SIFCO INDUSTRIES INC
Form 10-K
December 01, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

September 30, 2011 For the fiscal year ended September 30, 2011

or

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

For the transition period from to

Commission file number 1-5978

SIFCO Industries, Inc.

(Exact name of registrant as specified in its charter)

Ohio	**34-0553950**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

970 East 64th Street, Cleveland Ohio **44103**
(Address of principal executive offices) **(Zip Code)**
(216) 881-8600

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Shares, $1 Par Value	**NYSE AMEX**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Exchange Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes ¨ No x

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 on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act).

large accelerated filer	¨	accelerated filer	¨
non-accelerated filer	¨	smaller reporting company	x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant s most recently completed second fiscal quarter is $44,834,089.

The number of the Registrant s Common Shares outstanding at October 31, 2011 was 5,288,548.

Documents incorporated by reference: Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on January 31, 2012 (Part III).

PART I

Item 1. Business

A. The Company

SIFCO Industries, Inc. (SIFCO or Company), an Ohio corporation, was incorporated in 1916. The executive offices of the Company are located at 970 East 64th Street, Cleveland, Ohio 44103, and its telephone number is (216) 881-8600.

The Company is engaged in the production and sale of a variety of metalworking processes, services and products produced primarily to the specific design requirements of its customers. The processes and services include forging, heat-treating, coating, welding, machining, and selective plating. The products include forged components, machined forged parts and other machined metal components, remanufactured component parts for aerospace turbine engines, and selective plating solutions and equipment. The Company s operations are conducted in three business segments: (i) Forged Components Group, formally referred to as the Aerospace Component Manufacturing Group, (ii) Turbine Component Services and Repair Group and (iii) Applied Surface Concepts Group.

B. Principal Products and Services

1. Forged Components Group

The Forged Components Group (Forge Group) has multiple operations. SIFCO Forge is located in Cleveland, Ohio and T&W Forge is located in Alliance, Ohio. As discussed more fully in Note 14 to the consolidated financial statements included in Item 8, on October 28, 2011, SIFCO completed the purchase of the forging business and substantially all related operating assets from GEL Industries, Inc. (DBA Quality Aluminum Forge) (QAF), which business is operated in QAF s Orange and Long Beach, California facilities. This segment of the Company s business consists principally of the manufacture of forged components for aerospace and energy applications. As a part of the Forge Group s manufacturing process, the business performs forging, heat-treating and precision component machining.

Operations

The Company s Forge Group is a manufacturer of forged components with capability ranging in size from 2 to 1,100 pounds (depending on configuration and alloy), primarily in various steel and titanium alloys, utilizing a variety of processes for applications principally in the aerospace and energy markets. The Forge Group s products include: original equipment manufacturers (OEM) and aftermarket components for aircraft and industrial gas turbine engines; structural airframe components; aircraft landing gear components; wheels and brakes; critical rotating components for helicopters; and commercial/industrial products. The Forge Group also provides heat-treatment, surface-treatment, non-destructive testing and select machining of forged components.

The Forge Group generally has multiple sources for its raw materials, which consist primarily of high quality metals essential to this business. Suppliers of such materials are located throughout North and South America and Europe. The Forge Group generally does not depend on a single source for the supply of its materials. Due to the limited supply of certain raw materials, some material is provided by a small number of suppliers; however, the Forge Group believes that its sources are adequate for its business. Both SIFCO Forge and T&W Forge are ISO 9001:2000 registered with SIFCO Forge also being AS 9100:2001 certified. In addition, the Forge Group s chemical etching/milling, non-destructive testing, and heat-treating facilities are NADCAP (National Aerospace and Defense Contractors Accreditation Program) accredited.

Industry

The performance of the domestic and international air transport industry as well as government defense spending and the energy industry directly and significantly impact the performance of the Forge Group.

The air transport industry s long-term outlook is for continued, steady growth. Such outlook suggests the need for additional aircraft and, therefore, growth in the requirement for airframe and turbine engine components. After the more recent periods of negative operating results in the global commercial airline industry that was due in large part to the global economic downturn, the financial condition of the global commercial airline industry has improved. This improvement is due to strong demand in both air freight and

passenger traffic, which improvements can be attributed to the subsiding of the global economic downturn. The air transport industry has recently benefited from several favorable trends, including: (i) projected growth in air traffic and (ii) major replacement and refurbishment cycles driven by the desire for more fuel efficient aircraft and fleet commonality. There has been recent improvement in aircraft capacity utilization due to the increase in air freight and passenger

traffic, which is driving demand for additional capacity. In addition to the traditional markets, emerging markets in Asia and the Middle East are driving demand for aircraft as more people are flying today than ever before. Aircraft capacity is returning to the market at about the same pace as the growth in demand for such capacity. The Forge Group believes this pattern should continue with the long-term steady growth projected by the air transport industry. The Forge Group also supplies new and spare components for military aircraft, including helicopters. Military spending has continued to be relatively strong and level in recent years. As a result of military initiatives, there has been continuing demand for both new and spare components for military customers. The Forge Group s current outlook for the air transport industry is cautiously optimistic while the military segment remains stable, yet subject to potential changes in defense spending decisions.

The long-term outlook for the energy industry is for steady, continued growth. The related demand for industrial gas turbine units will continue with the increased demand from developing countries. The need for electrical power generation will be satisfied, in part, by industrial gas turbines. While no one source will meet the world s power requirements, industrial gas turbines are increasingly being adapted to additional use applications to improve the efficiency and reliability of power projects.

It is difficult to determine at this time what the long-term impact of these factors may be on the demand for products provided by the Forge Group. Lack of continued improvement in the global economy could result in increased credit risk associated with serving the airlines and/or their suppliers. However, the Forge Group believes that it is poised to take advantage of improvement in order demand from the commercial airframe and engine manufacturers as well as the manufacturers of industrial gas turbine engines.

Competition

While there has been some consolidation in the forging industry, the Forge Group believes there is limited opportunity to increase prices, other than for the pass-through of raw material steel and titanium alloy price increases. The Forge Group believes, however, that its demonstrated aerospace and energy expertise along with focus on quality, customer service, SMART (Streamlined Manufacturing Activities to Reduce Time/Cost) initiatives, as well as offering a broad range of capabilities provide it with an advantage in the primary markets it serves. The Forge Group competes with both U.S. and non-U.S. suppliers of forgings, some of which are significantly larger than the Forge Group. As customers establish new facilities throughout the world, the Forge Group will continue to encounter non-U.S. competition. The Forge Group believes it can expand its markets by (i) broadening its product lines through investment in equipment that expands its manufacturing capabilities and (ii) developing new customers in markets whose participants require similar technical competence and service (as the aerospace and energy industries) and are willing to pay a premium for quality.

Customers

During fiscal 2011, the Forge Group had three customers, various business units of Rolls-Royce Corporation, General Electric Corporation and United Technologies Corporation, which accounted for 21%, 16% and 12%, respectively, of the Forge Group s net sales. The net sales to these three customers, and the direct subcontractors to these three customers, accounted for 70% of the Forge Group s net sales in fiscal 2011. The Forge Group believes that the loss of sales to such customers would result in a materially adverse impact on the business and income of the Forge Group. However, the Forge Group has maintained a business relationship with many of these customers for well over ten years and is currently conducting business with some of them under multi-year agreements. Although there is no assurance that this will continue, historically as one or more major customers have reduced their purchases, the Forge Group has generally been successful in replacing such reduced purchases, thereby avoiding a material adverse impact on the Forge Group. The Forge Group attempts to rely on its ability to adapt its services and operations to changing requirements of the market in general and its customers in particular. No material part of the Forge Group s business is seasonal.

Backlog of Orders

The Forge Group s backlog as of September 30, 2011 increased to $92.2 million, of which $74.3 million is scheduled for delivery during fiscal 2012, compared with $71.2 million as of September 30, 2010, of which $55.0 million was scheduled for delivery during fiscal 2011. The significant increase in the backlog as of September 30, 2011 compared to September 30, 2010, is primarily attributed to the addition of T&W Forge, which accounted for $15.7 million of the backlog as of September 30, 2011. All orders are subject to modification or cancellation by the customer with limited charges. Delivery lead times for certain raw materials (e.g. aerospace grades of steel and titanium alloy) continue to lengthen due to increased demand and the Forge Group believes that such lead time increase may ultimately result in a fundamental shift in the ordering pattern of its customers. The Forge Group believes that a likely consequence of such a shift is that customers may be placing orders further in advance than they previously did, which may result in an increase, relative to comparable prior year periods, in the Forge Group s backlog. Accordingly, such backlog increase, to the extent it may occur, is not necessarily indicative of actual sales expected for any succeeding period.

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2. Turbine Component Services and Repair Group

The Company s Turbine Component Services and Repair Group (Repair Group) has a single operation in Minneapolis, Minnesota. This segment of the Company s business consists principally of the repair and remanufacture of small turbine engine components principally for aerospace applications. As a part of the repair and remanufacture process, the business performs precision component machining and applies high temperature-resistant coatings to turbine engine components.

Operations

The Repair Group requires the procurement of licenses/authority, which certifies that the Repair Group has obtained approval to perform certain proprietary repair processes. Such approvals are generally specific to an engine and its components, a repair process, and a repair facility/location. Without possession of such approvals, a company would be precluded from competing in the aerospace turbine engine component repair business. Approvals are issued by either the original equipment manufacturers (OEM) of aerospace turbine engines or the Federal Aviation Administration (FAA).

In general, the Company considers aerospace turbine engines that (i) possess a thrust of less than 17,500 pounds and/or (ii) are used to power aircraft that carry fewer than 100 passengers, to be small aerospace turbine engines. Historically, the Repair Group has elected to procure approvals primarily from the OEMs and currently maintains proprietary repair process approvals issued by certain of the primary small engine OEMs (e.g. Pratt & Whitney Canada, Rolls-Royce, Turbomeca, and Hamilton Sundstrand). In exchange for being granted an OEM approval, the Repair Group is obligated, in certain cases, to pay royalties to the OEM for each type of component repair that it performs utilizing the OEM-approved proprietary repair process. The Repair Group continues to be successful in procuring FAA repair process approvals. There is generally no royalty payment obligation associated with the use of a repair process approved by the FAA. To procure an OEM or FAA approval, the Repair Group is required to demonstrate its technical competence in the process of repairing such turbine engine components.

The development of remanufacturing and repair processes is an ordinary part of the Repair Group s business. The Repair Group continues to invest time and money on research and development activities. The Company s research and development activities in repair processes and high temperature-resistant coatings applied to super-alloy materials have applications in the small aerospace turbine engine markets. Operating costs related to such activities are expensed during the period in which they are incurred. The Repair Group s research and development expense was $0.5 and $0.4 million in fiscal 2011 and 2010, respectively.

The Repair Group generally has multiple sources for its raw materials, which consist primarily of investment castings and industrial coating materials essential to this business. Certain items are procured directly from the OEM, or from OEM-certified suppliers, to satisfy repair process requirements. Suppliers of such materials are located throughout North America and Europe. Although certain raw materials may be provided by a limited number of suppliers, the Repair Group generally does not depend on a single source for the supply of its materials and management believes that its sources are adequate for its business.

Industry

The performance of the air transport industry directly and significantly impacts the performance of the Repair Group. The air transport industry s long-term outlook is for continued, steady growth. Such outlook suggests the need for additional aircraft and, therefore, growth in the requirement for aerospace turbine engines and related engine repairs. After the more recent periods of negative operating results in the global commercial airline industry that was due in large part to the global economic downturn, the financial condition of the global commercial airline industry has improved. This improvement is due to strong demand in both air freight and passenger traffic, which improvements can be attributed to the subsiding of the global economic downturn. The air transport industry has recently benefited from several favorable trends, including: (i) projected growth in air traffic and (ii) the beginning of major replacement and refurbishment cycles driven by the desire for more fuel efficient aircraft and fleet commonality. It is difficult to determine at this time what the long-term impact of these factors may be on the demand for products and services provided by the Repair Group. Lack of continued improvement in the global economy could result in further reduced demand for the products and services that the Repair Group provides.

Competition

In recent years, while the absolute number of competitors has decreased as a result of industry consolidation and vertical integration, competition in the turbine engine component repair business has nevertheless increased, principally due to the increased direct involvement of the turbine engine manufacturers in the turbine engine overhaul and component repair businesses. With the presence of the OEMs in the market, there has been a general reluctance on the part of the OEMs to issue, to independent component repair companies, approvals for the repair of their newer model engines and related

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components. The Company believes that the Repair Group will, more likely than not, become more dependent in the future on (i) its ability to successfully procure and market FAA approved licenses and related repair processes and/or (ii) close collaboration with engine manufacturers.

Customers

The identity and ranking of the Repair Group s principal customers can vary from year to year. The Repair Group attempts to rely on its ability to adapt its services and operations to changing requirements of the market in general and its customers in particular, rather than relying on high volume production of a particular item or group of items for a particular customer or customers. During fiscal 2011, the Repair Group had three customers, consisting of various business units of Rolls-Royce Corporation, Safran Group and United Technologies Corporation, which accounted for 27%, 26% and 11%, respectively, of the Repair Group s net sales. Although there is no assurance that this will continue, historically as one or more major customers have reduced their purchases, the business has generally been successful in replacing such reduced purchases, thereby avoiding a material adverse impact on the business. No material part of the Repair Group s business is seasonal.

Backlog of Orders

The Repair Group s backlog as of September 30, 2011 decreased to $1.2 million, of which $0.3 million is scheduled for delivery during fiscal 2012 and $0.9 million is on hold, compared with $3.1 million as of September 30, 2010, of which $1.8 million was scheduled for delivery during fiscal 2011 and $1.3 million was on hold. All orders are subject to modification or cancellation by the customer with limited charges. The Repair Group believes that the backlog may not necessarily be indicative of actual sales for any succeeding period.

3. Applied Surface Concepts Group

The Company s Applied Surface Concepts Group (ASC Group) provides surface enhancement technologies principally related to selective plating and anodizing. Principal product offerings include (i) the development, production and sale of metal plating solutions and equipment required for selective plating and (ii) providing selective plating contract services.

Operations

Selective plating of a component is done without the use of an immersion tank. A wide variety of pure metals and alloys, principally determined by the customer s design requirements, can be used for applications including corrosion protection, wear resistance, anti-galling, increased lubricity, increased hardness, increased electrical conductivity, and re-sizing. SIFCO Process® metal solutions include: cadmium, cobalt, copper, nickel, tin and zinc. In addition, precious metal solutions such as gold, iridium, palladium, platinum, rhodium, and silver are also provided to customers. The ASC Group has also developed a number of alloy-plating solutions such as (i) nickel-tungsten, cobalt chromium carbide and nickel-cobalt solutions that can be used as more environmentally friendly alternatives for hexavalent chromium plating solutions and (ii) low hydrogen embrittlement zinc-nickel and tin-zinc solutions that can be used as more environmentally friendly alternatives for cadmium plating solutions.

The ASC Group can either (i) supply selective plating chemicals and equipment to customers desiring to perform selective plating in-house or (ii) provide manual or semi-automated contract selective plating services at either the customer s site or at one of the ASC Group s facilities. The ASC Group operates four U.S. facilities in geographic areas strategically located in proximity to its major customers (Cleveland, Ohio / Hartford, Connecticut / Norfolk, Virginia / Houston, Texas) and three in Europe (Birmingham, England / Paris, France / Rattvik, Sweden). The scope of selective plating work includes part salvage and repair, part refurbishment, and new part enhancement. Selective plating solutions are produced in the Cleveland, Ohio and Birmingham, England facilities.

The ASC Group generally has multiple sources available for its raw materials, which consist primarily of industrial chemicals and metal salts and, therefore, does not have a high dependence upon a single source for the supply of key raw materials. Management believes that its sources of raw materials are adequate to support its business. The ASC Group maintains recognized industry brand names including: SIFCO Process®, Copper Select®, Dalic®, USDL® and Selectron®, all of which are specified in military and industrial specifications. The ASC Group s manufacturing operations have ISO 9001:2008 and AS 9100 certifications. In addition, two of its facilities are NADCAP (National Aerospace and Defense Contractors Accreditation Program) certified. Two of the service centers are FAA approved repair shops. Other ASC Group approvals include ARR (American Railroad Registry), JRS (Japan Registry of Shipping), and KRS (Korean Registry of Shipping).

Industry

Selective plating occupies a niche within the broader metal finishing industry. The ASC Group s selective plating process is used to provide functional, engineered finishes rather than decorative finishes, and it serves many markets including aerospace, medical, electric power generation, and oil and gas. In its planning and decision making processes, management of the ASC Group monitors and evaluates precious metal prices, global manufacturing activity, internal labor capacity, technological developments in surface enhancement, and the exploration and production activities relative to oil and gas products. The diversity of industries served helps to mitigate the impact of economic cycles on the ASC Group.

Competition

Although the Company believes that the ASC Group is the world s largest selective plating company, there are several companies globally that manufacture and sell selective plating finishing solutions and equipment and/or provide contract selective plating services. The ASC Group seeks to differentiate itself through its technical support and research and development capabilities. The ASC Group also competes with other surface enhancement technologies such as welding and metal spray.

Customers

During fiscal 2011, the ASC Group had one customer, Halliburton Company, which accounted for 10% of the ASC Group s net sales. The ASC Group has a customer base of over 1,000 customers. Approximately 10 customers, who operate in a variety of industries, accounted for approximately 25% of the ASC Group s fiscal 2011 net sales. No material part of the ASC Group s business is seasonal.

Backlog of Orders

Due to the nature of its business (i.e. shorter lead times for its products and services), the ASC Group had no material backlog at September 30, 2011 and 2010.

4. General

For financial information concerning the Company s reportable segments, see Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 and Note 12 to consolidated financial statements included in Item 8.

C. Environmental Regulations

In common with other companies engaged in similar businesses, the Company is required to comply with various laws and regulations relating to the protection of the environment. The costs of such compliance have not had, and are not presently expected to have, a material effect on the capital expenditures, earnings or competitive position of the Company and its subsidiaries under existing regulations and interpretations.

D. Employees

The number of the Company s employees increased from approximately 300 at the beginning of fiscal 2011 to approximately 360 employees at the end of fiscal 2011. The Company is party to collective bargaining agreements with certain employees located at its Forge Group s Cleveland, Ohio (expires in May 2015) and Alliance, Ohio (expires in July 2013) facilities and at its Repair Group s Minneapolis, Minnesota facility (expires in July 2014).

E. Non-U.S. Operations

The Company s products and services are distributed and performed in both U.S. and non-U.S. markets. The Company commenced its operations in the United Kingdom and France as a result of an acquisition of a business in 1992. The Company commenced its operations in Sweden as a result of an acquisition of a business in 2006. Wholly-owned subsidiaries operate the Company s service and distribution facilities in the United Kingdom, France and Sweden.

Financial information about the Company s U.S. and non-U.S. operations is set forth in Note 12 to the consolidated financial statements included in Item 8.

As of September 30, 2011, essentially all of the Company s cash and cash equivalents are in the possession of its non-U.S. subsidiaries and relate to undistributed earnings of these non-U.S. subsidiaries. Distributions from the Company s non-U.S. subsidiaries to the Company may be subject to statutory restrictions, adverse tax consequences or other limitations.

Item 2. Properties

The Company s property, plant and equipment include the facilities described below and a substantial quantity of machinery and equipment, most of which consists of industry specific machinery and equipment using special dies, jigs, tools and fixtures and in many instances having automatic control features and special adaptations. In general, the Company s property, plant and equipment are in good operating condition, are well maintained and substantially all of its facilities are in regular use. The Company considers its investment in property, plant and equipment as of September 30, 2011 suitable and adequate given the current product offerings for the respective business segments operations in the current business environment. The square footage numbers set forth in the following paragraphs are approximations:

The Repair Group operates a single, owned facility in Minneapolis, Minnesota with a total of 59,000 square feet and is involved in the repair and remanufacture of principally small aerospace turbine engine components.

The Forge Group operates in multiple facilities - (i) an owned 240,000 square foot facility located in Cleveland, Ohio, which is also the site of the Company s corporate headquarters, and (ii) a leased 450,000 square foot facility located in Alliance, Ohio, As discussed more fully in Note 14 to the consolidated financial statements included in Item 8, on October 28, 2011, SIFCO completed the purchase of the forging business and substantially all related operating assets from GEL Industries, Inc. (DBA Quality Aluminum Forge) (QAF), which business is operated in QAF s Orange and Long Beach, California facilities. QAF s facilities are leased and aggregate approximately 66,000 square feet.

The ASC Group is headquartered in an owned 34,000 square foot facility in Cleveland, Ohio. The ASC Group leases space aggregating 52,000 square feet for sales offices and/or for its contract selective plating services in Norfolk, Virginia; Hartford, Connecticut; Houston, Texas; Paris, France; and Birmingham, England. The ASC Group also operates in an owned 3,000 square foot facility in Rattvik, Sweden.

The Company owns a building located in Cork, Ireland (59,000 square feet) that is subject to a long-term lease arrangement with the acquirer of the Repair Group s industrial turbine engine component repair business that was sold in fiscal 2007.

Item 3. Legal Proceedings

In the normal course of business, the Company may be involved in ordinary, routine legal actions. The Company cannot reasonably estimate future costs, if any, related to these matters and does not believe any such matters are material to its financial condition or results of operations. The Company maintains various liability insurance coverages to protect its assets from losses arising out of or involving activities associated with ongoing and normal business operations; however, it is possible that the Company s future operating results could be affected by future costs of litigation.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s Common Shares are traded on the NYSE Euronext exchange under the symbol SIF . The following table sets forth, for the periods indicated, the high and low closing sales price for the Company s Common Shares.

	Years Ended September 30,			
	2011		2010	
	High	Low	High	Low
First Quarter	$ 16.97	$ 12.06	$ 16.25	$ 13.18
Second Quarter	17.68	15.91	17.07	12.30

Third Quarter	17.88	15.63	17.25	10.11
Fourth Quarter	19.96	16.22	12.13	9.40

Dividends and Shares Outstanding

The Company declared a special cash dividend of $0.20 per Common Share in fiscal 2011 but does not necessarily anticipate paying regular dividends on an annual basis in the future. The Company currently intends to retain all of its earnings for the operation and growth of its businesses. The Company s ability to declare or pay cash dividends is limited by its credit agreement covenants. At October 31, 2011, there were approximately 644 shareholders of record of the Company s Common Shares, as reported by Computershare, Inc., the Company s Transfer Agent and Registrar, which maintains its U.S. corporate offices at 250 Royall Street, Canton, MA 02021.

Reference Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters for information related to the Company s equity compensation plans.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations, may contain various forward-looking statements and includes assumptions concerning the Company s operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risk and uncertainties. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides this cautionary statement identifying important economic, political and technological factors, among others, the absence or effect of which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions. Such factors include the following: (1) the impact on business conditions in general, and on the demand for product in the aerospace and power generation industries in particular, of the global economic outlook, including the availability of capital and liquidity from banks and other providers of credit; (2) future business environment, including capital and consumer spending; (3) competitive factors, including the ability to replace business which may be lost; (4) successful development of turbine component repair processes and/or procurement of new repair process licenses from turbine engine manufacturers and/or the Federal Aviation Administration; (5) metals and commodities price increases and the Company s ability to recover such price increases; (6) successful development and market introduction of new products and services; (7) continued reliance on consumer acceptance of regional and business aircraft powered by more fuel efficient turboprop engines; (8) continued reliance on military spending, in general, and/or several major customers, in particular, for revenues; (9) the impact on future contributions to the Company s defined benefit pension plans due to changes in actuarial assumptions, government regulations and the market value of plan assets; (10) stable governments, business conditions, laws, regulations and taxes in economies where business is conducted; and (11) the ability to successfully integrate businesses that may be acquired into the Company s operations.

The Company and its subsidiaries engage in the production and sale of a variety of metalworking processes, services and products produced primarily to the specific design requirements of its customers. The processes and services include forging, heat-treating, coating, welding, precision component machining, and selective plating. The products include forged components, machined forged components, other machined metal components, remanufactured component parts for turbine engines, and selective plating solutions and equipment. The Company s operations are conducted in three business segments: (1) Forged Components Group, (2) Turbine Component Services and Repair Group, and (3) Applied Surface Concepts Group. The Company endeavors to plan and evaluate its businesses operations while taking into consideration certain factors including the following (i) the projected build rate for commercial, business and military aircraft as well as the engines that power such aircraft, (ii) the projected build rate for industrial gas turbine engines, (iii) the projected maintenance, repair and overhaul schedules for commercial, business and military aircraft as well as the engines that power such aircraft, and (iv) anticipated exploration and production activities relative to oil and gas products, etc.

A. Results of Operations

1. Fiscal Year 2011 Compared with Fiscal Year 2010

Net sales in fiscal 2011 increased 28.9% to $107.4 million, compared with $83.3 million in fiscal 2010. Net income in fiscal 2011 was $7.4 million, compared with $5.4 million in fiscal 2010. On December 10, 2010, through its wholly-owned subsidiary, T&W Forge, LLC (TWF), the Company completed the purchase of the forging business and substantially all related operating assets from T&W Forge, Inc.

Forged Components Group (Forge Group)

The Forge Group consists of the production, heat-treatment, surface-treatment, non-destructive testing, and some machining of forged components in various steel alloys utilizing a variety of processes for application principally in the aerospace and power generation industries. The Forge Group s results for fiscal 2011 include the results of TWF from the date of its acquisition. Net sales in fiscal 2011 increased 35.5% to $84.1 million, compared with $62.1 million in fiscal 2010. The Forge Group produces forged components for (i) turbine engines that power commercial business and regional aircraft as well as military transport and surveillance aircraft; (ii) airframe applications for such aircraft; (iii) armored military vehicles; (iv) industrial gas turbine engines for power generation units; and (v) other commercial applications. Net sales comparative information for fiscal 2011 and 2010, respectively, is as follows:

(Dollars in millions)	Year Ended September 30,		Increase
Net Sales	**2011**	**2010**	**(Decrease)**
Aerospace components for:			
Fixed wing aircraft	**$ 36.3**	$ 30.8	$ 5.5
Rotorcraft	**26.4**	29.3	(2.9)
Engine components for power generation units	**16.2**	0.0	16.2
Commercial product sales and other revenue	**5.2**	2.0	3.2
Total	**$ 84.1**	$ 62.1	$ 22.0

The increase in net sales of forged components for fixed wing aircraft during fiscal 2011, compared with fiscal 2010, is principally due to increased demand for spare components for turbine engines. The decrease in net sales of forged components for rotorcraft is principally attributable to reduced sales volume as a result of a large customer adjusting its inventory levels of certain components. The increase in net sales of engine components for power generation units and commercial products is due to the impact of the acquisition of TWF during the first quarter of fiscal 2011.

The Forge Group s aerospace components have both military and commercial applications. Net sales of such components that solely have military applications were $31.8 million in fiscal 2011, compared with $34.0 million in fiscal 2010. This decrease is primarily attributable to a decline in the sales volumes of components associated with several military programs. Demand for additional military helicopters and related replacement components are the primary driver of sales demand of components that are for military applications.

The Forge Group s selling, general and administrative expenses increased $2.4 million to $6.5 million, or 7.7% of net sales, in fiscal 2011, compared with $4.1 million, or 6.5% of net sales, in fiscal 2010. The increase in selling, general and administrative expenses is principally due to (i) $1.9 million amortization of intangible assets related to the acquisition of TWF, (ii) increased depreciation and consulting costs related to the recently implemented company-wide management information system and (iii) fiscal 2010 having been favorably impacted by the recovery of previously reserved accounts receivable. These increases were partially offset by a reduction in incentive expense.

The Forge Group s operating income increased $3.1 million to $13.0 million in fiscal 2011, compared with $9.9 million in fiscal 2010. The following is a comparison of operating income on both a LIFO and FIFO basis:

(Dollars in millions)	Year Ended September 30,		Increase
Operating Income	**2011**	**2010**	**(Decrease)**
Operating income	**$ 13.0**	$ 9.9	$ 3.1
LIFO expense	**0.5**	0.2	0.3
Operating income without LIFO expense	**$ 13.5**	$ 10.1	$ 3.4

Operating income was favorably impacted principally by the increase in gross profit that resulted from the additional product sales volumes generated from the acquisition of TWF plus the benefit of lower raw material costs - the raw material component of manufacturing costs was approximately 39.2% of net sales in fiscal 2011, compared with 40.4% of net sales in fiscal 2010, due primarily to product mix. These favorable items were partially offset by (i) the negative impact of the aforementioned $1.9 million amortization of intangible assets and (ii) higher labor costs principally related to the mix of product - a higher concentration of products, with higher labor content, were sold in fiscal 2011 compared

to fiscal 2010.

The following changes in the components of the Forge Group s manufacturing expenditures in fiscal 2011, a portion of which was due to the acquisition of TWF, compared with the same period in fiscal 2010, also impacted operating income:

(Dollars in millions)	Year Ended September 30,		Increase
Manufacturing expenditures	**2011**	**2010**	**(Decrease)**
Overhead:			
Utilities	**$ 4.4**	$ 3.4	$ 1.0
Repairs, maintenance and supplies	**3.4**	2.7	0.7
Depreciation	**1.5**	1.0	0.5
Tooling	**2.6**	1.2	1.4

Manufacturing costs in fiscal 2011, compared with the same period in fiscal 2010, were negatively impacted by (i) an increase in manufacturing expenditures required to support the additional product sales volume resulting from the acquisition of TWF, (ii) an increase in water consumption, partially offset by a decrease in the cost of natural gas; (iii) an increase in depreciation expense primarily due to assets acquired from TWF and (iv) an increase in expenditures for tooling.

Turbine Component Services and Repair Group (Repair Group)

During fiscal 2011, net sales, which consist principally of component repair services (including precision component machining and industrial coatings) for small aerospace turbine engines, increased 1.3% to $9.0 million, compared with $8.9 million in fiscal 2010.

During fiscal 2011, the Repair Group s selling, general and administrative expenses were $1.6 million, or 17.5% of net sales, compared with $1.2 million, or 13.8% of net sales, in fiscal 2010. The Repair Group s increase in selling, general and administrative expenses is principally attributable to $0.2 million of expense related to the impairment of a long-lived asset.

The Repair Group s operating loss in fiscal 2011 was $0.3 million, compared to essentially breakeven results in the comparable period in fiscal 2010. The decrease in operating income was principally attributable to the additional expense recorded related to the impairment of a long-lived asset.

Applied Surface Concepts Group (ASC Group)

Net sales in fiscal 2011 increased 15.7% to $14.2 million, compared with $12.2 million in fiscal 2010. For purposes of the following discussion, (i) product net sales consist of selective plating equipment and solutions and (ii) contract service net sales consist of customized selective plating services. Net sales comparative information for fiscal 2011 and 2010, respectively, is as follows:

(Dollars in millions)	Year Ended September 30,		Increase
Net Sales	**2011**	**2010**	**(Decrease)**
Product	**$ 6.6**	$ 6.1	$ 0.5
Contract service	**7.4**	5.9	1.5
Other	**0.2**	0.2	0.0
Total	**$ 14.2**	$ 12.2	$ 2.0

The increase in product net sales in fiscal 2011 compared to fiscal 2010 is attributed to an increase in net sales volumes of existing products, as well as certain new products launched in fiscal 2011, to both new and existing customers. The increase in contract service net sales in fiscal 2011, compared with fiscal 2010, is attributed to an increase in the volume of such sales to both new and existing customers due to an increased emphasis on contract service sales and improvements in the global economy, including the oil and gas industry. A portion of the ASC Group s business is conducted in Europe and is denominated in local European currencies, which have recently strengthened in relation to the U.S. dollar, resulting in a favorable currency impact on net sales in fiscal 2011 of approximately $0.2 million.

The ASC Group s selling, general and administrative expenses were $4.8 million, or 33.7% of net sales, in fiscal 2011, compared with $4.4 million, or 36.1% of net sales in fiscal 2010. The increase in selling, general and administrative

expenses is principally attributable to (i) increased variable selling expenses, which includes an increase in sales promotion efforts and (ii) increased consulting costs related to the recently implemented company-wide management information system.

The ASC Group s operating income in fiscal 2011 was $1.0 million, compared with $0.2 million in the same period in fiscal 2010. This improvement in operating income is principally due to (i) the favorable impact on margins from increased sales volumes and (ii) the achievement of certain efficiencies resulting in reduced labor costs that occurred in fiscal 2011, compared to the same period in fiscal 2010. This was partially offset by higher material cost as a percentage of net sales due to product mix.

Corporate Unallocated Expenses

Corporate unallocated expenses, consisting of corporate salaries and benefits, legal and professional and other expenses that are not related to and, therefore, not allocated to the business segments, increased $0.7 million to $2.9 million in fiscal 2011, compared with $2.2 million in fiscal 2010 principally due to (i) $0.4 million higher legal and professional expenses primarily resulting from costs associated with acquisition activities, (ii) $0.2 million higher compensation and related benefits costs and (iii) a $0.1 million increase in corporate governance related costs resulting from a restructuring of director compensation.

Other/General

Interest expense was $0.1 million in both fiscal 2011 and 2010. As described more fully in note 4 to the consolidated financial statements, the Company entered into a new $30.0 million revolving credit agreement with its bank in the first quarter of fiscal 2011. In connection with the December 2010 acquisition of TWF, the Company borrowed $11.6 million from its revolving credit agreement, which amount has been reduced to $1.2 million at September 30, 2011. The average outstanding balance on the revolving credit agreement from the date of acquisition of TWF through September 30, 2011 was approximately $5.2 million, with an effective interest rate of 1.3% plus a 0.14% commitment fee expense on the unused balance of the revolving credit agreement.

Other income, net consists principally of $0.4 million of rental income earned from the lease of the Cork, Ireland facility.

The Company believes that inflation did not materially affect its results of operations in either fiscal 2011 or 2010, and does not expect inflation to be a significant factor in fiscal 2012.

B. Liquidity and Capital Resources

Cash and cash equivalents decreased to $6.4 million at September 30, 2011, compared with $18.7 million at September 30, 2010, and short-term investments decreased $3.0 million to zero at September 30, 2011, compared with $3.0 million at September 30, 2010. At September 30, 2011, essentially all of the $6.4 million of the Company s cash and cash equivalents are in the possession of its non-U.S. subsidiaries. Distributions from the Company s non-U.S. subsidiaries to the Company may be subject to statutory restriction, adverse tax consequences or other limitations.

The Company s operating activities provided $10.2 million of cash in fiscal 2011, compared with $9.9 million in fiscal 2010. The $10.2 million of cash provided by operating activities in fiscal 2011 was primarily due to (i) net income of $7.4 million, (ii) $5.2 million from the net impact of such non-cash items as depreciation and amortization expense, deferred taxes and LIFO expense; (iii) a $0.6 million increase in accounts payable and other liabilities and (iv) a $0.4 million reduction in refundable income taxes. These items were partially offset by (i) a $1.6 million increase in inventories and (ii) a $2.3 million increase in accounts receivable. These changes in the components of working capital do not reflect the impact of the opening balance sheet related to the acquisition of TWF and were due primarily to factors resulting from normal business conditions of the Company, including (i) the relative timing of collections from customers and (ii) the relative timing of payments to suppliers and tax authorities.

Capital expenditures were $3.3 million in fiscal 2011 compared with $6.7 million in fiscal 2010. Capital expenditures during fiscal 2011 consisted of $2.8 million by the Forge Group, $0.3 million by the ASC Group and $0.2 million by the Repair Group. In addition to the $3.3 million expended during fiscal 2011, $0.4 million has been committed as of September 30, 2011. The Company anticipates that total fiscal 2012 capital expenditures will be within the range of $3.0 to $4.0 million and will relate principally to the further enhancement of production and product offering capabilities across all three of the Company s business groups.

In the fourth quarter of fiscal 2011, the Company declared a special cash dividend of $0.20 per common share, which will result in a cash expenditure of $1.1 million during first quarter of fiscal 2012.

As described more fully in note 13 to the consolidated financial statements, the Company acquired a forging business in December 2010 for approximately $22.6 million. The acquisition was financed by using $11.0 million of the Company s cash reserves and borrowing $11.6 million from its revolving credit facility.

In December 2010, the Company entered into a new five (5) year revolving credit agreement (the Credit Agreement) with a bank for a maximum amount of $30.0 million, secured by substantially all the assets of the Company and its U.S. subsidiaries and a pledge of 65% of the stock of its non-U.S. subsidiaries. Borrowing under the Credit Agreement (i) bears interest at a rate equal to Libor plus 0.75% to 1.75%, with such percentage being based on the Company s leverage ratio - measured as the ratio of outstanding indebtedness to EBITDA, (ii) is subject to a commitment fee ranging from 0.10% to 0.25% on the unused balance and (iii) is subject to certain customary financial covenants including, without limitation, covenants that require the Company to not exceed a maximum leverage ratio and to maintain a minimum fixed charge coverage ratio. At September 30, 2011, the interest rate was a Libor based rate, as defined in the Credit Agreement, plus 0.75%. In December 2010, the Company also cancelled its then existing $8.0 million revolving credit facility. The Company was in compliance with all applicable loan covenants as of September 30, 2011.

The Company believes that cash flows from its operations together with existing cash reserves and the funds available under its revolving credit agreement will be sufficient to meet its working capital requirements through the end of fiscal year 2012.

C. Off-Balance Sheet Arrangements

The Company does not have any obligations that meet the definition of an off-balance sheet arrangement that have had, or are reasonably likely to have, a material effect on the Company s financial condition or results of operations.

D. Critical Accounting Policies and Estimates

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of certain customers to make required payments. The Company evaluates the adequacy of its allowances for doubtful accounts each quarter based on the customers credit-worthiness, current economic trends or market conditions, past collection history, aging of outstanding accounts receivable and specific identified risks. As these factors change, the Company s allowances for doubtful accounts may change in subsequent periods. Historically, losses have been within management s expectations and have not been significant.

Inventories

The Company maintains allowances for obsolete and excess inventory. The Company evaluates its allowances for obsolete and excess inventory each quarter. Each business segment maintains formal policies, which require at a minimum that reserves be established based on an analysis of the age of the inventory. In addition, if the Company learns of specific obsolescence, other than that identified by the aging criteria, an additional reserve will be recognized as well. Specific obsolescence may arise due to a technological or market change, or based on cancellation of an order. Management s judgment is necessary in determining the realizable value of these products to arrive at the proper allowance for obsolete and excess inventory.

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets, including property, plant and equipment, at least annually or when events and circumstances warrant such a review. This review involves judgment and is performed using estimates of future undiscounted cash flows, which include proceeds from disposal of assets and which the Company considers a critical accounting estimate. If the carrying value of a long-lived asset is greater than the estimated undiscounted future cash flows, then the long-lived asset is considered impaired and an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

In projecting future undiscounted cash flows, the Company relies on internal budgets and forecasts, and projected proceeds upon disposal of long-lived assets. The Company s budgets and forecasts are based on historical results and anticipated

future market conditions, such as the general business climate and the effectiveness of competition. The Company believes that its estimates of future undiscounted cash flows and fair value are reasonable; however, changes in estimates of such undiscounted cash flows and fair value could change the Company s estimates of fair value, which could result in future impairment charges.

Impairment of Goodwill

Goodwill is the excess of the purchase price paid over the fair value of the net assets of an acquired business. The determination of the fair value of assets and liabilities acquired typically involves obtaining independent appraisals of certain tangible and intangible assets and may require management to make certain assumptions and estimates regarding future events. Goodwill is not amortized, but is subject to an impairment testing annually or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the reporting entity expected to benefit from the business combination. Goodwill impairment testing involves the comparison of the fair value of a reporting unit, which is determined by its discounted cash flows, with its carrying value. The Company allocates the fair value of the reporting unit to all of its assets, other than goodwill, and liabilities. Any remaining unallocated fair value is then allocated to goodwill as its implied fair value. The amount of impairment loss is equal to the excess of the carrying value of goodwill over the implied fair value of goodwill.

Purchase Price Allocations

The costs of business acquisitions are allocated to the acquired assets and liabilities based on their respective fair value at the time of the acquisition. The determination of fair values typically involves obtaining independent appraisals of certain tangible and intangible assets and may require management to make certain assumptions and estimates regarding future events. In determining fair value, management may develop a number of possible future cash flow scenarios to which probabilities are judgmentally assigned and evaluated. This allocation process impacts the Company s reported assets and liabilities and future net income.

Defined Benefit Pension Plan Expense

The Company maintains three defined benefit pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The amounts recognized in the consolidated financial statements for pension benefits under these three defined benefit pension plans are determined on an actuarial basis utilizing various assumptions. The discussion that follows provides information on the significant assumptions/elements associated with these defined benefit pension plans.

One significant assumption in determining net pension expense is the expected return on plan assets. The Company determines the expected return on plan assets principally based on (i) the expected return for the various asset classes in the respective plans investment portfolios and (ii) the targeted allocation of the respective plans assets. The expected return on plan assets is developed using historical asset return performance as well as current and anticipated market conditions such as inflation, interest rates and market performance. Should the actual rate of return differ materially from the assumed/expected rate, the Company could experience a material adverse effect on the funded status of its plans and, accordingly, on its related future net pension expense.

Another significant assumption in determining the net pension expense is the discount rate. The discount rate for each plan is determined, as of the fiscal year end measurement date, using prevailing market spot-rates (from an appropriate yield curve) with maturities corresponding to the expected timing/date of the future defined benefit payment amounts for each of the respective plans. Such corresponding spot-rates are used to discount future years projected defined benefit payment amounts back to the fiscal year end measurement date as a present value. A composite discount rate is then developed for each plan by determining the single rate of discount that will produce the same present value as that obtained by applying the annual spot-rates. The discount rate may be further revised if the market environment indicates that the above methodology generates a discount rate that does not accurately reflect the prevailing interest rates as of the fiscal year end measurement date

Deferred Tax Valuation Allowance

The Company accounts for deferred taxes in accordance with the provisions of the Accounting Standards Codification (ASC) guidance related to accounting for income taxes, whereby the Company recognizes an income tax benefit related to its consolidated net losses and other temporary differences between financial reporting basis and tax reporting basis.

E. Impact of Newly Issued Accounting Standards

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-08, *Intangibles Goodwill and Other,* which allows an entity to first assess the qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. Under this new guidance, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on qualitative assessment, that it is more likely than not that its fair value is less than the carrying amount. The ASU is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The Company adopted this ASU during the fourth quarter of fiscal 2011.

In September 2011, the FASB issued ASU 2011-09, *Disclosures about an Employer s Participation in a Multiemployer Plan* which requires the Company to provide additional quantitative and qualitative disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The ASU is effective for fiscal years ending after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income,* to improve the comparability of financial reporting and to facilitate the convergence of U.S. generally accepted accounting principles and international financial reporting standards. The ASU amends the guidance in ASC 220, *Comprehensive Income,* by eliminating the option to present components of other comprehensive income in the statement of stockholders equity. The new guidance (i) requires entities to present all non-owner changes in stockholders equity either as a single continuous statement of comprehensive income or as two separate but consecutive statements and (ii) provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update is effective for public companies with fiscal years beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations a consensus of the FASB Emerging Issues Task Force,* to amend ASC 805, *Business Combinations*, regarding how public entities disclose supplemental pro forma information for business combinations. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the prior annual reporting period and it also requires public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of SIFCO Industries, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of SIFCO Industries, Inc. (an Ohio Corporation) and Subsidiaries as of September 30, 2011 and 2010, and the related consolidated statements of operations, shareholders equity and cash flows for each of the two years in the period ended September 30, 2011. Our audits of the basic financial statements included the financial statement schedule appearing under Schedule II. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SIFCO Industries, Inc. and Subsidiaries as of September 30, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Cleveland, Ohio
December 1, 2011

SIFCO Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

	Years Ended September 30, 2011	2010
Net sales	**$ 107,357**	$ 83,270
Operating expenses:		
Cost of goods sold	**80,916**	63,529
Selling, general and administrative expenses	**13,582**	11,860
Amortization of intangible assets	**1,917**	0
Loss (gain) on disposal or impairment of operating assets	**87**	(34)
Total operating expenses	**96,502**	75,355
Operating income	**10,855**	7,915
Interest income	**(46)**	(57)
Interest expense	**128**	71
Foreign currency exchange loss (gain)	**5**	(23)
Other income, net	**(470)**	(470)
Income before income tax provision	**11,238**	8,394
Income tax provision	**3,789**	3,032
Net income	**$ 7,449**	$ 5,362
Net income per share		
Basic	**$ 1.41**	$ 1.01
Diluted	**$ 1.40**	$ 1.00
Weighted-average number of common shares (basic)	**5,279**	5,300
Weighted-average number of common shares (diluted)	**5,317**	5,344

See notes to consolidated financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2011	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 6,431**	$ 18,671
Short-term investments	**0**	3,020
Receivables, net	**20,739**	17,182
Inventories	**10,239**	6,272
Refundable income taxes	**281**	692
Deferred income taxes	**1,500**	1,502
Prepaid expenses and other current assets	**468**	627
Total current assets	**39,658**	47,966
Property, plant and equipment:		
Land	**579**	579
Buildings	**14,097**	13,642
Machinery and equipment	**52,894**	44,350
	67,570	58,571
Accumulated depreciation	**40,012**	37,822
Property, plant and equipment, net	**27,558**	20,749
Intangible assets, net	**8,506**	0
Goodwill	**3,493**	0
Other assets	**796**	935
Total assets	**$ 80,011**	$ 69,650
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ 30**	$ 108
Accounts payable	**9,778**	7,939
Accrued liabilities	**4,626**	4,287
Total current liabilities	**14,434**	12,334
Long-term debt, net of current maturities	**1,186**	35
Deferred income taxes	**2,233**	2,359
Other long-term liabilities	**8,749**	6,883
Shareholders equity:		
Serial preferred shares, no par value, authorized 1,000 shares	**0**	0
Common shares, par value $1 per share, authorized 10,000 shares; issued 5,335 shares in 2011 and 5,325 shares in 2010; outstanding 5,299 shares in 2011 and 5,259 shares in 2010	**5,335**	5,325
Additional paid-in capital	**7,032**	6,983
Retained earnings	**54,122**	47,733
Accumulated other comprehensive loss	**(12,702)**	(11,310)
Common shares held in treasury at cost, 36 shares in 2011 and 66 shares in 2010	**(378)**	(692)
Total shareholders equity	**53,409**	48,039
Total liabilities and shareholders equity	**$ 80,011**	$ 69,650

See notes to consolidated financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

	Years Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	**$ 7,449**	$ 5,362
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	**4,386**	1,895
Gain on disposal of property, plant and equipment	**(132)**	(34)
LIFO provision	**479**	175
Deferred income taxes	**(108)**	436
Share transactions under employee stock plan	**373**	519
Asset impairment charges	**219**	0
Changes in operating assets and liabilities:		
Receivables	**(2,288)**	(218)
Inventories	**(1,621)**	1,090
Refundable income taxes	**411**	197
Prepaid expenses and other current assets	**276**	(32)
Other assets	**139**	299
Accounts payable	**215**	321
Accrued liabilities	**(98)**	(280)
Other long-term liabilities	**520**	148
Net cash provided by operating activities	**10,220**	9,878
Cash flows from investing activities:		
Acquisition of business	**(22,566)**	0
Maturity of short-term investments	**3,000**	0
Capital expenditures	**(3,293)**	(6,747)
Purchase of short-term investments	**0**	(3,039)
Proceeds from disposal of property, plant and equipment	**146**	55
Net cash used for investing activities	**(22,713)**	(9,731)
Cash flows from financing activities:		
Proceeds from revolving credit agreement	**33,844**	0
Repayments of revolving credit agreement	**(32,660)**	0
Dividends paid	**(789)**	(529)
Repurchase of common shares	**0**	(692)
Repayments of capital lease obligations and other long-term debt	**(112)**	(109)
Net cash provided by (used for) financing activities	**283**	(1,330)
Decrease in cash and cash equivalents	**(12,210)**	(1,183)
Cash and cash equivalents at beginning of year	**18,671**	19,875
Effect of exchange rate changes on cash and cash equivalents	**(30)**	(21)
Cash and cash equivalents at end of year	**$ 6,431**	$ 18,671
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ (125)**	$ (58)
Cash paid for income taxes, net	**$ (2,721)**	$ (2,070)
Non-cash financing transactions:		
Dividends declared but not paid	**$ (1,060)**	$ (789)

See notes to consolidated financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity

(Amounts in thousands)

	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Shares Held in Treasury	Total Shareholders Equity
Balance September 30, 2009	$ 5,298	$ 6,490	$ 43,160	$ (9,703)	$ 0	$ 45,245
Comprehensive income:						
Net income	0	0	5,362	0	0	5,362
Foreign currency translation adjustment	0	0	0	(1,079)	0	(1,079)
Retirement liability adjustment, net of tax	0	0	0	(528)	0	(528)