

SIFCO INDUSTRIES INC
Form 10-Q
August 12, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended June 30, 2009

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of the Registrant's Common Shares outstanding at June 30, 2009 was 5,294,716.

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 1. Legal Proceedings

Item 2. Change in Securities and Use of Proceeds

Item 3. Defaults upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. (a) Exhibits

SIGNATURES

EX-31.1

EX-31.2

EX-32

Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

SIFCO Industries, Inc. and Subsidiaries
Consolidated Condensed Statements of Operations
(Unaudited)
(Amounts in thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------------------------------------|---------------------------|--------------|--------------------------|--------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 23,548 | \$ 27,333 | \$ 73,026 | \$ 76,493 |
| Operating expenses: | | | | |
| Cost of goods sold | 16,517 | 20,977 | 54,484 | 58,492 |
| Selling, general and administrative expenses | 2,958 | 3,243 | 8,536 | 9,507 |
| Total operating expenses | 19,475 | 24,220 | 63,020 | 67,999 |
| Operating income | 4,073 | 3,113 | 10,006 | 8,494 |
| Interest income | | (3) | (5) | (5) |
| Interest expense | 14 | 22 | 43 | 135 |
| Foreign currency exchange loss (gain), net | (47) | (8) | 32 | (12) |
| Other (income) expense, net | 5 | (1) | (2) | (1) |
| Income from continuing operations before income tax provision | 4,101 | 3,103 | 9,938 | 8,377 |
| Income tax provision | 1,484 | 1,035 | 3,683 | 3,031 |
| Income from continuing operations | 2,617 | 2,068 | 6,255 | 5,346 |
| Income (loss) from discontinued operations, net of tax | (198) | 91 | 188 | (216) |
| Net income | \$ 2,419 | \$ 2,159 | \$ 6,443 | \$ 5,130 |
| Income per share from continuing operations | | | | |
| Basic | \$ 0.49 | \$ 0.39 | \$ 1.18 | \$ 1.01 |
| Diluted | \$ 0.49 | \$ 0.39 | \$ 1.18 | \$ 1.00 |
| Income (loss) per share from discontinued operations, net of tax | | | | |
| Basic | \$ (0.04) | \$ 0.02 | \$ 0.04 | \$ (0.04) |
| Diluted | \$ (0.04) | \$ 0.02 | \$ 0.04 | \$ (0.04) |

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| | | | | |
|----------------------------------------------------|---------|---------|---------|---------|
| Net income per share | | | | |
| Basic | \$ 0.46 | \$ 0.41 | \$ 1.22 | \$ 0.97 |
| Diluted | \$ 0.45 | \$ 0.40 | \$ 1.21 | \$ 0.96 |
| Weighted-average number of common shares (basic) | 5,295 | 5,294 | 5,295 | 5,290 |
| Weighted-average number of common shares (diluted) | 5,328 | 5,345 | 5,318 | 5,342 |

See notes to unaudited consolidated condensed financial statements.

Table of Contents

SIFCO Industries, Inc. and Subsidiaries
Consolidated Condensed Balance Sheets
(Amounts in thousands, except per share data)

| | June 30, 2009 (unaudited) | September 30, 2008 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,594 | \$ 10,440 |
| Receivables, net | 18,280 | 19,130 |
| Inventories, net | 9,101 | 11,730 |
| Refundable income taxes | | 1,309 |
| Deferred income taxes | 1,541 | 1,541 |
| Prepaid expenses and other current assets | 726 | 463 |
| Assets held for sale | 3,170 | 3,158 |
| | | |
| Total current assets | 50,412 | 47,771 |
| | | |
| Property, plant and equipment, net | 12,232 | 10,253 |
| | | |
| Other assets | 2,132 | 2,125 |
| | | |
| Total assets | \$ 64,776 | \$ 60,149 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 99 | \$ 94 |
| Accounts payable | 7,386 | 8,310 |
| Accrued liabilities | 4,605 | 5,052 |
| | | |
| Total current liabilities | 12,090 | 13,456 |
| | | |
| Long-term debt, net of current maturities | 182 | 269 |
| | | |
| Deferred income taxes | 3,316 | 3,295 |
| | | |
| Other long-term liabilities | 1,957 | 2,450 |
| | | |
| Shareholders' equity: | | |
| Serial preferred shares, no par value, authorized 1,000 shares | | |
| Common shares, par value \$1 per share, authorized 10,000 shares; issued and outstanding 5,295 shares at June 30, 2009 and September 30, 2008 | 5,295 | 5,295 |
| Additional paid-in capital | 6,462 | 6,399 |

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| | | |
|--------------------------------------------|------------------|------------------|
| Retained earnings | 42,097 | 35,658 |
| Accumulated other comprehensive loss | (6,623) | (6,673) |
| | | |
| Total shareholders' equity | 47,231 | 40,679 |
| | | |
| Total liabilities and shareholders' equity | \$ 64,776 | \$ 60,149 |

See notes to unaudited consolidated condensed financial statements.

3

Table of Contents

SIFCO Industries, Inc. and Subsidiaries
Consolidated Condensed Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

| | Nine Months Ended | |
|------------------------------------------------------------------------------------------------------------|--------------------------|-------------|
| | June 30, | |
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 6,443 | \$ 5,130 |
| (Income) loss from discontinued operations, net of tax | (188) | 216 |
| Adjustments to reconcile net income to net cash provided by operating activities of continuing operations: | | |
| Depreciation and amortization | 1,182 | 1,102 |
| Deferred income taxes | 33 | 396 |
| Other | 63 | 38 |
| Changes in operating assets and liabilities: | | |
| Receivables | 824 | (1,952) |
| Inventories | 2,602 | 3,579 |
| Refundable income taxes | 1,309 | |
| Accounts payable | (911) | 40 |
| Accrued liabilities | (59) | (902) |
| Other long-term liabilities | (407) | (1,291) |
| Other | (253) | (205) |
| | | |
| Net cash provided by operating activities of continuing operations | 10,638 | 6,151 |
| Net cash used for operating activities of discontinued operations | (191) | (659) |
| | | |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,238) | (1,782) |
| | | |
| Net cash used for investing activities of continuing operations | (3,238) | (1,782) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit agreement | | 20,848 |
| Repayments of revolving credit agreement | | (23,448) |
| Other | (81) | (69) |
| | | |
| Net cash used for financing activities of continuing operations | (81) | (2,669) |
| | | |
| Increase (decrease) in cash and cash equivalents | 7,128 | 1,041 |
| Cash and cash equivalents at the beginning of the period | 10,440 | 5,510 |
| Effect of exchange rate changes on cash and cash equivalents | 26 | 504 |

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| | | |
|----------------------------------------------------------------------------|------------------|----------|
| Cash and cash equivalents at the end of the period | \$ 17,594 | \$ 7,055 |
| Supplemental disclosure of cash flow information of continuing operations: | | |
| Cash paid for interest | \$ (40) | \$ (156) |
| Cash paid for income taxes, net | (2,043) | (2,890) |
| See notes to unaudited consolidated condensed financial statements. | | |

4

Table of Contents

SIFCO Industries, Inc. and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements
(Dollars in thousands, except share and per share data)

1. Summary of Significant Accounting Policies**A. Principles of Consolidation**

The accompanying unaudited consolidated condensed financial statements include the accounts of SIFCO Industries, Inc. and its wholly-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. The U.S. dollar is the functional currency for all of the Company's U.S. operations. For these operations, all gains and losses from completed currency transactions are included in income currently. For the Company's non-U.S. subsidiaries, the functional currency is the local currency. Assets and liabilities are translated into U.S. dollars at the rates of exchange at the end of the period, and revenues and expenses are translated using average rates of exchange. Foreign currency translation adjustments are reported as a component of accumulated other comprehensive loss in the consolidated condensed financial statements.

These unaudited consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's fiscal 2008 Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year. Certain prior period amounts may have been reclassified in order to conform to current period classifications.

B. Stock-Based Compensation

The Company has awarded stock options under its shareholder approved 1995 Stock Option Plan (1995 Plan) and 1998 Long-term Incentive Plan (1998 Plan). No further options may be awarded under either the 1995 Plan or the 1998 Plan. Option exercise price is not less than fair market value on date of grant and options are exercisable no later than ten years from date of grant. Options awarded under both plans generally vest at a rate of 25% per year.

Aggregate option activity is as follows:

| | Number of Share Options Outstanding | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---------------------------------------------|--------------------------------------------------|-------------------------------------------|---------------------------------------------------------------------|---------------------------------|
| At September 30, 2008 | 93,250 | \$4.60 | | |
| Options reinstated | 2,000 | \$3.74 | | |
| At June 30, 2009 | 95,250 | \$4.58 | 3.5 | \$569 |
| Vested or expected to vest at June 30, 2009 | 95,250 | \$4.58 | 3.5 | \$569 |
| Exercisable at June 30, 2009 | 88,750 | \$4.65 | 3.3 | \$520 |

As of June 30, 2009, there was nominal unrecognized compensation cost related to the unvested stock options granted under the Plans. The Company expects to recognize this cost over a weighted average period of less than one year.

The Company has also awarded performance shares under its shareholder approved 2007 Long-Term Incentive Plan (2007 Plan). The aggregate number of shares that may be awarded under the 2007 Plan is 250,000, subject to an adjustment for the forfeiture of any issued shares. In addition, shares that may be awarded are subject to individual award limitations. The shares awarded under the 2007 Plan may be made in multiple forms including stock options, stock appreciation rights, restricted or unrestricted stock, and performance related shares. Any such awards are exercisable no later than ten years from date of grant.

The performance shares that have been awarded under the 2007 Plan generally provide for the issuance of the Company's common shares upon the Company achieving certain defined financial performance objectives during a period up to three years following the making of such award. The ultimate number of common shares of the Company that may be earned pursuant to an award will range from a minimum of no shares to a maximum of 150% of the initial number of performance shares awarded, depending on the level of the Company's achievement of its financial performance objectives.

Table of Contents

Compensation expense is being accrued at (i) 0% to 50% of the target levels for recipients of the performance shares awarded during fiscal 2009 and (ii) 50% of the target levels for recipients of the performance shares awarded during fiscal 2008. During each future reporting period, such expense may be subject to adjustment based upon the Company's subsequent estimate of the number of common shares that it expects to issue upon the completion of the performance period. The performance shares were valued at the closing market price of the Company's common shares on the date of grant, and the vesting of such shares is determined at the end of the performance period. Compensation expense related to all performance shares awarded under the 2007 Plan was \$60 and \$19 during the first nine months of fiscal 2009 and 2008, respectively. As of June 30, 2009, there was \$105 of total unrecognized compensation cost related to the performance shares awarded under the 2007 Plan. The Company expects to recognize this cost over the next 2.3 years.

The following is a summary of activity related to performance shares:

| | Number of Shares | Weighted Average Fair Value at Date of Grant |
|-----------------------------------|------------------------|----------------------------------------------------------|
| Outstanding at September 30, 2008 | 35,000 | \$ 10.94 |
| Performance shares awarded | 40,500 | 5.99 |
| Outstanding at June 30, 2009 | 75,500 | \$ 8.29 |

2. Inventories

Inventories consist of:

| | June 30, 2009 | September 30, 2008 |
|----------------------------|------------------|--------------------------|
| Raw materials and supplies | \$ 2,980 | \$ 3,792 |
| Work-in-process | 2,990 | 5,574 |
| Finished goods | 3,131 | 2,364 |
| Total inventories | \$ 9,101 | \$ 11,730 |

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for 76% of the Company's inventories at both June 30, 2009 and September 30, 2008. The first-in, first-out (FIFO) method is used for the remainder of the inventories. If the FIFO method had been used for the inventories for which cost is determined using the LIFO method, inventories would have been \$7,672 and \$8,903 higher than reported at June 30, 2009 and September 30, 2008, respectively.

3. Comprehensive Income and Accumulated Other Comprehensive Loss

Total comprehensive income is as follows:

| Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--------------------------------|------|-------------------------------|------|
| 2009 | 2008 | 2009 | 2008 |

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| | | | | |
|--------------------------------------------------|-----------------|----------|-----------------|----------|
| Net income | \$ 2,419 | \$ 2,159 | \$ 6,443 | \$ 5,130 |
| Foreign currency translation adjustment | 342 | (42) | 4 | 905 |
| Minimum pension liability adjustment, net of tax | | | 46 | |
| | | | | |
| Total comprehensive income | \$ 2,761 | \$ 2,117 | \$ 6,493 | \$ 6,035 |

The components of accumulated other comprehensive loss are as follows:

| | June 30, 2009 | September 30, 2008 |
|-----------------------------------------------------------|--------------------------|-----------------------------------|
| Foreign currency translation adjustment | \$ (4,854) | \$ (4,858) |
| SFAS No. 158 net pension liability adjustment, net of tax | (1,769) | (1,815) |
| | | |
| Total accumulated other comprehensive loss | \$ (6,623) | \$ (6,673) |

Table of Contents**4. Long-Term Debt**

The Company was in compliance with all applicable loan covenants as of June 30, 2009.

5. Government Grants

In the past, the Company has received grants from certain government entities as an incentive to invest in facilities, research and employees. Capital grants are amortized into income over the estimated useful lives of the related assets. Employment grants are amortized into income over five years. The unamortized portion of deferred grant revenue recorded in other long-term liabilities at June 30, 2009 and September 30, 2008 was \$440 and \$442, respectively. The majority of the Company's grants are denominated in Euros. The Company adjusts its deferred grant revenue balance in response to currency exchange rate fluctuations for as long as such grants are treated as obligations.

6. Income Taxes

For each interim reporting period, the Company makes an estimate of the effective tax rate it expects to be applicable for the full fiscal year. This estimated effective rate is used in providing for income taxes on a year-to-date basis. The Company's estimated effective tax rate through the first nine months of fiscal 2009 is 37% and differs from the U.S. federal rate due primarily to (i) the impact of state and local income taxes, (ii) a domestic production activities deduction, and (iii) the recognition of U.S. federal income taxes on undistributed earnings of non-U.S. subsidiaries. The income tax provision consists of the following:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------------|---------------------------|-------------|--------------------------|-------------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Current income tax provision: | | | | |
| U.S. federal | \$ 1,192 | \$ 631 | \$ 3,009 | \$ 2,209 |
| U.S. state and local | 217 | 86 | 471 | 225 |
| Non-U.S. | 64 | 87 | 166 | 201 |
| Total current tax provision | 1,473 | 804 | 3,646 | 2,635 |
| Deferred income tax provision (benefit): | | | | |
| U.S. federal | 11 | 202 | 42 | 345 |
| U.S. state and local | | 29 | | 105 |
| Non-U.S. | | | (5) | (54) |
| Total deferred tax provision | 11 | 231 | 37 | 396 |
| Income tax provision | \$ 1,484 | \$ 1,035 | \$ 3,683 | \$ 3,031 |

The Company is subject to U.S. federal income taxes and to income taxes in various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years prior to 2002.

It is the Company's continuing policy to recognize any interest related to uncertain tax positions in interest expense and any penalties related to uncertain tax positions in selling, general and administrative expense. The Company has not recorded any significant interest or penalties related to uncertain tax positions as of June 30, 2009.

7. Retirement Benefit Plans

The Company and certain of its subsidiaries sponsor defined benefit pension plans covering most of its employees. The components of net periodic benefit cost (income) of the Company's defined benefit plans are as follows:

Table of Contents

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|---------|-------------------|----------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ 65 | \$ 61 | \$ 195 | \$ 182 |
| Interest cost | 265 | 237 | 795 | 712 |
| Expected return on plan assets | (372) | (358) | (1,114) | (1,073) |
| Amortization of prior service cost | 33 | 33 | 99 | 99 |
| Amortization of net loss (gain) | 13 | (18) | 38 | (54) |
| Net periodic benefit cost (income) | \$ 4 | \$ (45) | \$ 13 | \$ (134) |

Through June 30, 2009, the Company has made \$558 of contributions to its defined benefit pension plans. The Company anticipates making \$181 of additional contributions to fund its defined benefit pension plans during the balance of fiscal 2009.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). The provisions governing recognition of the funded status of a defined benefit plan and related disclosures became effective and were adopted by the Company at the end of fiscal year 2007. The requirement to measure plan assets and benefit obligations as of the date of the Company s fiscal year end statement of financial position is effective for fiscal years ending after December 15, 2008, and is therefore effective for the Company in fiscal year 2009. The change in measurement date from July 1 to September 30 resulted in a nominal adjustment to the Company s retained earnings during the first nine months of fiscal 2009.

8. Business Segments

The Company identifies reportable segments based upon distinct products manufactured and services performed. The Aerospace Component Manufacturing 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 industry. The Turbine Component Services and Repair Group consists primarily of the repair and remanufacture of small aerospace turbine engine components. The Repair Group is also involved in precision component machining and industrial coating of turbine engine components. The Applied Surface Concepts Group is a provider of specialized selective electrochemical metal finishing processes and services used to apply metal coatings to a selective area of a component. The Company s reportable segments are separately managed. The following table summarizes certain information regarding segments of the Company s continuing operations:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------------|--------------------|-----------|-------------------|-----------|
| | June 30, | | June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Net sales: | | | | |
| Aerospace Component Manufacturing Group | \$ 16,866 | \$ 19,740 | \$ 52,725 | \$ 53,991 |
| Turbine Component Services and Repair Group | 3,373 | 3,643 | 9,629 | 11,229 |
| Applied Surface Concepts Group | 3,309 | 3,950 | 10,672 | 11,273 |
| Consolidated net sales | \$ 23,548 | \$ 27,333 | \$ 73,026 | \$ 76,493 |

Operating income (loss):

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| | | | | |
|-------------------------------------------------------------------------------|----------|----------|-----------|----------|
| Aerospace Component Manufacturing Group | \$ 4,171 | \$ 3,368 | \$ 10,208 | \$ 9,049 |
| Turbine Component Services and Repair Group | 252 | (51) | 202 | (8) |
| Applied Surface Concepts Group | 114 | 389 | 745 | 1,047 |
| Corporate unallocated expenses | (464) | (593) | (1,149) | (1,594) |
| | | | | |
| Consolidated operating income | 4,073 | 3,113 | 10,006 | 8,494 |
| | | | | |
| Interest expense, net | 14 | 19 | 38 | 130 |
| Foreign currency exchange loss (gain), net | (47) | (8) | 32 | (12) |
| Other (income) expense, net | 5 | (1) | (2) | (1) |
| | | | | |
| Consolidated income from continuing operations before income tax provision | \$ 4,101 | \$ 3,103 | \$ 9,938 | \$ 8,377 |

Table of Contents**9. Asset Divestiture and Discontinued Operations**

In fiscal 2007, the Company and its Irish subsidiary, SIFCO Turbine Components Limited (SIFCO Turbine), completed the sale of its industrial turbine engine component repair business, which operated in SIFCO Turbine s Cork, Ireland facility. Upon completion of this transaction, the Company no longer maintains a turbine engine component repair operation in Ireland. SIFCO Turbine retained ownership of the Cork, Ireland facility subject to a long-term lease arrangement with the acquirer of the industrial turbine engine component repair business. The Cork, Ireland facility is being held for sale as of June 30, 2009.

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the financial results related principally to the activity of leasing the Cork, Ireland facility, which makes up essentially all of SIFCO Turbine s operations, are reported as discontinued operations for all periods presented in the accompanying unaudited consolidated condensed statements of operations.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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, and on the demand for product in the aerospace industry in particular, of the global economic crisis, including the reduction in available 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) regressive pricing pressures on the Company s products and services, with productivity improvements as the primary means to maintain margins; (8) continued reliance on consumer acceptance of regional and business aircraft powered by more fuel efficient turboprop engines; (9) continued reliance on several major customers for revenues; (10) the Company s ability to continue to have access to its revolving credit facility; (11) the impact on future contributions to the Company s defined benefit pension plans due to changes in actuarial assumptions and the market value of plan assets; and (12) stable governments, business conditions, laws, regulations and taxes in economies where business is conducted. 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 electrochemical metal finishing. The products include forged components, machined forged components, other machined metal components, remanufactured component parts for turbine engines, and selective electrochemical finishing solutions and equipment. The Company endeavors to plan and evaluate the operation of its businesses 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 maintenance, repair and overhaul schedules for commercial, business and military aircraft as well as the engines that power such aircraft, and (iii) anticipated exploration and production activities relative to oil and gas products, etc.

A. Results of Operations**Nine Months Ended June 30, 2009 Compared with Nine Months Ended June 30, 2008**

Net sales in the first nine months of fiscal 2009 decreased 4.5% to \$73.0 million, compared with \$76.5 million in the comparable period in fiscal 2008. Income from continuing operations in the first nine months of fiscal 2009 was \$6.3 million, compared with \$5.3 million in the comparable period in fiscal 2008. Included in the \$5.3 million of income from continuing operations in the first nine months of fiscal 2008 was expense of \$0.5 million related to the business settlement of a product dispute that originated in fiscal 2007. Income (loss) from discontinued operations, net

of tax, was \$0.2 million of income in the first nine months of fiscal 2009, compared with a loss of \$0.2 million in the comparable period in fiscal 2008. Net income in the first nine months of fiscal 2009 was \$6.4 million, compared with \$5.1 million in the comparable period in fiscal 2008. Included in the \$6.4 million of net income in the first nine months of fiscal 2009 was LIFO income of \$1.2 million, compared with \$0.2 million in the comparable period in fiscal 2008.

Table of Contents***Aerospace Component Manufacturing Group (ACM Group)***

Net sales in the first nine months of fiscal 2009 decreased 2.3% to \$52.7 million, compared with \$54.0 million in the comparable period of fiscal 2008. For purposes of the following discussion, the ACM Group considers aircraft that can accommodate less than 100 passengers to be small aircraft and those that can accommodate 100 or more passengers to be large aircraft. Net sales of airframe components for small aircraft decreased \$0.6 million to \$28.7 million in the first nine months of fiscal 2009, compared with \$29.3 million in the comparable period in fiscal 2008. Net sales of turbine engine components for small aircraft, which consist primarily of business and regional jets, as well as military transport and surveillance aircraft, increased \$2.4 million to \$16.4 million in the first nine months of fiscal 2009, compared with \$14.0 million in the comparable period in fiscal 2008. Net sales of airframe components for large aircraft decreased \$2.1 million to \$3.9 million in the first nine months of fiscal 2009, compared with \$6.0 million in the comparable period in fiscal 2008. Net sales of turbine engine components for large aircraft decreased \$0.5 million to \$1.9 million in the first nine months of fiscal 2009, compared with \$2.4 million in the comparable period in fiscal 2008. Commercial product sales and other revenues were \$1.8 million and \$2.3 million in the first nine months of fiscal 2009 and 2008, respectively. The ACM Group's decrease in net sales is primarily due to customer order adjustments / push-outs as a result of the overall weak global economic conditions.

The ACM Group's airframe and turbine engine component products have both military and commercial applications. Net sales of airframe and turbine engine components that solely have military applications were \$25.9 million in the first nine months of fiscal 2009, compared with \$24.9 million in the comparable period in fiscal 2008. This increase is attributable in part to increased military spending due to ongoing wartime demand such as for additional military helicopters and related replacement components.

The ACM Group's selling, general and administrative expenses decreased \$0.6 million to \$3.2 million, or 6.0% of net sales, in the first nine months of fiscal 2009, compared with \$3.8 million, or 7.0% of net sales, in the comparable period in fiscal 2008. Included in the \$3.8 million of selling, general and administrative expenses in the first nine months of fiscal 2008 was \$0.5 million related to the payment to a customer that (i) was made to achieve an amicable settlement related to a product dispute and (ii) the Company agreed to make as a business gesture of good faith and cooperation without admission of liability. The remaining selling, general and administrative expenses in the first nine months of fiscal 2008 were \$3.3 million, or 6.1% of net sales.

The ACM Group's operating income in the first nine months of fiscal 2009 was \$10.2 million, compared with \$9.0 million in the comparable period in fiscal 2008. Operating results improved principally due to (i) an approximate \$1.0 million reduction in the LIFO provision recognized in the first nine months of fiscal 2009, compared with the same period in fiscal 2008, (ii) lower expenditures for natural gas principally due to lower consumption and (iii) the negative impact, during the first nine months of fiscal 2008, of the aforementioned \$0.5 million settlement expense. These improvements were partially offset by the negative impact of (i) higher manufacturing labor and benefits expense due to higher levels of employment and (ii) an increase in other manufacturing overhead costs recognized in the first nine months of fiscal 2009, compared with the same period in fiscal 2008.

The ACM Group's backlog as of June 30, 2009 was \$71.9 million, compared with \$76.6 million as of September 30, 2008. At June 30, 2009, \$52.6 million of the total backlog was scheduled for delivery over the next twelve months. All orders are subject to modification or cancellation by the customer with limited charges. It is important to note that the delivery lead times for certain raw materials (e.g. aerospace grades of steel and titanium alloys) have continued to shorten and the ACM Group believes that such lead time reduction has resulted in a fundamental shift in the ordering pattern of its customers. The ACM Group believes that a likely consequence of such a shift is that customers are not placing orders as far in advance as they previously did, which results in a reduction, relative to comparable prior periods, in the ACM Group's backlog. Accordingly, such backlog reduction is not necessarily completely indicative of actual sales expected for any succeeding period. During the first nine months of fiscal 2009, the ACM Group experienced a decrease in new orders for products that principally support commercial aircraft.

Turbine Component Services and Repair Group (Repair Group)

In the first nine months of fiscal 2009, net sales, which consist principally of component repair services (including precision component machining and industrial coating) for small aerospace turbine engines, decreased 14.2% to \$9.6 million, compared with \$11.2 million in the comparable fiscal 2008 period. The Repair Group's decrease in net

sales is primarily due to the overall weak global economic conditions.

During the first nine months of fiscal 2009, the Repair Group's selling, general and administrative expenses were \$1.0 million, or 10.2% of net sales, compared with \$1.0 million, or 8.5% of net sales, in the comparable fiscal 2008 period.

Table of Contents

The Repair Group's operating income in the first nine months of fiscal 2009 was \$0.2 million, compared with essentially breakeven results in the comparable period in fiscal 2008. Operating results in the first nine months of fiscal 2009 were positively impacted principally by (i) an increase in selling prices and (ii) \$0.1 million of favorable settlements of certain obligations. Although sales volumes were higher in the first nine months of fiscal 2008, operating results were negatively impacted by startup costs related to the production launch of a new component repair program.

The Repair Group's backlog as of June 30, 2009 was \$3.5 million, compared with \$4.5 million as of September 30, 2008. At June 30, 2009, \$2.1 million of the total backlog was scheduled for delivery over the next twelve months. As discussed in the Company's Form 8-K filed on January 20, 2009, the Company is exploring strategic alternatives for the Repair Group for the purpose of enhancing shareholder value. The Company is conducting an orderly and comprehensive review and evaluation of strategic alternatives available to it, including a divestiture of the Repair Group.

Applied Surface Concepts Group (ASC Group)

Net sales in the first nine months of fiscal 2009 decreased 5.3% to \$10.7 million, compared with \$11.3 million in the comparable fiscal 2008 period. In the first nine months of fiscal 2009, product net sales, consisting of selective electrochemical metal finishing equipment and solutions, decreased 2.9% to \$5.4 million, compared with \$5.5 million in the same period in fiscal 2008. In the first nine months of fiscal 2009, customized selective electrochemical metal finishing contract service net sales decreased 8.3% to \$5.1 million, compared with \$5.6 million in the same period in fiscal 2008. The decrease in contract service net sales in the first nine months of fiscal 2009, compared to the same period in fiscal 2008, is primarily attributable to a decline in oil exploration activity as a consequence of the decline in global oil prices. The ASC Group's remaining decrease in net sales is primarily due to the overall weak global economic conditions. A portion of the ASC Group's business is conducted in Europe and is denominated in local European currencies, which have weakened in relation to the US dollar, resulting in an unfavorable currency impact on net sales in the first nine months of fiscal 2009 of approximately \$0.9 million.

The ASC Group's selling, general and administrative expenses were \$3.2 million, or 30.2% of net sales, in the first nine months of fiscal 2009, compared with \$3.2 million, or 28.1% of net sales, in the comparable fiscal 2008 period. Higher net research and development expenditures were offset by lower compensation expense in the first nine months of fiscal 2009 compared with the same period fiscal 2008.

The ASC Group's operating income in the first nine months of fiscal 2009 was \$0.7 million, compared with \$1.0 million in the same period in fiscal 2008. This decrease in operating income was principally due to the effect of lower net sales without a corresponding decrease in operating expenses.

The ASC Group backlog at June 30, 2009 was not material.

Corporate Unallocated Expenses

Corporate unallocated expenses, consisting of corporate salaries and benefits, legal and professional and other corporate expenses, were \$1.1 million in the first nine months of fiscal 2009, compared with \$1.6 million in the same period in fiscal 2008. The \$0.5 million decrease is principally due to a \$0.4 million decrease in legal and professional expenses.

Other/General

Interest expense was nominal in the first nine months of fiscal 2009, compared with \$0.1 million in the same period in fiscal 2008. The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's revolving credit agreement in the first nine months of fiscal years 2009 and 2008.

| | Weighted Average Interest Rate Nine Months Ended June 30, 2009 | Weighted Average Outstanding Balance Nine Months Ended June 30, 2008 |
|----------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Revolving credit agreement | 7.1% | \$1.8 million |

Table of Contents**Three Months Ended June 30, 2009 Compared with Three Months Ended June 30, 2008**

Net sales in the third quarter of fiscal 2009 decreased 13.8% to \$23.5 million, compared with \$27.3 million in the comparable period in fiscal 2008. Income from continuing operations in the third quarter of fiscal 2009 was \$2.6 million, compared with \$2.1 million in the comparable period in fiscal 2008. Income from discontinued operations, net of tax, was a loss of \$0.2 million in the third quarter of fiscal 2009, compared with income of \$0.1 million in the comparable period in fiscal 2008. Net income in the third quarter of fiscal 2009 was \$2.4 million, compared with \$2.2 million in the comparable period in fiscal 2008. Included in the \$2.4 million of net income in the third quarter of fiscal 2009 was LIFO income of \$0.6 million, compared with \$0.1 million in the comparable period in fiscal 2008.

Aerospace Component Manufacturing Group (ACM Group)

Net sales in the third quarter of fiscal 2009 decreased 14.6% to \$16.9 million, compared with \$19.7 million in the comparable period of fiscal 2008. For purposes of the following discussion, the ACM Group considers aircraft that can accommodate less than 100 passengers to be small aircraft and those that can accommodate 100 or more passengers to be large aircraft. Net sales of airframe components for small aircraft decreased \$2.9 million to \$9.3 million in the third quarter of fiscal 2009, compared with \$12.2 million in the comparable period in fiscal 2008. Net sales of turbine engine components for small aircraft, which consist primarily of business and regional jets, as well as military transport and surveillance aircraft, increased \$1.1 million to \$5.1 million in the third quarter of fiscal 2009, compared with \$4.0 million in the comparable period in fiscal 2008. Net sales of airframe components for large aircraft decreased \$1.0 million to \$1.3 million in the third quarter of fiscal 2009, compared with \$2.3 million in the comparable period in fiscal 2008. Net sales of turbine engine components for large aircraft were \$0.7 million in the third quarters of both fiscal 2009 and 2008. Commercial product sales and other revenues were \$0.5 million in the third quarters of both fiscal 2009 and 2008. The ACM Group's decrease in net sales is primarily due to customer order adjustments / push-outs as a result of the overall weak global economic conditions.

The ACM Group's airframe and turbine engine component products have both military and commercial applications. Net sales of airframe and turbine engine components that solely have military applications were \$8.3 million in the third quarter of fiscal 2009, compared with \$10.3 million in the comparable period in fiscal 2008. The decrease in net sales of these components is partially attributable to the favorable impact, during the third quarter of fiscal 2008, of (i) the shipment of customer orders that were past due and (ii) the acceleration of deliveries, at the request of certain customers, due to urgent need.

The ACM Group's selling, general and administrative expenses were \$1.1 million, or 6.5% of net sales, in the third quarter of fiscal 2009, compared with \$1.2 million or 5.9% of net sales, in the comparable period in fiscal 2008. The decrease in selling, general and administrative expenses in the third quarter of fiscal 2009 was principally due to a decrease in variable selling expenses as a result of lower net sales.

The ACM Group's operating income in the third quarter of fiscal 2009 was \$4.2 million, compared with \$3.4 million in the comparable period in fiscal 2008. Operating results improved principally due to (i) an approximate \$0.5 million reduction in the LIFO provision recognized in the third quarter of fiscal 2009, compared with the same period in fiscal 2008, (ii) lower expenditures for natural gas principally due to lower consumption as well as a decline in market price and (iii) a decrease in tooling costs recognized in the third quarter of fiscal 2009, compared with the same period in fiscal 2008. These improvements were partially offset by the negative impact of higher depreciation and other manufacturing overhead expenses recognized in the third quarter of fiscal 2009, compared with the same period in fiscal 2008.

Turbine Component Services and Repair Group (Repair Group)

Net sales in the third quarter of fiscal 2009, which consists principally of component repair services (including precision component machining and industrial coating) for small aerospace turbine engines, decreased 7.4% to \$3.4 million, compared with \$3.6 million in the comparable fiscal 2008 period. The Repair Group's decrease in net sales is primarily due to the overall weak global economic conditions.

During the third quarter of fiscal 2009, the Repair Group's selling, general and administrative expenses were \$0.3 million, or 9.3% of net sales, compared with \$0.3 million, or 8.1% of net sales, in the comparable fiscal 2008 period.

The Repair Group's operating income was \$0.3 million in the third quarter of fiscal 2009 compared with essentially breakeven results in the comparable fiscal 2008 period. Operating results in the third quarter of fiscal 2009 were positively impacted principally by an increase in selling prices. Although sales volumes were higher in the third quarter of fiscal 2008, operating results were negatively impacted by startup costs related to the production launch of a new component repair program.

Table of Contents***Applied Surface Concepts Group (ASC Group)***

Net sales in the third quarter of fiscal 2009 decreased 16.2% to \$3.3 million, compared with \$3.9 million in the comparable fiscal 2008 period. In the third quarter of fiscal 2009, product net sales, consisting of selective electrochemical metal finishing equipment and solutions, decreased 4.2% to \$1.9 million, compared to \$2.0 million in the same period in fiscal 2008. In the third quarter of fiscal 2009, customized selective electrochemical metal finishing contract service net sales decreased 29.9% to \$1.3 million, compared with \$1.9 million in the same period in fiscal 2008. The decrease in contract service net sales is primarily attributable to a decline in oil exploration activity as a consequence of the decline in global oil prices. The ASC Group's remaining decrease in net sales is primarily due to the overall weak global economic conditions. A portion of the ASC Group's business is conducted in Europe and is denominated in local European currencies, which have weakened in relation to the US dollar, resulting in an unfavorable currency impact on net sales in the third quarter of fiscal 2009 of approximately \$0.3 million.

The ASC Group's selling, general and administrative expenses were \$1.1 million, or 32.9% of net sales, in the third quarter of fiscal 2009, compared with \$1.2 million or 29.9% of net sales in the comparable fiscal 2008 period. The decrease in selling, general and administrative expenses in third quarter of fiscal 2009 was principally attributable to lower compensation expense due to open positions and a temporary reduction in salaries, partially offset by higher net research and developments expenditures.

The ASC Group's operating income in the third quarter of fiscal 2009 was \$0.1 million, compared with \$0.4 million in the same period in fiscal 2008. This decrease in operating income is principally due to lower sales volumes without a corresponding decrease in operating expenses.

Corporate Unallocated Expenses

Corporate unallocated expenses, consisting of corporate salaries and benefits, legal and professional and other corporate expenses, were \$0.5 million in the third quarter of fiscal 2009, compared with \$0.6 million in the same period in fiscal 2008. The \$0.1 million decrease is principally due to a decrease in legal and professional expenses, partially offset by an increase in compensation expense, including incentive compensation.

Other/General

Interest expense was nominal in the third quarters of both fiscal 2009 and 2008. The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's revolving credit agreement in the third quarter of fiscal years 2009 and 2008.

| | Weighted Average Interest Rate Three Months Ended June 30, | | Weighted Average Outstanding Balance Three Months Ended June 30, | |
|----------------------------|---------------------------------------------------------------------|------|---------------------------------------------------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revolving credit agreement | | 5.2% | | \$0.5 million |

B. Liquidity and Capital Resources

Cash and cash equivalents increased to \$17.6 million at June 30, 2009 from \$10.4 million at September 30, 2008. At June 30, 2009, \$5.8 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 \$10.4 million of cash (of which \$10.6 million was provided by continuing operations) in the first nine months of fiscal 2009, compared with \$5.5 million of cash provided by operating activities (of which \$6.2 million was provided by continuing operations) in the first nine months of fiscal 2008. The \$10.6 million of cash provided by operating activities of continuing operations in first nine months of fiscal 2009 was primarily due to (i) income from continuing operations, before depreciation expense and deferred taxes, of \$7.6 million, (ii) a \$2.6 million decrease in inventory, (iii) a \$0.8 million decrease in accounts receivable, and (iv) \$1.3 million due to the collection of refundable income taxes, offset by (i) a \$0.9 million decrease in accounts payable and (ii) a \$0.4 million decrease in other long-term liabilities. These changes in the components of working capital

were due to factors resulting from normal business conditions of the Company, including (i) the ACM Group's focused efforts to optimize its raw material and in-process inventory levels

Table of Contents

partially offset by higher finished goods and consignment inventory levels, (ii) the relative timing of collections from customers being impacted by the current global economic climate, including the selective extension by customers of payment terms, and (iii) the relative timing of payments to suppliers and tax authorities.

Capital expenditures, all of which were from continuing operations, were \$3.2 million in the first nine months of fiscal 2009 compared with \$1.8 million in the comparable fiscal 2008 period. Capital expenditures during the first nine months of fiscal 2009 consist of \$2.2 million by the ACM Group, \$0.1 million by the ASC Group, \$0.2 million by the Repair Group and \$0.7 million for the initial implementation of a new company-wide management information system. The Company anticipates that total fiscal 2009 capital expenditures will be within the range of \$4.0 to \$5.0 million. In addition to the \$3.2 million expended during the first nine months of fiscal 2009, \$1.2 million has been committed as of June 30, 2009, which includes \$0.3 million for the further implementation of the new company-wide management information system.

At June 30, 2009, the Company has an \$8.0 million revolving credit agreement with a bank, subject to sufficiency of collateral, which expires on October 1, 2010 and bears interest at the bank's base rate. The interest rate was 3.25% at June 30, 2009. A 0.35% commitment fee is incurred on the unused balance of the revolving credit agreement. At June 30, 2009, no amounts were outstanding and the Company had \$7.95 million available under its \$8.0 million revolving credit agreement. The Company's revolving credit agreement is secured by substantially all of the Company's assets located in the U.S. and a guarantee by its U.S. subsidiaries.

Under its revolving credit agreement with the bank, the Company is subject to certain customary covenants. These include, without limitation, covenants (as defined) that require maintenance of certain specified financial ratios, including a minimum tangible net worth level and a minimum EBITDA level. The Company was in compliance with all applicable covenants under its revolving credit agreement at June 30, 2009.

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 2009.

C. Impact of Recently Issued Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 165, Subsequent Events . The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before interim or annual financial statements are issued or are available to be issued. In particular, this Statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This Statement introduces the concept of financial statements being available to be issued. It requires the disclosure of (i) the date through which an entity has evaluated subsequent events and (ii) the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This Statement should not result in significant changes in the subsequent events that an entity reports either through recognition or disclosure in its financial statements and does not apply to subsequent events or transactions that are within the scope of other applicable generally accepted accounting principles that provide different guidance on the accounting treatment for subsequent events or transactions. In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, The Employers' Disclosure about Postretirement Benefit Plan Assets . The objective of this FSP is to provide guidance on an employer's disclosure about plan assets of a defined benefit pension plan. Such disclosures should provide users of financial statements with an understanding of (i) how investment allocation decisions are made, (ii) major categories of plan assets, (iii) how fair value of plan assets are measured, (iv) the effect of fair value measurements on changes in plan assets during a period and (v) significant concentrations of risk within a plan assets. For disclosures about plan assets, the requirements of this FSP shall be provided for fiscal years ending after December 15, 2009.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of business, the Company is subject to foreign currency and interest risk. The risks primarily relate to the sale of the Company's products and services in transactions denominated in non-U.S. dollar currencies (the Euro, Pound Sterling and Swedish Krona); the payment in local currency of wages and other costs related to the Company's non-U.S. operations; and changes in interest rates on the Company's long-term debt obligations. The Company does not hold or issue financial instruments for trading purposes.

Table of Contents**A. Foreign Currency Risk**

The U.S. dollar is the functional currency for all of the Company's U.S. operations. For these operations, all gains and losses from completed currency transactions are included in income currently. For the Company's non-U.S. subsidiaries, the functional currency is the local currency. Assets and liabilities are translated into U.S. dollars at the rate of exchange at the end of the period, and revenues and expenses are translated using average rates of exchange. Foreign currency translation adjustments are reported as a component of accumulated other comprehensive loss. Historically, the Company has been able to mitigate the impact of foreign currency risk by means of hedging such risk through the use of foreign currency exchange contracts, which typically expired within one year. However, such risk is mitigated only for the periods for which the Company has foreign currency exchange contracts in effect, and only to the extent of the U.S. dollar amounts of such contracts. At June 30, 2009, the Company had no forward exchange contracts outstanding. The Company will continue to evaluate its foreign currency risk, if any, and the effectiveness of using similar hedges in the future to mitigate such risk.

At June 30, 2009, the Company's assets and liabilities denominated in Pounds Sterling, the Euro, and the Swedish Krona were as follows (amounts in thousands):

| | Pounds Sterling | Euro | Swedish Krona |
|------------------------------------------|----------------------------|-------------|--------------------------|
| Cash and cash equivalents | 65 | 450 | 1,994 |
| Accounts receivable | 130 | 485 | 669 |
| Accounts payable and accrued liabilities | 130 | 264 | 2,665 |

B. Interest Rate Risk

The Company's primary interest rate risk exposure results from the variable interest rate mechanisms associated with the Company's revolving credit agreement. If interest rates were to increase 100 basis points (1%) from June 30, 2009, and assuming no changes in the amount outstanding under the revolving credit agreement, the additional interest expense to the Company would be nominal.

Item 4. Controls and Procedures

As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), disclosure controls and procedures are controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures include components of the Company's internal control over financial reporting. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of June 30, 2009 (the Evaluation Date). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were not effective due solely to the material weakness in the Company's internal control over financial reporting as a result of the following:

Missing and/or ineffective controls were noted in the area of the Company's management information systems related principally to (i) logical access/security, (ii) program change management and (iii) segregation of duties. While none of the individual deficiencies noted in these areas appear to rise to the level of a material weakness, based on the nature and interrelationship of the noted deficiencies, management believes that such deficiencies, when considered in the aggregate, do create a reasonable possibility that a material misstatement to the Company's financial statements could occur and not be detected in a timely manner and, therefore, a

material weakness in internal controls over financial reporting does exist as of June 30, 2009.

Table of Contents

The noted material weakness in the effectiveness of the Company's internal controls with respect to its existing management information system were not all remediated as of June 30, 2009 because Company management believes that (i) the relevant risk associated with not remediating such controls at this time is not deemed to be high and (ii) the cost/benefit analysis does not justify remediating such controls at this time given the fact that the Company is in the process of implementing a new management information system (to be implemented during the next 6-12 months) and plans to incorporate the remediation of a majority of the deficiencies noted above as part of the new management information system. In light of this material weakness, the Company performed additional analysis as deemed necessary to ensure, to the best of its knowledge, that the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles. Accordingly, notwithstanding the existence of the material weakness described above, management has concluded that the unaudited consolidated condensed financial statements in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented.

There was no significant change in our internal control over financial reporting that occurred during the third fiscal quarter ended June 30, 2009 that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information**Item 1. Legal Proceedings**

No change

Item 2. Change in Securities and Use of Proceeds

No change

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. (a) Exhibits

The following exhibits are filed with this report or are incorporated hereby reference to a prior filing in accordance with Rule 12b-32 under the Securities and Exchange Act of 1934 (Asterisk denotes exhibits filed with this report.).

| Exhibit No. | Description |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Third Amended Articles of Incorporation of SIFCO Industries, Inc., filed as Exhibit 3(a) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference |
| 3.2 | SIFCO Industries, Inc. Amended and Restated Code of Regulations dated January 29, 2002, filed as Exhibit 3(b) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference |
| 4.1 | Amended and Restated Credit Agreement Between SIFCO Industries, Inc. and National City Bank dated April 30, 2002, filed as Exhibit 4(b) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference |
| 4.2 | Consolidated Amendment No. 1 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated November 26, 2002 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.5 of the Company's Form 10-K dated September 30, 2002, and incorporated herein by reference |

Table of Contents

| Exhibit No. | Description |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.3 | Consolidated Amendment No. 2 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated February 13, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.6 of the Company's Form 10-Q dated December 31, 2002, and incorporated herein by reference |
| 4.4 | Consolidated Amendment No. 3 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated May 13, 2003 between SIFCO Industries Inc. and National City Bank, filed as Exhibit 4.7 of the Company's Form 10-Q dated March 31, 2003, and incorporated herein by reference |
| 4.5 | Consolidated Amendment No. 4 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated July 28, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.8 of the Company's Form 10-Q dated June 30, 2003, and incorporated herein by reference |
| 4.6 | Consolidated Amendment No. 5 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated November 26, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.9 to the Company's Form 10-K dated September 30, 2004 and incorporated herein by reference |
| 4.7 | Amendment No. 6 to Amended and Restated Credit Agreement dated March 31, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.10 of the Company's Form 10-Q dated March 31, 2004, and incorporated herein by reference |
| 4.8 | Consolidated Amendment No. 7 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated May 14, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.11 of the Company's Form 10-Q dated March 31, 2004, and incorporated herein by reference |
| 4.9 | Consolidated Amendment No. 8 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note effective June 30, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.12 of the Company's Form 10-Q dated June 30, 2004, and incorporated herein by reference |
| 4.10 | Consolidated Amendment No. 9 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note effective November 12, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.13 to the Company's Form 10-K dated September 30, 2004 and incorporated herein by reference |
| 4.11 | Amendment No. 10 to Amended and Restated Credit Agreement effective December 31, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.14 to the Company's Form 10-Q dated December 31, 2004, and incorporated herein by reference |
| 4.12 | Amendment No. 11 to Amended and Restated Credit Agreement dated May 19, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.15 to the Company's Form 10-Q/A dated |

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March 31, 2005, and incorporated herein by reference

- 4.13 Amendment No. 12 to Amended and Restated Credit Agreement dated August 10, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.16 to the Company's Form 10-Q dated June 30, 2005, and incorporated herein by reference
- 4.14 Amendment No. 13 to Amended and Restated Credit Agreement dated November 23, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.19 to the Company's Form 10-K dated September 30, 2005, and incorporated herein by reference
- 4.15 Amendment No. 14 to Amended and Restated Credit Agreement dated February 10, 2006 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.20 to the Company's Form 10-Q dated December 31, 2005, and incorporated herein by reference

Table of Contents

| Exhibit No. | Description |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.16 | Amendment No. 15 to Amended and Restated Credit Agreement dated August 14, 2006 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.21 to the Company's Form 10-Q dated June 30, 2006 and incorporated herein by reference |
| 4.17 | Amendment No. 16 to Amended and Restated Credit Agreement dated November 29, 2006 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.22 to the Company's Form 10-K dated September 30, 2006 and incorporated herein by reference |
| 4.18 | Amendment No. 17 to Amended and Restated Credit Agreement dated February 5, 2007 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.23 to the Company's Form 10-Q dated December 31, 2006 and incorporated herein by reference |
| 4.19 | Amendment No. 18 to Amended and Restated Credit Agreement dated May 10, 2007 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.24 to the Company's Form 10-Q dated December 31, 2007 and incorporated herein by reference |
| 4.20 | Amendment No. 19 to Amended and Restated Credit Agreement dated February 8, 2008 between SIFCO Industries, Inc. and National City Bank filed as Exhibit 4.20 to the Company's Form 10-Q dated March 31, 2007 and incorporated herein by reference |
| 4.21 | Amendment No. 20 to Amended and Restated Credit Agreement dated December 12, 2008 between SIFCO Industries, Inc. and National City Bank filed as Exhibit 4.21 to the Company's Form 10-K dated September 30, 2008 and incorporated herein by reference |
| 9.1 | Voting Trust Agreement dated January 30, 2007, filed as Exhibit 9.3 of the Company's Form 10-Q dated December 31, 2006, and incorporated herein by reference |
| 10.2 | SIFCO Industries, Inc. 1998 Long-term Incentive Plan, filed as Exhibit 10.3 of the Company's form 10-Q dated June 30, 2004, and incorporated herein by reference |
| 10.3 | SIFCO Industries, Inc. 1995 Stock Option Plan, filed as Exhibit 10(d) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference |
| 10.4 | Change in Control Severance Agreement between the Company and Frank Cappello, dated September 28, 2000, filed as Exhibit 10(g) of the Company's Form 10-Q dated December 31, 2000, and incorporated herein by reference |
| 10.5 | Change in Control Severance Agreement between the Company and Remigijus Belzinskas, dated September 28, 2000, filed as Exhibit 10 (i) of the Company's Form 10-Q dated December 31, 2000, and incorporated herein by reference |
| 10.6 | Change in Control Severance Agreement between the Company and Jeffrey P. Gotschall, dated July 30, 2002, filed as Exhibit 10.10 of the Company's Form 10-K dated September 30, 2002, and incorporated herein by reference |

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- 10.7 Separation Pay Agreement between Frank A. Cappello and SIFCO Industries, Inc. dated December 16, 2005, filed as Exhibit 10.14 of the Company's Form 10-K dated September 30, 2005, and incorporated herein by reference
- 10.8 Agreement for the Purchase of the Assets of the Large Aerospace Business of SIFCO Turbine Components Limited dated March 16, 2006 between SIFCO Turbine Components Limited, SIFCO Industries, Inc, and SR Technics Airfoil Services Limited, as amended on April 19, 2006, May 2, 2006, May 5, 2006, May 9, 2006, and May 10, 2006, filed as Exhibit 10.15 of the Company's Form 10-Q dated March 31, 2006 and incorporated herein by reference
- 10.10 Amendment No. 1 to Change in Control Severance Agreement between the Company and Frank Cappello, dated February 5, 2007, filed as Exhibit 10.17 of the Company's Form 10-Q dated December 31, 2006 and incorporated herein by reference

Table of Contents

| Exhibit No. | Description |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.11 | Amendment No. 1 to Change in Control Severance Agreement between the Company and Remigijus Belzinskas, dated February 5, 2007, filed as Exhibit 10.18 of the Company's Form 10-Q dated December 31, 2006 and incorporated herein by reference |
| 10.12 | Business Purchase Agreement dated as of May 7, 2007 between PAS Technologies Inc. (Parent), PAS Turbines Ireland Limited (Buyer), SIFCO Industries Inc. (Shareholder), and SIFCO Turbine Components Limited (Company), filed as Exhibit 10.19 of the Company's Form 10-Q dated June 30, 2007 and incorporated herein by reference |
| 10.13 | SIFCO Industries, Inc. 2007 Long-Term Incentive Plan, filed as Exhibit A of the Company's Proxy and Notice of 2008 Annual Meeting to Shareholders dated December 14, 2007, and incorporated herein by reference |
| 14.1 | Code of Ethics, files as Exhibit 14.1 of the Company's Form 10-K dated September 30, 2003, and incorporated herein by reference |
| * 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) / 15d-14(a) |
| * 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) / 15d-14(a) |
| * 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

SIFCO Industries, Inc.
(Registrant)

Date: August 12, 2009

/s/ Jeffrey P. Gotschall
Jeffrey P. Gotschall
Chairman of the Board and Chief
Executive Officer

Date: August 12, 2009

/s/ Frank A. Cappello
Frank A. Cappello
Vice President-Finance and Chief Financial
Officer (Principal Financial Officer)