

ALDILA INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED
MARCH 31, 2010

**ALDILA, INC.
 QUARTERLY REPORT
 FOR THE QUARTER ENDED MARCH 31, 2010**

Item 1: Exact name of the issuer and the address of its principal executive offices.

Name of Issuer: Aldila, Inc.

Principal Executive Offices: 14145 Danielson Street, Suite B
 Poway, CA 92064

Telephone: 858-513-1801
 Facsimile: 858-513-1870
 Website: www.aldila.com

Investor Relations Officer: Scott M. Bier, VP/CFO

14145 Danielson Street, Suite B
 Poway, CA 92064

Telephone: 858-513-1801
 Facsimile: 858-513-1870
 Email: sbier@aldila.com

Item 2: Shares outstanding

The following table sets forth information concerning the equity securities of Aldila, Inc. as of March 31, 2010:

SECURITIES AUTHORIZED AND OUTSTANDING

Class	As of	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (public float)	Total Number of Beneficial Shareholders (1)	Total Number of Shareholders of Record
Common	March 31, 2010	30,000,000	5,202,156	3,755,811	2,875	233
Preferred	March 31, 2010	5,000,000	-	-	-	-
(1) As of April 6, 2010						

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Item 3: Interim financial statements (Unaudited)

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,926	\$ 7,104
Accounts receivable.....	8,640	7,535
Inventories	9,248	9,280
Deferred taxes.....	579	562
Prepaid expenses and other current assets	727	679
Total current assets	25,120	25,160
PROPERTY, PLANT AND EQUIPMENT	11,448	11,649
DEFERRED TAXES.....	1,528	1,528
OTHER NON-CURRENT ASSETS.....	206	235
TOTAL ASSETS	\$ 38,302	\$ 38,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 5,634	\$ 4,141
Income taxes payable	462	158
Accrued expenses	2,162	2,438
Short term debt	917	1,300
Other current liability	509	509
Total current liabilities	9,684	8,546
LONG-TERM LIABILITIES:		
Deferred rent.....	114	111
Long term debt	—	2,167
Other long-term liabilities	1,332	1,332
Total liabilities.....	11,130	12,156
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; authorized 5,000,000 shares; no shares issued.....	—	—
Common stock, \$.01 par value; authorized 30,000,000 shares; issued and outstanding 5,202,156 shares as of March 31, 2010 and as of December 31, 2009.....	52	52
Additional paid-in capital	44,667	44,618
Accumulated deficit.....	(17,547)	(18,254)
Total stockholders' equity	27,172	26,416
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 38,302	\$ 38,572

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three months ended	
	March 31,	
	2010	2009
NET SALES	\$ 16,119	\$ 13,803
COST OF SALES	11,886	10,941
Gross profit	<u>4,233</u>	<u>2,862</u>
SELLING, GENERAL AND ADMINISTRATIVE	3,203	2,830
Operating income	<u>1,030</u>	<u>32</u>
OTHER INCOME (EXPENSE):		
Interest income	1	2
Interest expense	(22)	(58)
Other, net	<u>91</u>	<u>(16)</u>
INCOME (LOSS) BEFORE INCOME TAXES	1,100	(40)
PROVISION FOR INCOME TAXES	<u>393</u>	<u>8</u>
NET INCOME (LOSS)	<u>\$ 707</u>	<u>\$ (48)</u>
NET INCOME (LOSS) PER COMMON SHARE.....	<u>\$ 0.14</u>	<u>\$ (0.01)</u>
NET INCOME (LOSS) PER COMMON SHARE, ASSUMING DILUTION	<u>\$ 0.13</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>5,202</u>	<u>5,174</u>
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES	<u>5,242</u>	<u>5,174</u>

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u> <u>Capital</u>	<u>(Accumulated Deficit)</u>	
Balance at January 1, 2010.....	5,202	\$52	\$44,618	\$(18,254)	\$26,416
Stock-based compensation	—	—	49		49
Net income	—	—	—	707	707
Balance at March 31, 2010.....	<u>5,202</u>	<u>\$52</u>	<u>\$44,667</u>	<u>\$(17,547)</u>	<u>\$27,172</u>

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended	
	March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss).....	\$ 707	\$ (48)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	422	456
Stock-based compensation	49	116
Loss on disposal of fixed assets.....	—	7
Changes in assets and liabilities:		
Accounts receivable.....	(1,105)	291
Inventories	32	1,492
Deferred tax assets.....	(17)	(41)
Prepaid expenses and other assets	(23)	(57)
Accounts payable.....	1,493	294
Accrued expenses	(276)	(241)
Income taxes payable.....	304	666
Other current liabilities.....	—	17
Deferred rent and other long-term liability.....	3	(9)
Net cash provided by operating activities.....	1,589	2,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment.....	(217)	(165)
Proceeds from sales of property, plant and equipment.....	—	5
Net cash used for investing activities	(217)	(160)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for the term loan.....	(2,250)	(250)
Borrowings against line of credit.....	—	1,400
Payments for line of credit.....	(300)	(4,000)
Net cash used for financing activities	(2,550)	(2,850)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,178)	(67)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,104	6,157
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,926	\$ 6,090
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes.....	\$ 130	\$ 12
Interest	\$ 29	\$ 55

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The consolidated balance sheet as of March 31, 2010 and the consolidated statements of operations and cash flows for the three month periods ended March 31, 2010 and 2009, are unaudited and reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The consolidated balance sheet as of December 31, 2009 was derived from the Aldila, Inc. and subsidiaries' (the "Company's") audited financial statements. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2010. These consolidated financial statements should be read in conjunction with the Company's December 31, 2009 consolidated financial statements and notes thereto included in the Company's Annual Report and filed on Form 10-K with the Securities and Exchange Commission.

Recent Accounting Pronouncements

In February 2010, the FASB issued ASU No. 2010-09, "Amendments to Certain Recognition and Disclosure Requirements" ("ASU 2010-09"), which is included in the FASB Accounting Standards Codification (the "ASC") Topic 855 (Subsequent Events). ASU 2010-09 clarifies that an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued. ASU 2010-09 is effective upon the issuance of the final update and did not have a significant impact on the Company's financial statements.

2. Inventories

Inventories consist of the following (in thousands):

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Raw materials	\$ 7,549	\$ 7,193
Work in process	255	525
Finished goods	1,444	1,562
Net inventories	<u>\$ 9,248</u>	<u>\$ 9,280</u>
Inventory reserves included in net inventories..	<u>\$ 1,068</u>	<u>\$ 999</u>

3. Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Machinery and equipment.....	\$ 19,251	\$ 19,271
Office furniture and equipment.....	1,745	1,738
Leasehold improvements	8,403	8,397
Building and land.....	2,962	2,962
Property and equipment not yet in service.....	482	448
Total gross fixed assets	32,843	32,816
Less: accumulated depreciation and amortization	(21,395)	(21,167)
Net property, plant and equipment.....	<u>\$ 11,448</u>	<u>\$ 11,649</u>

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4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Payroll and employee benefits	\$ 1,843	\$ 1,521
Warranty reserve (1)	62	138
Other	257	779
	<u>\$ 2,162</u>	<u>\$ 2,438</u>

(1) Warranty reserve rollforward

	January 1, 2010 through March 31, 2010	January 1, 2009 through December 31, 2009
Beginning Balance	\$ 138	\$ 110
Settlement of Warranty	(23)	(85)
Adjustments to Warranty	(53)	113
Ending Balance	<u>\$ 62</u>	<u>\$ 138</u>

5. Debt

The Company entered into a Credit and Security Agreement (“Credit Facility”) with KeyBank National Association (“Key Bank”) on February 8, 2008 and subsequently amended the agreement on February 9, 2009, with an effective date of December 31, 2008. The amended Credit Facility is comprised of a Term Loan Commitment (“Term Loan”) of \$5.0 million and a Maximum Revolving Amount (“Revolver”) of \$5.0 million, for a total Credit Facility of \$10.0 million. The Credit Facility terminates on February 8, 2013. The Company’s assets serve as collateral for the Credit Facility. The interest rate of borrowing against the Credit Facility can be either at a Derived Base Rate or Eurodollar Rate. The Derived Base Rate is the Base Rate plus 2.75%. The Base Rate is defined as a rate per annum equal to the greater of (a) the Prime Rate or (b) one-half of one percent (.50%) in excess of the Federal Funds Effective Rate. Eurodollar Rate is a LIBOR rate plus 4.50%. The Company must maintain certain Financial Covenants (“Covenants”) in accordance with the amended Credit Facility effective December 31, 2009, which are as follows: a Leverage Ratio which cannot exceed 2.0 to 1.0, a Fixed Charge Coverage Ratio not to be less than 1.2 to 1.0. The Company must also maintain a Minimum Cash Balance equal to or greater than \$5.0 million effective December 31, 2008.

Short term debt

	March 31, 2010	December 31, 2009
Revolving line of credit	\$ —	\$ 300
Current portion of long term debt	917	1,000
Short term debt.....	<u>917</u>	<u>1,300</u>

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Long term debt

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Term Loan	\$ 917	\$ 3,167
Less: current portion of long term debt.....	(917)	(1,000)
Long term debt.....	<u>—</u>	<u>2,167</u>
Total debt.....	<u>\$ 917</u>	<u>\$ 3,467</u>

Short term debt — The Company did not borrow any against the Revolver as of March 31, 2010. The Company must pay a .25% commitment fee for the average unused portion of the Revolver for any given period.

Long term debt — The Company borrowed \$5.0 million during the first quarter of 2008 against the Term Loan. The interest rate of the Term Loan is LIBOR plus 1.75% and adjusts each month. As of March 31, 2010, the interest rate was 4.73%. The Company must make monthly payments of \$83,333 plus interest. The Company has paid \$2,250,000 against the Term Loan in 2010.

6. Accounting for Share-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period. The Company determines the grant-date fair value of employee share options using the Black-Scholes option-pricing model.

There were no capitalized stock-based compensation costs as of March 31, 2010 and 2009, respectively. During the three month periods ended March 31, 2010 and 2009, the Company did not grant any stock options or restricted stock awards. The Company recognizes share-based compensation expense using the straight line attribution method. The remaining unrecognized compensation cost related to unvested awards at March 31, 2010, was \$307,000; such expense will be recognized over a weighted average period of 1.9 years. This amount does not include the cost of any additional options or restricted stock awards that may be awarded in future periods nor any changes in the Company's forfeiture rate. The Company's FAS 123R expense was \$49,000 and \$116,000 for the three month periods ended March 31, 2010 and 2009, respectively.

Stock Option Activity

Cash proceeds, tax benefits and intrinsic value of related total stock options exercised during the three month periods ended March 31, 2010 and 2009, respectively, are as follows (in thousands):

	<u>Three month</u> <u>periods ended</u> <u>March 31,</u>	
	<u>2010</u>	<u>2009</u>
Proceeds from stock options exercised	\$ —	\$ —
Tax benefit related to stock options exercised	\$ —	\$ —
Intrinsic value of stock options exercised	\$ —	\$ —

The following table summarizes the stock option transactions during the three month period ended March 31, 2010:

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	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding 01/01/2010	167,421	\$ 10.22		
Options granted.....	—	—		
Options exercised.....	—	—		
Options terminated.....	(49,780)	11.90		
Options outstanding 03/31/2010	<u>117,641</u>	<u>\$ 9.51</u>	<u>4.5</u>	<u>\$ 5.68</u>
Options exercisable 03/31/2010.	<u>110,974</u>	<u>\$ 9.71</u>	<u>4.3</u>	<u>\$ 5.82</u>

The Company estimates the fair value of stock options at the date of grant using the Black-Scholes model. The Company estimates the expected life of its grants based upon historical exercise data. The risk free interest rate is based on the U.S. Treasury constant maturity for the expected life of the stock option. Expected volatility is based on the historical volatilities of the Company's common stock. The Company determined in August 2008 to suspend dividend payments and as a consequence expected dividend yield will be nil in the above application of the Black-Scholes model.

Restricted Stock Activity

Restricted stock awards were issued to employees under the Company's Plan. Restricted stock awards vest over three years and are subject to the employees' continuing service to the Company. The cost of restricted stock awards is determined using the fair value of the Company's common stock on the date of the grant. The compensation expense is recognized ratably over the vesting period. A summary of the status of and changes in restricted stock units granted under the Company's Plan as of and during the three month period ended March 31, 2010 is presented below:

	<u>March 31, 2010</u>	
	<u>Shares</u>	<u>Weighted Average Fair Value</u>
Restricted stock outstanding 01/01/2010	70,843	\$ 5.46
Restricted stock awarded	—	\$ —
Restricted stock vested.....	—	\$ —
Restricted stock terminated.....	—	\$ —
Restricted stock outstanding 03/31/2010	<u>70,843</u>	<u>\$ 5.46</u>

7. Segment Reporting

The Company classifies its business into two segments based on products offered; Composite Products and Composite Materials. The Composite Products segment is mainly comprised of sales of graphite golf shafts. The Composite Materials segment is comprised of external sales of prepreg uni-tapes, fabrics, film adhesives. The Company evaluates performance based on profit or loss from operations. The Company does not evaluate inter-segment sales and historically has not tracked such sales. The Composite Materials segment produces the majority of its materials for the Composite Products segment. Certain SG&A costs and other shared support costs are recorded initially in the Composite Products segment and allocated for segment reporting. Segment long-lived assets are comprised of property, plant and equipment. The long-lived assets of the Composite Materials segment also support the Composite Products segment, as the Composite Materials segment manufactures the majority of the raw material prepreg consumed by the Composite Products segment.

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Segment Operating Results

	Three month period ended March 31, 2010		
	Composite Products	Composite Materials	Total
Revenues from external customers	\$ 13,401	\$ 2,718	\$ 16,119
Operating income.....	\$ 460	\$ 570	\$ 1,030
Income before income taxes	\$ 518	\$ 582	\$ 1,100
	Three month period ended March 31, 2009		
	Composite Products	Composite Materials	Total
Revenues from external customers	\$ 12,317	\$ 1,486	\$ 13,803
Operating income.....	\$ (159)	\$ 191	\$ 32
(Loss) Income before income taxes	\$ (223)	\$ 183	\$ (40)

Segment Long-Lived Assets

	As of March 31, 2010	As of December 31, 2009
Composite Products	\$ 6,664	\$ 6,781
Composite Materials	4,784	4,868
Total Long-Lived Assets.....	\$ 11,448	\$ 11,649

8. Income Taxes

The Company has analyzed filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. There were no changes to the Company's unrecognized tax positions during the three months ended March 31, 2010. The Company had an other current liability of \$509,000 and an other long term liability of \$1.3 million as of March 31, 2010 and December 31, 2009.

The Company does not anticipate material changes to the Company's unrecognized tax positions that it has taken. The Company's practice is to recognize interest related to income tax matters in income tax expense. During the three month periods ended March 31, 2010 and 2009, the Company recorded interest expense of \$13,000 and \$17,000, respectively. As of March 31, 2010 and December 31, 2009, the Company had approximately \$163,000 and \$150,000, respectively, accrued for interest.

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Item 4: Management's discussion and analysis ("MD&A") and results of operation

The Company's MD&A is comprised of significant accounting estimates made in the normal course of its operations, overview of the Company's business conditions, results of operations and liquidity. The Company is disclosing segment information for two segments. Composite Products is comprised of sales of golf shafts and other composite products. Composite Materials is comprised of external sales of prepreg products in the forms of uni-tapes, fabrics and film adhesives.

Significant Accounting Estimates

We prepared the consolidated financial statements of the Company in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

We have several significant accounting estimates, such as; revenue recognition, accounts receivable, inventories and income taxes, which were discussed in the 2009 Annual Report filed on Form 10-K, that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. During the three months ended March 31, 2010, we did not make any new accounting estimates that are considered significant accounting estimates nor were there any significant changes related to our significant accounting estimates previously made that would have a material impact on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

Overview - Business Conditions

Composite Products

The Composite Products segment is mainly comprised of graphite golf shafts. The graphite shaft market consists of customized OEM production shafts, both premium and value and Aldila branded and co-branded shafts. The Company sells customized OEM production and co-branded shafts directly to its OEM customers and sells Aldila branded shafts through the OEM custom stock and custom fit programs and to distributors. The Company's recent branded shaft offerings are as follows:

Branded Shaft Offerings

- Aldila NV[®] and NV[®] Line extensions
 - Introduced in 2003, featuring the Company's exclusive Micro Laminate Technology[®].
 - Has had numerous Tour victories.
 - The Company introduced NV[®] line extensions in 2004, including the NVS[™], NV ProtoPype[®], Pink NV[®], NV[®] Irons and NV[®] Hybrid shafts.
 - The Aldila NV[®] can be considered one of the most successful shaft introductions ever.
- VS Proto[™] and the VS Proto[™] Hybrid
 - Introduced and began shipping in 2006.

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- High performance shaft featuring carbon nanotubes as well as aerospace carbon fibers and the Company's exclusive high performance resin systems.
 - Used by the winner of the 2006 U.S. Open.
- DVS® and DVS® Hybrid
- Introduced late in the fourth quarter 2007.
 - Features carbon nanotubes and an innovative tip design for extra kick at impact, with optimum launch.
 - Used by former Aldila advisory staff member, Paula Creamer, for 4 LPGA in 2008.
- VooDoo®
- Initially introduced on Tour only during the first quarter of 2008.
 - One of the most popular shafts on the PGA Tour.
 - Used to win 8 events in 2008 and 10 events in 2009.
- En Fuego™
- 3 different shafts – Wasabi™, Habanero™ and Serrano™, each promotes a different ball launch.
 - Introduced on Tour during 2009.

Hybrid shafts are included in branded shafts. The Company's branded hybrid shafts have been the most popular hybrid shafts on Tour for the last several years, often times outpacing the nearest competitor at a two to one margin. The Company's success in Branded Shafts has led to tremendous success on Tour over the past several years.

Tour Play

- 2007 Tour Play
- Tour professionals using Aldila shafts won 19 events on the PGA Tour and nearly fifty percent of all the events on the Nationwide Tour.
 - Aldila shafts were also the most popular shafts for woods and hybrid clubs at every major championship on the PGA Tour.
 - Aldila shafts were used by the winner of The Masters and the U.S. Open as well as the winner of the World Golf Championship-Accenture Match Play Championship.
 - Former Aldila advisory staff member, Paula Creamer, won the SBS Open and led the U.S. Women's team to victory in the Solheim Cup playing her Pink NV® woods.
 - Aldila was also the shaft of choice for the majority of players in both woods and hybrids at the 2007 PGA Club Professional Championship.
 - At the 2007 U.S. Men's Amateur, Aldila was the leading shaft choice for hybrids.
 - During the U.S. Public Links Championship, Aldila was the most popular wood and hybrid shaft.

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- Aldila was also the leading shaft at the NCAA Division 1 Men's Championship in both woods and hybrids and the leading driver shaft at the NCAA Women's Championship.
 - Aldila shafts were included on the Golf Digest Hot List and won Golf Tips Magazine's Technology Award.
- 2008 Tour Play
- Aldila enjoyed a great 2008 Tour season.
 - On the PGA Tour, players using Aldila shafts have won 13 events, including the World Golf Championship-CA Championship and the Verizon Heritage by former Aldila advisory staff member, Boo Weekley.
 - Players using Aldila shafts have also won 13 events on the Nationwide Tour and 15 events on the Champions Tour.
 - On the LPGA Tour we have won 20 events, and Paula Creamer, a former Aldila advisory staff member, has won four events.
- 2009 Tour Play
- Aldila enjoyed a great 2009 Tour season.
 - On the PGA Tour, players using Aldila shafts have won 15 events, including the Mercedes-Benz Championship, WGC-Accenture Match Play Championship and The Masters.
 - Players using Aldila shafts have also won 16 events on the Nationwide Tour.
 - Aldila was the most popular wood and hybrid shaft at The Masters, U.S. Open, The PGA Championship, The Open Championship and every World Golf Championship. For the second year in a row, Aldila was also the most popular shaft at every FedEx Cup event.
 - Aldila was the most popular wood and hybrid shaft at the majority of all other PGA and Nationwide Tour events.
- 2010 Tour Play
- Aldila has enjoyed a great start to the 2010 Tour season with wins at the SBS Championship, AT&T Pebble Beach National Pro-Am and the World Golf Championship-Accenture Match Play Championship.
 - Players using Aldila shafts have also had multiple top ten finishes, including five players in the top ten at The Masters.

Our entire high performance line has done well with Tour players winning using our NV[®], VS Proto[™], DVS[®] and VooDoo[®] shafts.

Competition

The Company tries to maintain a broad customer base in both the OEM production shaft and branded shaft market segments and competes aggressively with foreign-based shaft manufacturers for OEM production shafts and branded shafts. However, the Company's sales have tended to be concentrated among a limited number of major club companies, thus making the Company's results of operations dependent on those customers, their continued willingness to purchase a significant portion of their shafts from the Company, and their success in selling clubs containing the Company's shafts to their customers. In 2009, net sales to Ping, Acushnet Company and Callaway Golf, represented 20%, 11% and 10% of the

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Company's net sales, respectively, and the Company anticipates that these companies will continue, collectively, to represent the largest portion of its sales in 2010.

Although it is generally difficult to predict in advance the success of any particular club or of any particular manufacturer, the Company believes that it is protected to some extent from normal periodic fluctuations in sales among the various golf club companies by virtue of the broad depth and range of its customer base. Golf club companies regularly introduce new clubs, frequently containing innovations in design. Sometimes these new clubs achieve dramatic success in the marketplace, thus increasing the overall volatility of club sales among the major companies. While the Company seeks to have its shafts represented on as many major product introductions as possible, it can provide no assurance that its shafts will be included in any particular "hot" club or that sales of a "hot" club that does not include the Company's shafts will not have a negative impact on the sales of those clubs that do. The Company's sales could also suffer a significant drop-off from period to period to the extent that they may be dependent in any period on sales of one or more "hot" clubs, which then tail off in subsequent periods and at the same time new offerings fail to achieve a high level of new sales sufficient to exceed or replace the previous sales levels of "hot" clubs. This is especially true in the premium branded driver programs. If the Company does not participate in these programs, it could have an adverse effect on the Company's revenues and average selling prices. Average selling prices of the Company's shafts have varied greatly over the years based upon programs it participates in, mix of shafts, wood vs. irons, competition, retail inventory situations or a shortage of raw materials available. The Company's average selling price for shafts decreased in 2010 by 8% as compared to 2009.

The Company believes that some of the success it enjoyed in 2005 and 2006 was attributed to a shortage of carbon fiber. The Company believes that some of its competitors are negatively impacted when there is a shortage of carbon fiber, which can create a shortage of prepreg. Although the Company does not have ownership in a carbon fiber plant any longer, it still produces the majority of its carbon fiber prepreg, which the Company believes is a competitive advantage. In the midst of this pricing pressure that the Company has faced over the years, the Company has attempted to reduce its cost structure in order to be competitive. In order to do so, the Company continues to look at ways to do this, which in the past has prompted the Company to move its shaft manufacturing operations offshore, first to Mexico, then China and more recently, Vietnam in 2006. The Company closed its Mexico facility during 2009 and shifted that production to Asia.

Composite Materials

The Composite Materials segment is comprised of external sales of prepreg, film adhesives, fabrics and other materials. The Company historically has not tracked inter-segment sales and has always looked at the contribution provided by Composite Materials based upon the external sales of materials. The Company records all shared costs to Composite Products and allocates certain costs for segment reporting, such as shipping, purchasing and other administrative costs based upon the net revenues of each segment. Costs that are specific to one segment are charged directly to the respective segment.

The Company began to manufacture composite materials in 1994. Initially, the prepreg produced was mainly consumed by the Composite Products segment. Sales of prepreg, as a percentage of net sales, were 17% for the period ended March 31, 2010 as compared to 11% for the comparable period of 2009. The Company has spent a significant amount of money over the past several years to increase the capacity of its prepreg operations in support of its external sales of prepreg and Composite Products operations. Over the last several years, the Company has put in place two prepreg production lines, a second resin filmer and completed the installation of a wide prepreg tape line during the first quarter of 2008. The prepreg lines add to the Company's capacity of prepreg to support both the Composite Materials and Composite Products segments. The additional resin filmer supports the Company's wide tape line and

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provides backup film capacity as the Company had previously only one resin filmer. In addition, the wide tape line allows the Company to enter some markets it has previously not been able to access.

The Company continues to look for opportunities to sell its prepreg and film adhesive products to other fabricators of products manufactured from composite materials. The Company has achieved some success in these areas and management believes that growth opportunities in these areas will continue to exist. In addition, management believes that vertical integration through its prepreg operation has been successful, to date, and is allowing the Company to maintain, or in some cases enhance, its competitive position with respect to the major United States golf club companies that are its principal customers.

Results of Operations

First Quarter 2010 Compared to First Quarter 2009

Net Sales

	As of March 31,			
	2010	2009	Chg	% Chg
Composite Products	\$ 13,401	\$ 12,317	\$ 1,084	9%
Composite Materials	2,718	1,486	1,232	83%
Total Net Sales	\$ 16,119	\$ 13,803	\$ 2,316	17%

Net sales increased by \$2.3 million, or 17%, for the 2010 Period as compared to the 2009 Period. The increase in sales was attributed to increases in Composite Product and Composite Materials sales. The increase in the Composite Product sales of \$1.1 million was attributed to an increase in sales of OEM production shafts, which was partially offset by a decrease in the sales of co-branded shafts. The Company's average selling price of golf shaft sales decreased by 8% on a 19% increase in the units shipped during the 2010 Period as compared to the 2009 Period. Composite Materials sales increased by \$1.2 million, or an 83% increase. Composite Materials have increased to approximately 17% of the Company's consolidated net revenues. The majority of our Composite Materials business is to customers in the recreational products industry.

Gross Profit

	As of March 31,			
	2010	2009	Chg	% Chg
Composite Products ...	\$ 3,330	\$ 2,450	\$ 880	36%
Composite Materials ..	903	412	491	119%
Total Gross Profit...	\$ 4,233	\$ 2,862	\$ 1,371	48%

Total gross profit increased by approximately \$1.4 million, or 48%, in the 2010 Period as compared to the 2009 period. The increase in Composite Products gross profit was mainly attributed to the increase in net sales in the 2010 Period as compared to 2009 Period. The gross profit also benefited from lower manufacturing costs during the 2010 Period as all of our units were manufactured in Asia, whereas during the 2009 Period the Company was still manufacturing in Mexico and had not exited that facility. Composite Products gross margin increased to 25% for the 2010 Period as compared to 20% for the 2009 Period. The Composite Materials gross profit increased by \$491,000, or 119%, in the 2010 Period as compared to the 2009 Period. The increase was mainly attributed to an increase in sales and increased manufacturing efficiencies with higher volumes. Composite Materials gross margin was 33% for the 2010 Period and 28% for the 2009 Period.

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Operating Income

	<u>As of March 31,</u>			
	<u>2010</u>	<u>2009</u>	<u>Chg</u>	<u>% Chg</u>
Gross profit	\$ 4,233	\$ 2,862	\$ 1,371	48%
<u>Selling, General & Administrative</u> <u>("SG&A) Expense</u>				
Composite Products	2,870	2,609	261	10%
Composite Materials	333	221	112	51%
Total SG&A	<u>3,203</u>	<u>2,830</u>	<u>373</u>	<u>13%</u>
 <u>Operating Income</u>				
Composite Products	460	(159)	619	389%
Composite Materials	570	191	379	198%
Operating Income.....	<u>\$ 1,030</u>	<u>\$ 32</u>	<u>\$ 998</u>	<u>3,119%</u>
Operating Margin	6%	0%		

Operating income increased by \$998,000, or 3,119%, in the 2010 Period as compared to the 2009 Period. The increase was attributed to a increase in gross profit of \$1.4 million, which was partially offset by an increase in SG&A expenses of \$373,000. The increase in SG&A expenses were attributed to increases in advertising and promotional expenses in support of the Company's branded product and increases in incentive related expense. SG&A expenses decreased as a percentage of revenues to 20% in the 2010 Period as compared to 21% for the 2009 Period. Although the Company's SG&A increased during the 2010 Period as compared to the 2009 Period, the Company is aggressively managing its expenses, and anticipates future savings in corporate expenses. The Company moved its stock listing from the NASDAQ to the OTCQX U.S. Premier in an effort to save corporate related costs, such as legal, accounting and costs associated with Sarbanes-Oxley.

Other Income (Expense)

	<u>As of March 31,</u>			
	<u>2010</u>	<u>2009</u>	<u>Chg</u>	<u>% Chg</u>
Operating income	\$ 1,030	\$ 32	\$ 998	3119%
Interest income	1	2	(1)	(50)%
Interest expense.....	(22)	(58)	36	62%
Other, net.....	91	(16)	107	669%
Total other income (expense)...	<u>70</u>	<u>(72)</u>	<u>142</u>	<u>197%</u>
Income (loss) before income taxes	<u>\$ 1,100</u>	<u>\$ (40)</u>	<u>\$ 1,140</u>	<u>2,850%</u>

Other Income increased by approximately \$142,000, or 197%, for the 2010 Period as compared to the 2009 Period. The majority of the increase was attributed to an increase in other income of \$107,000 and a decrease in interest expense of \$36,000.

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Income Taxes

	As of March 31,			
	2010	2009	Chg	% Chg
Income (loss) before income taxes	\$ 1,100	\$ (40)	\$ 1,140	2,850%
Provision for income taxes.....	393	8	385	4,813%
Net income (loss)	\$ 707	\$ (48)	\$ 755	1,573%
Effective tax rate	36%	(20)%		
Profit margin	4%	0%		

The Company recorded a provision for income taxes in the amount of \$393,000 in the 2010 Period as compared to \$8,000 for the 2009 Period. The Company's effective tax rate was 36% for the 2010 Period as compared to (20) % for the 2009 Period. The Company records its provision for income taxes in interim periods based upon its estimated annual effective rate. The Company also records interest expense for its unrecognized tax benefits in the provision for income taxes. The amount of expense for the 2010 Period and 2009 Period was approximately \$13,000 and \$17,000, respectively.

Liquidity and Capital Resources

Cash and cash equivalents ("cash") decreased by approximately \$1.2 million as of March 31, 2010 as compared to December 31, 2009. The decrease in cash was mainly attributed to payments against its credit facility, which was partially offset by cash provided by working capital. Cash provided by operations was \$1.6 million for the 2010 Period as compared to cash used of \$2.9 million for the 2009 Period. The Company is actively managing its working capital and placing continued emphasis on its inventory and accounts receivable.

The Company used approximately \$217,000 for capital expenditures during the 2010 Period as compared to \$165,000 during the 2009 Period. The Company has spent approximately \$113,000 in support of its Composite Product segment and approximately \$103,000 in support of its Composite Materials segment. Management anticipates capital expenditures will approximate \$1.0 million for the year ended December 31, 2010.

The Company paid \$2.3 million against the term loan in the 2010 Period as compared to \$250,000 for the 2009 Period. The Company made payments of \$300,000 against the line of credit in 2010 as compared to borrowings of \$1.4 million and payments of \$4.0 million during the 2009 Period. The Company was able to reduce its total debt by \$2.6 million during the quarter ended March 31, 2010.

We believe that our cash from operating activities will be adequate to meet our anticipated requirements for working capital, capital expenditures and debt service for the next twelve months. There can be no assurance, however, that our business will continue to generate cash flows at current levels. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets, reduce capital expenditures or obtain additional financing and there is no assurance we will be able to do so on a timely basis or on satisfactory terms.

Seasonality

Because the Company's customers have historically built inventory in anticipation of purchases by golfers in the spring and summer, the principal retail selling season for golf equipment, the Company's operating results have been affected by seasonal demand for golf clubs, which has generally resulted in the Company's highest sales occurring in the first and second quarter. The timing of customers' new product introductions has frequently mitigated the impact of seasonality in recent years.

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Backlog

As of March 31, 2010, the Company had a sales backlog of approximately \$10.1 million compared to approximately \$5.0 million as of March 31, 2009. The Company believes that the dollar volume of its current backlog will be shipped over the next three months. Orders can typically be cancelled without penalty up to 30 days prior to shipment. Historically, the Company's backlog generally has been highest in the first and second quarters, due in large part to seasonal factors. Due to the timing and receipt of customer orders, backlog is not necessarily indicative of future operating results.

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Item 5: Legal proceedings

None.

Item 6: Defaults upon senior securities

None.

Item 7: Other information

None

Item 8: Exhibits

There are no new exhibits to file during the three month period ended March 31, 2010. The Company's exhibits are incorporated by reference from the Company's Annual Report filed on Form 10-K for the year ended December 31, 2009 and filed with the Securities and Exchange Commission on March 29, 2010.

Item 9: Issuer's Certifications

Please see Exhibits 9(A) and 9(B) at the end of this quarterly report.

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EXHIBIT 9(A)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Peter R. Mathewson, principal executive officer of Aldila, Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report of the Company for the period ended March 31, 2010;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report.

Date: March 13, 2010

/s/Peter R. Mathewson
Peter R. Mathewson
Principal Executive Officer

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EXHIBIT 9(B)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Scott M. Bier, principal financial officer of Aldila, Inc. (the "Company"), certify that:

4. I have reviewed this quarterly report of the Company for the period ended March 31, 2010;
5. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
6. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report.

Date: March 13, 2010

/s/Scott M. Bier
Scott M. Bier
Principal Financial Officer