.
4.1	Specimen of certificate for shares of Common Stock, par value $.01 per share, of Hardinge Inc., incorporated by reference from the Registrant s Registration Statement on Form 8-A, filed with the Securities and Exchange Commission on May 19, 1995.
10.1*	Amendment Number One dated February 14, 2012 to the Employment Agreement with Richard L. Simons dated March 7, 2011, incorporated by reference from the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2011.
10.2*	Amendment Number One dated February 14, 2012 to the Employment Agreement with Edward J. Gaio dated March 7, 2011, incorporated by reference from the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2011.
10.3*	Amendment Number One dated February 14, 2012 to the Employment Agreement with James P. Langa dated March 7, 2011, incorporated by reference from the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2011.

10.4*	Amendment Number One dated February 14, 2012 to the Employment Agreement with Douglas C. Tifft dated March 7, 2011, incorporated by reference from the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 17, 2011.
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.

101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

*Management contract or compensatory plan or arrangement.

**In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filing.

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 9, 2012 Date	By:	/s/ Richard L. Simons Richard L. Simons Chairman, President and Chief Executive Officer (Principal Executive Officer)
May 9, 2012 Date	By:	/s/ Edward J. Gaio Edward J. Gaio. Vice President and Chief Financial Officer (Principal Financial Officer)
May 9, 2012 Date	By:	/s/ Douglas J. Malone Douglas J. Malone Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)