
ALDILA INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED
JUNE 30, 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 June 30, 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	Total Number of Shareholders of Record
Common	June 30, 2010	30,000,000	5,203,656	3,755,811	2,865	238
Preferred	June 30, 2010	5,000,000	-	-	-	-

Item 3: Interim financial statements (Unaudited)

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,109	\$ 7,104
Accounts receivable.....	5,940	7,535
Inventories	9,518	9,280
Deferred taxes.....	605	562
Prepaid expenses and other current assets	788	679
Total current assets	<u>24,960</u>	<u>25,160</u>
PROPERTY, PLANT AND EQUIPMENT	11,481	11,649
DEFERRED TAXES.....	1,546	1,528
OTHER NON-CURRENT ASSETS.....	204	235
TOTAL ASSETS	<u>\$ 38,191</u>	<u>\$ 38,572</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,278	\$ 4,141
Income taxes payable	331	158
Accrued expenses	2,613	2,438
Short term debt	—	1,300
Other current liability	537	509
Total current liabilities	<u>8,759</u>	<u>8,546</u>
LONG-TERM LIABILITIES:		
Deferred rent.....	113	111
Long term debt	—	2,167
Other long-term liabilities	1,385	1,332
Total liabilities.....	<u>10,257</u>	<u>12,156</u>
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 5,203,656 shares as of June 30, 2010 and 5,202,156 shares as of December 31, 2009	52	52
Additional paid-in capital	44,725	44,618
Accumulated deficit.....	(16,843)	(18,254)
Total stockholders' equity	<u>27,934</u>	<u>26,416</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 38,191</u>	<u>\$ 38,572</u>

See notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
NET SALES	\$ 14,398	\$ 10,574	\$ 30,517	\$ 24,377
COST OF SALES	10,806	9,191	22,692	20,132
Gross profit.....	3,592	1,383	7,825	4,245
SELLING, GENERAL AND ADMINISTRATIVE.....	2,633	2,558	5,836	5,388
Operating income (loss)	959	(1,175)	1,989	(1,143)
OTHER INCOME (EXPENSE):				
Interest income	1	7	2	9
Interest expense	(10)	(44)	(32)	(102)
Other, net.....	(74)	(64)	17	(80)
INCOME (LOSS) BEFORE INCOME TAXES	876	(1,276)	1,976	(1,316)
PROVISION (BENEFIT) FOR INCOME TAXES	172	(649)	565	(641)
NET INCOME (LOSS).....	<u>\$ 704</u>	<u>\$ (627)</u>	<u>\$ 1,411</u>	<u>\$ (675)</u>
NET INCOME (LOSS) PER COMMON SHARE.....	<u>\$ 0.14</u>	<u>\$ (0.12)</u>	<u>\$ 0.27</u>	<u>\$ (0.13)</u>
NET INCOME (LOSS) PER COMMON SHARE, ASSUMING DILUTION	<u>\$ 0.13</u>	<u>\$ (0.12)</u>	<u>\$ 0.27</u>	<u>\$ (0.13)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING.....	<u>5,203</u>	<u>5,174</u>	<u>5,203</u>	<u>5,174</u>
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES	<u>5,265</u>	<u>5,174</u>	<u>5,254</u>	<u>5,174</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-in	Retained Earnings	Total
	Shares	Amount	Capital	(Accumulated Deficit)	
Balance at January 1, 2010	5,202	\$52	\$44,618	\$(18,254)	\$26,416
Stock-based compensation	—	—	102		102
Stock issuance upon option exercise	2	—	5		5
Net income	—	—		1,411	1,411
Balance at June 30, 2010	5,204	\$52	\$44,725	\$(16,843)	\$27,934

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(In thousands)

	Six months ended	
	June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss).....	\$ 1,411	\$ (675)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	855	892
Stock-based compensation	102	229
Loss on disposal of fixed assets.....	—	76
Changes in assets and liabilities:		
Accounts receivable.....	1,595	1,473
Inventories	(238)	1,927
Deferred tax assets.....	(61)	(158)
Prepaid expenses and other assets	(86)	(231)
Accounts payable.....	1,137	598
Accrued expenses	175	(43)
Income taxes payable/receivable	173	111
Other current liabilities.....	28	32
Deferred rent and other long-term liability.....	55	(21)
Net cash provided by operating activities.....	5,146	4,210
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment.....	(679)	(441)
Proceeds from sales of property, plant and equipment.....	—	11
Net cash used for investing activities	(679)	(430)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for term loan.....	(3,167)	(500)
Borrowings against line of credit.....	—	2,800
Payments for line of credit.....	(300)	(5,400)
Proceeds from issuance of common stock.....	5	—
Net cash used for financing activities.....	(3,462)	(3,100)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,005	680
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,104	6,157
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,109	\$ 6,837
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes.....	\$ 397	\$ 20
Interest.....	\$ 43	\$ 101

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. Basis of Presentation

The consolidated balance sheet as of June 30, 2010 and the consolidated statements of operations for the three and six month periods ended June 30, 2010 and 2009 and the consolidated statements of cash flows for the six month periods ended June 30, 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 filed on Form 10-K with the Securities and Exchange Commission.

2. Inventories

Inventories consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Raw materials	\$ 7,625	\$ 7,193
Work in process	245	525
Finished goods	1,648	1,562
Net inventories	\$ 9,518	\$ 9,280
Inventory reserves included in net inventories..	\$ 1,046	\$ 999

3. Property, Plant and Equipment

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

	June 30, 2010	December 31, 2009
Machinery and equipment.....	\$ 19,480	\$ 19,271
Office furniture and equipment.....	1,761	1,738
Leasehold improvements	8,609	8,397
Building and land.....	2,962	2,962
Property and equipment not yet in service.....	392	448
Total gross fixed assets	33,204	32,816
Less: accumulated depreciation and amortization	(21,723)	(21,167)
Net property, plant and equipment.....	\$ 11,481	\$ 11,649

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	June 30, 2010	December 31, 2009
Payroll and employee benefits	\$ 2,276	\$ 1,521
Warranty reserve (1)	62	138
Other	275	779
	<u>\$ 2,613</u>	<u>\$ 2,438</u>

(1) Warranty reserve rollforward

	January 1, 2010 through June 30, 2010	January 1, 2009 through December 31, 2009
Beginning Balance	\$ 138	\$ 110
Settlement of Warranty	(28)	(85)
Adjustments to Warranty	(48)	113
Ending Balance	<u>\$ 62</u>	<u>\$ 138</u>

5. Debt

The Company entered into a Credit and Security Agreement (“Credit Facility”) with Key Bank 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 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 terminated the facility with Key Bank on June 18, 2010.

Short term debt

	June 30, 2010	December 31, 2009
Revolving line of credit	\$ —	\$ 300
Current portion of long term debt	—	1,000
Short term debt.....	—	1,300

Long term debt

	June 30, 2010	December 31, 2009
Term Loan	\$ —	\$ 3,167
Less: current portion of long term debt.....	—	(1,000)
Long term debt.....	—	2,167
Total debt.....	<u>\$ —</u>	<u>\$ 3,467</u>

The Company has paid \$2.3 million against the term loan during the first quarter of 2010 and paid off the rest of the loan in the amount of \$917,000 during the second quarter of 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 June 30, 2010 and 2009, respectively. During the six month periods ended June 30, 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 June 30, 2010, was approximately \$180,000; such expense will be recognized over a weighted average period of 1.6 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 stock based compensation expense was \$102,000 and \$229,000 for the six month periods ended June 30, 2010 and 2009, respectively.

Stock Option Activity

Cash proceeds, tax benefits and intrinsic value of related total stock options exercised during the three and six month periods ended June 30, 2010 and 2009, respectively, are as follows (in thousands):

	Three month periods ended June 30,	
	2010	2009
Proceeds from stock options exercised	\$ 5	\$ —
Tax benefit related to stock options exercised	\$ 2	\$ —
Intrinsic value of stock options exercised	\$ 4	\$ —

	Six month periods ended June 30,	
	2010	2009
Proceeds from stock options exercised	\$ 5	\$ —
Tax benefit related to stock options exercised	\$ 2	\$ —
Intrinsic value of stock options exercised	\$ 4	\$ —

The following table summarizes the stock option transactions during the six month period ended June 30, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding 1/1/2010.....	167,421	\$ 10.22		
Options granted.....	—	—		
Options exercised	(1,500)	3.47		
Options terminated	(49,780)	11.90		
Options outstanding 06/30/2010.	<u>116,141</u>	<u>\$ 9.59</u>	<u>4.28</u>	<u>\$ 5.72</u>
Options exercisable 06/30/2010..	<u>112,808</u>	<u>\$ 9.72</u>	<u>4.20</u>	<u>\$ 5.83</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 the 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 six month period ended June 30, 2010 is presented below:

	<u>June 30, 2010</u>	
	<u>Shares</u>	<u>Weighted Average Fair Value</u>
Restricted stock outstanding 1/1/2010	70,843	\$ 5.46
Restricted stock awarded	—	\$ —
Restricted stock vested.....	—	\$ —
Restricted stock terminated.....	—	\$ —
Restricted stock outstanding 06/30/2010	<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 and 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 selling, general and administrative 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.

Segment Operating Results

Three Month Periods Ended June 30, 2010 and 2009

	<u>Three month period ended June 30, 2010</u>		
	<u>Composite Products</u>	<u>Composite Materials</u>	<u>Total</u>
Revenues from external customers	\$ 11,303	\$ 3,095	\$ 14,398
Operating income.....	\$ 205	\$ 754	\$ 959
Income before income taxes	\$ 136	\$ 740	\$ 876

	<u>Three month period ended June 30, 2009</u>		
	<u>Composite Products</u>	<u>Composite Materials</u>	<u>Total</u>
Revenues from external customers	\$ 9,030	\$ 1,544	\$ 10,574
Operating (loss) income.....	\$ (1,400)	\$ 225	\$ (1,175)
(Loss) income before income taxes	\$ (1,487)	\$ 211	\$ (1,276)

Six Month Periods Ended June 30, 2010 and 2009

	Six month period ended June 30, 2010		
	Composite Products	Composite Materials	Total
	Revenues from external customers	\$ 24,704	\$ 5,813
Operating income.....	\$ 665	\$ 1,324	\$ 1,989
Income before income taxes	\$ 654	\$ 1,322	\$ 1,976

	Six month period ended June 30, 2009		
	Composite Products	Composite Materials	Total
	Revenues from external customers	\$ 21,347	\$ 3,030
Operating (loss) income.....	\$ (1,559)	\$ 416	\$ (1,143)
(Loss) income before income taxes	\$ (1,710)	\$ 394	\$ (1,316)

Segment Long-Lived Assets

	As of June 30, 2010	As of December 31, 2009
Composite Products	\$ 6,470	\$ 6,781
Composite Materials	5,012	4,848
Total Long-Lived Assets.....	\$ 11,482	\$ 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 June 30, 2010. The Company had an other current liability of \$537,000 and an other long term liability of \$1.4 million as of June 30, 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 six month periods ended June 30, 2010 and 2009, the Company recorded interest expense of \$27,000 and \$32,000, respectively. As of June 30, 2010 and December 31, 2009, the Company had approximately \$177,000 and \$150,000, respectively, accrued for interest.

Item 4. Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

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 six months ended June 30, 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.
 - 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 of 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 wins in 2008.

- VooDoo®
 - Initially introduced on Tour 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.
 - 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 4 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 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, woods vs. irons, competition, retail inventory situations or a shortage of raw materials available. The Company’s average selling price for shafts decreased for the three months ended June 30, 2010 (“2010 Quarter”) by 6% as compared to the same period in 2009 (“2009 Quarter”) and decreased by 7% for the six months ended June 30, 2010 (“2010 Period”) as compared to six months ended June 30, 2009 (“2009 Period”).

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 19% for the 2010 Period as compared to 12% for the 2009 Period. The Company has spent a significant amount 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 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

Second Quarter 2010 Compared to Second Quarter 2009

Net Sales

	For the three month periods ended June 30,			
	2010	2009	Chg	% Chg
Composite Products ...	\$ 11,303	\$ 9,030	\$ 2,273	25%
Composite Materials..	3,095	1,544	1,551	100%
Total Net Sales.....	<u>\$ 14,398</u>	<u>\$ 10,574</u>	<u>\$ 3,824</u>	<u>36%</u>

Net sales increased by \$3.8 million, or 36%, for the 2010 Quarter as compared to the 2009 Quarter. The increase in sales was attributed to increases in Composite Product and Composite Materials sales. The increase in the Composite Product sales of \$2.3 million is mainly attributed to an increase in sales of branded and 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 shafts sold decreased by approximately 6% for the 2010 Quarter as compared to the 2009 Quarter, however, the Company had a 34% increase in units shipped during the 2010 Quarter as compared to the 2009 Quarter. Composite Materials sales increased by \$1.6 million, or a 100% increase. Composite Materials have increased to approximately 21% of the Company's consolidated net revenues for the 2010 Quarter as compared to 15% for the 2009 Quarter. The majority of the increase in sales of composite materials was to customers in the recreational industry. The majority of our Composite Materials business is to customers in the recreational products industry. The Company continues to attempt to diversify its customer base in this segment so as to be less highly concentrated in the recreational products industry.

Gross Profit

	For the three month periods ended June 30,			
	2010	2009	Chg	% Chg
Composite Products ...	\$ 2,431	\$ 948	\$ 1,483	156%
Composite Materials ..	1,161	435	726	167%
Total Gross Profit...	<u>\$ 3,592</u>	<u>\$ 1,383</u>	<u>\$ 2,209</u>	<u>160%</u>

Total gross profit increased by approximately \$2.2 million, or 160%, in the 2010 Quarter as compared to the 2009 Quarter. The increase in Composite Products gross profit of \$1.5 million was mainly attributed to the increase in net sales in the 2010 Quarter as compared to 2009 Quarter. In addition, it also benefited during the 2010 Quarter by having all of its shaft production in Asia as compared to having some in Mexico during the 2009 Quarter. Composite Products gross margin increased to 22% for the 2010 Quarter as compared to 10% for the 2009 Quarter, which is mainly attributed to higher volumes for the Company to spread its manufacturing costs across and for lower production costs. The Composite Materials gross profit increased by approximately \$726,000, or 167%, in the 2010 Quarter as compared to the 2009 Quarter. Composite Materials gross margin increased to 38% for the 2010 Quarter as compared to 28% for the 2009 Quarter, which was mainly attributed to increased volumes to spread its fixed costs over.

Operating Income (Loss)

	For the three month periods ended June 30,			
	2010	2009	Chg	% Chg
Gross profit	\$ 3,592	\$ 1,383	\$ 2,209	160%
<u>Selling, General & Administrative</u> <u>("SG&A) Expense</u>				
Composite Products	2,226	2,348	(122)	(5)%
Composite Materials	407	210	197	94%
Total SG&A	<u>2,633</u>	<u>2,558</u>	<u>75</u>	<u>3%</u>
<u>Operating Income (Loss)</u>				
Composite Products	205	(1,400)	1,605	115%
Composite Materials	754	225	529	235%
Operating income (loss)	<u>\$ 959</u>	<u>\$ (1,175)</u>	<u>\$ 2,134</u>	<u>182%</u>
Operating Margin	7%	(11)%		

Operating income increased by \$2.1 million, or 182%, in the 2010 Quarter as compared to the 2009 Quarter. The increase in operating income was attributed to an increase in gross profit of \$2.2 million, which was partially offset by an increase in SG&A expenses of \$75,000. The Company continues to aggressively manage its expenses. SG&A expenses decreased as a percentage of revenues to 18% in the 2010 Quarter as compared to 24% for the 2009 Quarter.

Other Income (Expense)

	For the three month periods ended June 30,			
	2010	2009	Chg	% Chg
Operating income (loss)	\$ 959	\$ (1,175)	\$ 2,134	182%
Interest income	1	7	(6)	(86)%
Interest expense	(10)	(44)	34	77%
Other, net	(74)	(64)	(10)	16%
Total other expense	(83)	(101)	18	18%
Income (loss) before income taxes	<u>\$ 876</u>	<u>\$ (1,276)</u>	<u>\$ 2,152</u>	<u>169%</u>

Other income (expense) decreased by approximately \$18,000, or 18%, for the 2010 Quarter as compared to the 2009 Quarter. The majority of the decrease was attributed to a reduction of interest expense during the 2010 Quarter as compared to the 2009 Quarter.

Income Taxes

	For the three month periods ended June 30,			
	2010	2009	Chg	% Chg
Income (loss) before income taxes	\$ 876	\$ (1,276)	\$ 2,152	169%
Provision (benefit) for income taxes	172	(649)	821	127%
Net income (loss)	<u>\$ 704</u>	<u>\$ (627)</u>	<u>\$ 1,331</u>	<u>212%</u>

The Company recorded a provision for income taxes in the amount of \$172,000 in the 2010 Quarter as compared to a benefit of \$649,000 for the 2009 Quarter. The Company's effective tax rate was 20% for the 2010 Quarter as compared to 51% for the 2009 Quarter. The Company's 20% effective rate is driven by foreign taxable income at statutory rates which are less than the statutory rates in the United States. The current effective tax rate may not be indicative of the Company's effective rate in the future.

Six Month Period Ended June 30, 2010 Compared to the Six Month Period Ended June 30, 2009

Net Sales

	For the six month periods ended June 30,			
	2010	2009	Chg	% Chg
Composite Products ...	\$ 24,704	\$ 21,347	\$ 3,357	16%
Composite Materials ..	5,813	3,030	2,783	92%
Total Net Sales	<u>\$ 30,517</u>	<u>\$ 24,377</u>	<u>\$ 6,140</u>	<u>25%</u>

Net sales increased by \$3.4 million, or 16%, 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 \$3.4 million is mainly attributed to an increase in sales of branded and 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 shafts sold decreased by approximately 7% for the 2010 Period as compared to the 2009 Period, however, the Company had a 25% increase in units shipped during the 2010 Period as compared to the 2009 Period. Composite Materials sales increased by \$2.8 million, or a 92% increase. Composite Materials have increased to approximately 19% of the Company's consolidated net revenues for the 2010 Period as compared to 12% for the 2009 Period. The majority of the increase in sales of composite materials was to customers in the recreational industry. The majority of our Composite Materials business is to customers in the recreational products industry. The Company

continues to attempt to diversify its customer base in this segment so as to be less highly concentrated in the recreational products industry.

Gross Profit

	For the six month periods ended June 30,			
	2010	2009	Chg	% Chg
Composite Products ...	\$ 5,761	\$ 3,398	\$ 2,363	70%
Composite Materials ..	2,064	847	1,217	144%
Total Gross Profit...	<u>\$ 7,825</u>	<u>\$ 4,245</u>	<u>\$ 3,580</u>	<u>84%</u>

Total gross profit increased by approximately \$3.6 million, or 84%, in the 2010 Period as compared to the 2009 Period. The increase in Composite Products gross profit of \$2.4 million was mainly attributed to the increase in net sales in the 2010 Period as compared to 2009 Period. In addition, it also benefited during the 2010 Period by having all of its shaft production in Asia as compared to having some in Mexico during the 2009 Period. Composite Products gross margin increased to 23% for the 2010 Period as compared to 16% for the 2009 Period, which is mainly attributed to higher volumes for the Company to spread its manufacturing costs across and for lower production costs. The Composite Materials gross profit increased by approximately \$726,000, or 167%, in the 2010 Quarter as compared to the 2009 Quarter. Composite Materials gross margin increased to 38% for the 2010 Quarter as compared to 28% for the 2009 Quarter, which was mainly attributed to increased volumes to spread its fixed costs over.

Operating Income (Loss)

	For the six month periods ended June 30,			
	2010	2009	Chg	% Chg
Gross profit	\$ 7,825	\$ 4,245	\$ 3,580	84%
<u>Selling, General & Administrative</u> <u>("SG&A) Expense</u>				
Composite Products	5,096	4,957	139	3%
Composite Materials	740	431	309	72%
Total SG&A	<u>5,836</u>	<u>5,388</u>	<u>448</u>	<u>8%</u>
<u>Operating Income (Loss)</u>				
Composite Products	665	(1,559)	2,224	143%
Composite Materials	1,324	416	908	218%
Operating income (loss)	<u>\$ 1,989</u>	<u>\$ (1,143)</u>	<u>\$ 3,132</u>	<u>274%</u>
Operating Margin	7%	(5)%		

Operating income increased by \$3.1 million, or 274%, in the 2010 Period as compared to the 2009 Period. The increase in operating income was attributed to an increase in gross profit of \$3.6 million, which was partially offset by an increase in SG&A expenses of \$448,000. The increase in SG&A was primarily attributed to increases in incentive accruals and advertising/promotion costs, which was partially offset by a decrease in corporate related expenses. The Company continues to aggressively manage its expenses. SG&A expenses decreased as a percentage of revenues to 19% in the 2010 Period as compared to 22% for the 2009 Period.

Other Income (Expense)

	For the six month periods ended June 30,			
	2010	2009	Chg	% Chg
Operating income (loss)	\$ 1,989	\$ (1,143)	\$ 3,132	274%
Interest income	2	9	(7)	(78)%
Interest expense	(32)	(102)	70	69%

Other, net.....	<u>17</u>	<u>(80)</u>	<u>97</u>	<u>121%</u>
Total other expense.....	<u>(13)</u>	<u>(173)</u>	<u>160</u>	<u>92%</u>
Income (loss) before income taxes...	<u>\$ 1,976</u>	<u>\$ (1,316)</u>	<u>\$ 3,292</u>	<u>250%</u>

Other income (expense) decreased by approximately \$160,000, or 92%, for the 2010 Period as compared to the 2009 Period. The majority of the decrease was attributed to a decrease in interest expense and other.

Income Taxes

	<u>For the six month periods ended June 30,</u>			
	<u>2010</u>	<u>2009</u>	<u>Chg</u>	<u>% Chg</u>
Income (loss) before income taxes	\$ 1,976	\$ (1,316)	\$ 3,292	250%
Provision (benefit) for income taxes	<u>565</u>	<u>(641)</u>	<u>1,206</u>	<u>188%</u>
Net income (loss)	<u>\$ 1,411</u>	<u>\$ (675)</u>	<u>\$ 2,086</u>	<u>309%</u>

The Company recorded a provision for income taxes of \$565,000 in the 2010 Periods as compared to a benefit for income taxes in the amount of \$641,000 in the 2009 Period. The Company's effective tax rate was 29% for the 2010 Period as compared to 49% for the 2009 Period. The Company's effective rate is driven by foreign taxable income at statutory rates which are less than the statutory rates in the United States. The current effective tax rate may not be indicative of the Company's effective rate in the future.

Liquidity and Capital Resources

Cash and cash equivalents ("cash") increased by approximately \$1.0 million as of June 30, 2010 as compared to December 31, 2009. The increase in cash was mainly attributed to the Company actively managing its working capital, which allowed the Company to increase its cash during the 2010 Period while paying down its Credit Facility in the amount of \$3.5 million and supporting capital expenditures of \$679,000. Cash provided by operations was \$5.1 million for the 2010 Period as compared to \$4.2 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 \$679,000 for capital expenditures during the 2010 Period as compared to \$441,000 during the 2009 Period. The Company has spent approximately \$149,000 in support of its Composite Product segment and approximately \$531,000 in support of its Composite Materials segment. Management anticipates capital expenditures will be between \$1.0 and \$1.5 million for the year ended December 31, 2010.

The Company did not pay any dividends during the 2010 Period or 2009 Period. The Company terminated its quarterly dividend in August of 2008. The Company's dividend policy is reviewed quarterly during the Company's Board of Directors meetings and subject to Board approval.

The Company did not borrow under the Key Bank credit facility during the 2010 Period as compared to borrowing \$2.8 million during the 2009 Period. The Company made payments of \$3.4 million against credit facility during the 2010 Period as compared to \$5.9 million during the 2009 Period. As of June 30, 2010, the Company had paid the Key Bank credit facility off and notified Key Bank in June 2010 that it wished to terminate the credit facility. The Company is currently negotiating with a financial institution to replace the Key Bank credit facility.

We believe that our cash from operating activities will be adequate to meet our anticipated requirements for working capital and capital expenditures. 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 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.

Backlog

As of June 30, 2010, the Company had a sales backlog of approximately \$6.7 million compared to approximately \$6.8 million as of June 30, 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.

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 June 30, 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.

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 June 30, 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: August 13, 2010

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

EXHIBIT 9(B)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

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

1. I have reviewed this quarterly report of the Company for the period ended June 30, 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: August 13, 2010

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