

SIFCO INDUSTRIES INC
Form 10-Q
August 11, 2011

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, 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)

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Ohio (State or other jurisdiction of incorporation or organization)	34-0553950 (I.R.S. Employer Identification No.)
970 East 64th Street, Cleveland Ohio (Address of principal executive offices)	44103 (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. See definition of large accelerated filer, accelerated filer, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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, 2011 was 5,275,757.

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 June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 28,875	\$ 19,481	\$ 77,075	\$ 60,669
Operating expenses:				
Cost of goods sold	22,075	15,188	58,374	46,204
Selling, general and administrative expenses	3,423	2,932	9,917	8,675
Amortization of intangible assets	587	0	1,329	0
Total operating expenses	26,085	18,120	69,620	54,879
Operating income	2,790	1,361	7,455	5,790
Interest income	(5)	(13)	(38)	(36)
Interest expense	24	16	88	49
Foreign currency exchange (gain) loss, net	10	(32)	19	(48)
Other income, net	(118)	(117)	(352)	(352)
Income before income tax provision	2,879	1,507	7,738	6,177
Income tax provision	815	523	2,473	2,176
Net income	\$ 2,064	\$ 984	\$ 5,265	\$ 4,001
Net income per share				
Basic	\$ 0.39	\$ 0.18	\$ 1.00	\$ 0.75
Diluted	\$ 0.39	\$ 0.18	\$ 0.99	\$ 0.75
Weighted-average number of common shares (basic)	5,286	5,322	5,274	5,309
Weighted-average number of common shares (diluted)	5,331	5,362	5,313	5,355

See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Balance Sheets

(Amounts in thousands, except per share data)

	June 30, 2011 (unaudited)	September 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,512	\$ 18,671
Short-term investments	0	3,020
Receivables, net	18,829	17,182
Inventories, net	10,026	6,272
Refundable income taxes	261	692
Deferred income taxes	1,502	1,502
Prepaid expenses and other current assets	629	627
Total current assets	37,759	47,966
Property, plant and equipment, net	27,713	20,749
Intangible assets, net	9,094	0
Goodwill	3,493	0
Other assets	996	935
Total assets	\$ 79,055	\$ 69,650
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 57	\$ 108
Accounts payable	10,197	7,939
Accrued liabilities	3,722	4,287
Total current liabilities	13,976	12,334
Long-term debt, net of current maturities	2,177	35
Deferred income taxes	2,402	2,359
Other long-term liabilities	6,302	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 shares 5,335 at June 30, 2011 and 5,325 at September 30, 2010; outstanding shares 5,286 at June 30, 2011 and 5,258 at September 30, 2010	5,335	5,325
Additional paid-in capital	7,104	6,983
Retained earnings	52,998	47,733
Accumulated other comprehensive loss	(10,626)	(11,310)
Unearned compensation - restricted common shares	(101)	0
Common shares held in treasury at cost, 49 shares at June 30, 2011 and 66 shares at September 30, 2010	(512)	(692)
Total shareholders' equity	54,198	48,039

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Total liabilities and shareholders' equity	\$ 79,055	\$ 69,650
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See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Nine Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 5,265	\$ 4,001
Adjustments to reconcile net income to net cash provided by operating activities of operations:		
Depreciation and amortization	3,065	1,383
LIFO provision	401	270
Share transactions under employee stock plans	210	277
Other	(82)	(5)
Changes in operating assets and liabilities:		
Receivables	(334)	3,288
Inventories	(1,303)	(190)
Refundable income taxes	431	885
Accounts payable	624	469
Accrued liabilities	31	375
Other	77	(121)
Net cash provided by operating activities	8,385	10,632
Cash flows from investing activities:		
Acquisition of business	(22,566)	0
Maturity of short-term investments	3,000	0
Capital expenditures	(2,422)	(4,963)
Other	76	40
Net cash used for investing activities	(21,912)	(4,923)
Cash flows from financing activities:		
Proceeds from revolving credit agreement	22,997	0
Repayments of revolving credit agreement	(20,821)	0
Dividends paid	(789)	(529)
Repurchase of common shares	0	(125)
Other	(85)	(81)
Net cash provided by (used for) financing activities	1,302	(735)
Increase (decrease) in cash and cash equivalents	(12,225)	4,974
Cash and cash equivalents at the beginning of the period	18,671	19,875
Effect of exchange rate changes on cash and cash equivalents	66	(135)
Cash and cash equivalents at the end of the period	\$ 6,512	\$ 24,714
Supplemental disclosure of cash flow information of continuing operations:		
Cash paid for interest	\$ (44)	\$ (39)

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Cash paid for income taxes, net	(1,731)	(628)
See notes to unaudited consolidated condensed financial statements.		

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 and its Irish subsidiary. For these operations, all gains and losses from completed currency transactions are included in income currently. For the Company's other 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 unaudited 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 2010 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.

2. Inventories

Inventories consist of:

	June 30, 2011	September 30, 2010
Raw materials and supplies	\$ 3,572	\$ 1,846
Work-in-process	3,352	2,624
Finished goods	3,102	1,802
Total inventories	\$ 10,026	\$ 6,272

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for 55% and 58% of the Company's inventories at June 30, 2011 and September 30, 2010, respectively. 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 \$7,896 and \$7,495 higher than reported at June 30, 2011 and September 30, 2010, respectively.

3. Comprehensive Income and Accumulated Other Comprehensive Loss

Total comprehensive income is as follows:

Three Months Ended		Nine Months Ended	
June 30,		June 30,	
2011	2010	2011	2010

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Net income	\$ 2,064	\$ 984	\$ 5,265	\$ 4,001
Foreign currency translation adjustment	6	(121)	85	(1,266)
Net pension liability adjustment, net of tax	191	167	599	411
Total comprehensive income	\$ 2,261	\$ 1,030	\$ 5,949	\$ 3,146

The components of accumulated other comprehensive loss are as follows:

	June 30, 2011	September 30, 2010
Foreign currency translation adjustment	\$ (5,640)	\$ (5,725)
Net pension liability adjustment, net of tax	(4,986)	(5,585)
Total accumulated other comprehensive loss	\$ (10,626)	\$ (11,310)

4. Long-Term Debt

In December 2010, the Company entered into a new five (5) year revolving credit agreement (the "Credit Agreement") with a bank in the 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 June 30, 2011, the interest rate was a Libor based rate, as defined in the Credit Agreement, plus 0.75%, or 1.25%. 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 June 30, 2011.

5. Government Grants

In the past, the Company received grants from certain government entities as an incentive to invest in facilities, research and employees. Remaining grants, principally capital in nature, are amortized into income over the estimated useful lives of the related assets. The unamortized portion of deferred grant revenue recorded in other long-term liabilities at June 30, 2011 and September 30, 2010 was \$407 and \$401, respectively. The Company's grants are denominated primarily 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 projected effective tax rate through the first nine months of fiscal 2011 is 32%, compared to 35% for the same period in fiscal 2010, and differs from the U.S. federal statutory rate due primarily to (i) the impact of U.S. state and local income taxes, (ii) a domestic production activities deduction, (iii) application of tax credits and (iv) 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 June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Current income tax provision:				
U.S. federal	\$ 598	\$ 404	\$ 1,937	\$ 1,812
U.S. state and local	136	70	333	283
Non-U.S.	96	11	211	59
Total current tax provision	830	485	2,481	2,154

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Deferred income tax provision (benefit):				
U.S. federal	(13)	38	(4)	22
Non-U.S.	(2)	0	(4)	0
Total deferred tax provision	(15)	38	(8)	22
Income tax provision	\$ 815	\$ 523	\$ 2,473	\$ 2,176

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

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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.

At June 30, 2011 and September 30, 2010, the Company recorded liabilities of \$123 and \$63, respectively, for uncertain tax positions and any related interest and penalties. The Company classifies any interest and penalties related to uncertain tax positions in income tax expense. A summary of activity related to the Company's uncertain tax positions is as follows:

Balance at September 30, 2010	\$ 63
Increase due to tax positions taken in the current years	24
Increase due to tax positions taken in prior years	36
Balance at June 30, 2011	\$ 123

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 of the Company's defined benefit plans are as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Service cost	\$ 68	\$ 67	\$ 204	\$ 226
Interest cost	265	260	795	787
Expected return on plan assets	(364)	(351)	(1,092)	(1,058)
Amortization of prior service cost	29	35	87	106
Amortization of net loss	171	132	513	403
Net periodic benefit cost	\$ 169	\$ 143	\$ 507	\$ 464

Through June 30, 2011, the Company has made contributions in the amount of \$504 to its defined benefit pension plans and, in addition, has used carryover balance credits in the amount of \$248 to reduce the amount of additional contributions that would otherwise have been required. The Company has carryover balances from previous periods that may be available for use as a credit to reduce the amount of contributions that the Company is required to make to certain of its defined benefit pension plans during the balance of fiscal 2011. The Company anticipates making \$253 of additional contributions to fund its defined benefit pension plans during the balance of fiscal 2011.

8. 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. All options awarded under both plans are fully vested as of June 30, 2011.

Aggregate option activity is as follows:

Number of Share	Weighted- Average	Weighted- Average	Aggregate Intrinsic
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	Options	Exercise Price	Remaining Contractual Term (Years)	Value
September 30, 2010	60,000	\$ 4.33		
Options exercised	0	\$ 0.00		
June 30, 2011	60,000	\$ 4.33	2.3	\$ 721
Vested at June 30, 2011	60,000	\$ 4.33	2.3	\$ 721
Exercisable at June 30, 2011	60,000	\$ 4.33	2.3	\$ 721

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As of June 30, 2011, there was no unrecognized compensation cost related to the stock options granted under either the 1995 or 1998 Plans.

The Company has awarded performance and restricted 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 600,000 less any shares previously awarded and subject to an adjustment for the forfeiture of any unissued shares. In addition, shares that may be awarded are subject to individual recipient 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 ranges from a minimum of no shares to a maximum of 150% of the initial target number of performance shares awarded, depending on the level of the Company's achievement of its financial performance objectives.

With respect to such performance shares, compensation expense is being accrued at (i) approximately 80% of the target levels for recipients of the performance shares awarded during fiscal 2011, (ii) 100% of the target levels for recipients of the performance shares awarded during fiscal 2010 and (iii) 0% to approximately 50% of the target levels for recipients of the performance shares awarded during fiscal 2009. 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 such value was recorded as unearned compensation. The vesting of such shares is determined at the end of the performance period.

During fiscal 2011, the Company awarded restricted shares to certain of its directors. The restricted shares were valued at the closing market price of the Company's common shares on the date of grant, and such value was recorded as unearned compensation. The unearned compensation is being amortized ratably over the restricted stock vesting period of one (1) year.

If all outstanding share awards are ultimately earned and issued at the target number of shares, then at June 30, 2011 there are 439,350 shares that remain available for award. If any of the outstanding share awards are ultimately earned and issued at greater than the target number of shares, up to a maximum of 150% of such target, then a fewer number of shares would be available for award.

Compensation expense related to all performance and restricted shares awarded under the 2007 Plan was \$340 and \$201 during the first nine months of fiscal 2011 and 2010, respectively. As of June 30, 2011, there was \$937 of total unrecognized compensation cost related to the performance and restricted 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 the target number of shares awarded and the actual number of shares earned under the 2007 Plan:

	Number of Shares	Weighted Average Fair Value at Date of Grant
Outstanding at September 30, 2010	107,200	\$ 10.72
Restricted shares awarded	10,680	16.30
Performance shares awarded	52,600	16.25
Performance shares earned (2008 award)	(24,900)	10.94
Performance shares not earned (2008 award)	(10,100)	10.94
 Outstanding at June 30, 2011	 135,480	 \$ 13.25

9. Business Segments

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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 machining of forged components in various steel and titanium alloys utilizing a variety of processes for application principally in the aerospace and power generation industries. The Turbine Component Services and Repair

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Group consist 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 develops, manufactures and sells selective plating products and provides selective plating contract services for lower volume repair, refurbishment and OEM applications. 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 June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Net sales:				
Aerospace Component Manufacturing Group	\$ 23,140	\$ 14,316	\$ 59,451	\$ 45,177
Turbine Component Services and Repair Group	2,029	2,005	6,999	6,552
Applied Surface Concepts Group	3,706	3,160	10,625	8,940
Consolidated net sales	\$ 28,875	\$ 19,481	\$ 77,075	\$ 60,669
Operating income (loss):				
Aerospace Component Manufacturing Group	\$ 3,324	\$ 1,807	\$ 8,557	\$ 7,215
Turbine Component Services and Repair Group	(84)	(44)	100	13
Applied Surface Concepts Group	326	97	893	88
Corporate unallocated expenses	(776)	(499)	(2,095)	(1,526)
Consolidated operating income	2,790	1,361	7,455	5,790
Interest expense, net	19	3	50	13
Foreign currency exchange loss (gain), net	10	(32)	19	(48)
Other (income) expense, net	(118)	(117)	(352)	(352)
Consolidated income before income tax provision	\$ 2,879	\$ 1,507	\$ 7,738	\$ 6,177
Depreciation and amortization expense:				
Aerospace Component Manufacturing Group	\$ 844	\$ 264	\$ 2,389	\$ 755
Turbine Component Services and Repair Group	75	83	223	251
Applied Surface Concepts Group	85	89	258	272
Corporate unallocated expenses	57	41	195	105
Consolidated depreciation and amortization expense	\$ 1,061	\$ 477	\$ 3,065	\$ 1,383
Identifiable assets				
	June 30,	Sept. 30,		
	2011	2010		
Aerospace Component Manufacturing Group	\$ 56,227	\$ 31,617		
Turbine Component Services and Repair Group	4,188	4,642		
Applied Surface Concepts Group	6,813	6,037		
Corporate	11,827	27,354		
Consolidated total assets	\$ 79,055	\$ 69,650		

As a result of the acquisition of T&W Forge, as discussed more fully in note 10, the Company has a new customer that accounted for 12% of the Company's consolidated net sales during the first nine months of fiscal 2011.

10. Business Acquisition

On December 10, 2010, through its wholly-owned subsidiary, TWF Acquisition, LLC now known as T&W Forge, LLC (T&W Forge), the Company completed the purchase of the forging business and substantially all related operating assets from T&W Forge, Inc. (TWF). T&W Forge operates in TWF s Alliance, Ohio facility under a long-term, below market lease arrangement, with an option to purchase the facility at a nominal price. T&W Forge engages in the production and sale of certain metal products and services produced primarily to the specific design requirements of its customers. The products include various forged components used principally in the power generation market. The purchase price for the business and related assets of TWF was approximately \$22.6 million, after certain adjustments related principally to the final working capital level. In addition, T&W Forge assumed certain current operating liabilities of TWF.

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The purchase transaction is accounted for under the purchase method of accounting. The allocation of the purchase price including amounts attributed to goodwill and intangible assets, all of which belong to the ACM Group, are as follows:

	December 10, 2010 (As Initially Reported)	Measurement Period Adjustments	December 10, 2010 (As Adjusted)
Assets acquired:			
Accounts receivable	\$ 1,317	\$ (39)	\$ 1,278
Inventory	3,336	(501)	2,835
Property and equipment	6,536	(314)	6,222
Intangible assets	8,023	2,400	10,423
Goodwill	5,126	(1,633)	3,493
Other	69	49	118
	24,407	(38)	24,369
Liabilities assumed:			
Accounts payable and accrued liabilities	1,733	70	1,803
Total purchase price	\$ 22,674	\$ (108)	\$ 22,566

The above fair values of assets acquired and liabilities assumed, as initially reported, were based upon appraisals, other studies and additional information available at the time of the acquisition of TWF. Measurement period adjustments reflect new information obtained about facts and circumstances that existed as of the acquisition date. The Company believes that such information provided a reasonable basis for determining the fair values of the assets acquired and liabilities assumed.

The Company's goodwill is not being amortized, but is subject to an annual impairment test. All of the goodwill is expected to be deductible for tax purposes. The following represents the Company's intangible assets by major asset class as of June 30, 2011, all of which are a result of the acquisition of TWF:

	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Intangible assets:				
Trade name	10 years	\$ 900	\$ 50	\$ 850
Non-compete agreement	5 years	500	56	444
Below market lease	5 years	900	100	800
Customer relationships	10 years	6,800	378	6,422
Order backlog	1 year	1,300	722	578
Transition services agreement	< 1 year	23	23	0
Total intangible assets		\$ 10,423	\$ 1,329	\$ 9,094

Amortization expense associated with the identified intangible assets is expected to be as follows:

	Amortization Expense
Fiscal year 2011	\$ 1,917

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Fiscal year 2012	1,302
Fiscal year 2013	1,050
Fiscal year 2014	1,050
Fiscal year 2015	1,050

The results of operation of T&W Forge from the date of acquisition are included in the Company's unaudited consolidated condensed statements of operation and are reported in the ACM Group. The following unaudited pro forma information presents a summary of the results of operations for the Company including T&W Forge as if the acquisition had occurred on October 1, 2009:

	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011 2010	
Net sales	\$ 23,808	\$ 80,249	\$ 72,851
Net income	1,286	6,377	4,454
Net income per share (basic)	0.24	1.21	0.84
Net income per share (diluted)	0.24	1.20	0.83

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 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, into the Company's operations, businesses that may be acquired.

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 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, 2011 compared with Nine Months Ended June 30, 2010

Net sales in the first nine months of fiscal 2011 increased 27.0% to \$77.1 million, compared with \$60.7 million in the comparable period in fiscal 2010. Net income in the first nine months of fiscal 2011 was \$5.3 million, compared with \$4.0 million in the comparable period in fiscal 2010. On December 10, 2010, through its wholly-owned subsidiary, T&W Forge, the Company completed the purchase of the forging business and substantially all related operating assets from TWF.

Aerospace Component Manufacturing Group (ACM Group)

The ACM Group's results for the first nine months of fiscal 2011 include the results of T&W Forge from the date of its acquisition. Net sales in the first nine months of fiscal 2011 increased 31.6% to \$59.5 million, compared with \$45.2 million in the comparable period of fiscal 2010. 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

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large aircraft. The ACM Group produces various turbine engine components for power generation units and for both large and small aircraft such as commercial, business and regional aircraft, as well as military fighter, transport and surveillance aircraft. Turbine engine components are also produced for armored military vehicles powered by small turbine engines. Net sales comparative information for the first nine months of fiscal 2011 and 2010, respectively, is as follows:

(Dollars in millions)	Nine Months Ended		Increase (Decrease)
	June 30,		
Net Sales	2011	2010	
Airframe components for small aircraft	\$ 24.0	\$ 25.7	\$ (1.7)
Small turbine engine components	18.0	15.1	2.9
Airframe components for large aircraft	3.4	3.1	0.3
Turbine engine components for large aircraft	0.7	0.7	0.0
Engine components for power generation units	10.7	0.0	10.7
Commercial product sales and other revenue	2.7	0.6	2.1
Total	\$ 59.5	\$ 45.2	\$ 14.3

The increase in net sales of small turbine engine components during the first nine months of fiscal 2011, compared with the comparable period in fiscal 2010, is primarily attributable to increased demand for spare components for turbine engines that power small aircraft. The decrease in net sales of airframe components for small aircraft, compared with the comparable period in fiscal 2010, is principally due to a decrease in the sales volumes of such components to customers. Such volume declines were caused by continuing overall weak global economic conditions that resulted in reduced build rates of smaller commercial aircraft during the current fiscal year. The increase in net sales of engine components for power generation units and commercial products is due primarily to the impact of the recent acquisition of TWF.

The ACM Group's airframe and turbine engine component products have both military and commercial applications. Net sales of such components that solely have military applications were \$23.1 million in the first nine months of fiscal 2011, compared with \$24.2 million in the comparable period in fiscal 2010. This decrease is primarily attributable to a decline in the sales volume of components associated with several military programs. Ongoing wartime demand, such as for additional military helicopters and related replacement components, is the primary driver of net sales of the components that have military applications.

The ACM Group's selling, general and administrative expenses increased \$1.7 million to \$4.6 million, or 7.7% of net sales, in the first nine months of fiscal 2011, compared with \$2.9 million, or 6.4% of net sales, in the comparable period in fiscal 2010. The increase in selling, general and administrative expenses is principally due to (i) \$1.3 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.

The ACM Group's operating income increased \$1.3 million to \$8.6 million in the first nine months of fiscal 2011, compared with \$7.2 million in the comparable period in fiscal 2010. The following is a comparison of operating income on both a LIFO and FIFO basis:

(Dollars in millions)	Nine Months Ended		Increase (Decrease)
	June 30,		
Operating Income	2011	2010	
Operating income	\$ 8.6	\$ 7.2	\$ 1.4
LIFO expense	0.4	0.3	0.1
Operating income without LIFO expense	\$ 9.0	\$ 7.5	\$ 1.5

Operating income in the first nine months of fiscal 2011 was favorably impacted by the additional product sales volumes that resulted principally from the acquisition of TWF, which was partially offset by (i) higher raw material costs—the raw material component of manufacturing costs was approximately 40.9% of net sales, compared with 39.5% of net sales in the comparable period in fiscal 2010 due primarily to product mix and (ii) the negative impact of the aforementioned \$1.3 million amortization of intangible assets.

The following changes in the components of the ACM Group's manufacturing expenditures in the first nine months of 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)	Nine Months Ended		Increase
<u>Manufacturing expenditures</u>	June 30,	2010	(Decrease)
	2011		
Overhead:			
Utilities	\$ 3.3	\$ 2.6	0.7
Repairs, maintenance and supplies	2.5	1.9	0.6
Depreciation	1.1	0.8	0.3
Tooling	1.8	0.9	0.9

Manufacturing costs in the first nine months of 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.

The ACM Group's backlog as of June 30, 2011 was \$93.2 million, compared with \$71.2 million as of September 30, 2010. At June 30, 2011, \$73.5 million of the total backlog was scheduled for delivery over the next twelve months. \$17.6 million of the ACM Group's backlog as of June 30, 2011 is attributable to T&W Forge. 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 ACM Group believes that such lead time increase may ultimately result 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 may be placing orders further in advance than they more recently did, which may result in an increase, relative to comparable prior year periods, in the ACM 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.

Turbine Component Services and Repair Group (Repair Group)

Net sales in the first nine months of fiscal 2011, which consists principally of component repair services (including precision component machining and industrial coating) for small aerospace turbine engines, increased 6.8% to \$7.0 million, compared with \$6.6 million in the comparable fiscal 2010 period.

During the first nine months of fiscal 2011, the Repair Group's selling, general and administrative expenses were \$1.0 million, or 14.5% of net sales, compared with \$0.9 million, or 14.0% of net sales, in the comparable fiscal 2010 period.

The Repair Group's operating income increased \$0.1 million to \$0.1 million in the first nine months of fiscal 2011, compared with essentially breakeven results in the comparable period in fiscal 2010. The modest operating results in both periods was principally attributable to relatively low sales volume levels in relation to the fixed portion of the Repair Group's operating cost structure.

The Repair Group's backlog as of June 30, 2011 was \$2.0 million, compared with \$3.1 million as of September 30, 2010. At June 30, 2011, \$1.1 million of the total backlog was scheduled for delivery over the next twelve months.

Applied Surface Concepts Group (ASC Group)

Net sales in the first nine months of fiscal 2011 increased 18.8% to \$10.6 million, compared with \$8.9 million in the comparable fiscal 2010 period. 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 the first nine months of fiscal 2011 and 2010, respectively, is as follows:

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(Dollars in millions)	Nine Months Ended		Increase (Decrease)
	2011	June 30, 2010	
Net Sales			
Product	\$ 4.8	\$ 4.5	\$ 0.3
Contract service	5.6	4.3	1.3
Other	0.2	0.1	0.1
Total	\$ 10.6	\$ 8.9	\$ 1.7

The increase in product net sales in the first nine months of fiscal 2011, compared with the same period in 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 the first nine months of fiscal 2011, compared with the same period in 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 the first nine months of fiscal 2011 of approximately \$0.2 million.

The ASC Group's selling, general and administrative expenses were \$3.6 million, or 34.0% of net sales, in the first nine months of fiscal 2011, compared with \$3.4 million, or 37.7% of net sales in the comparable fiscal 2010 period, due primarily to an increase in sales promotion efforts and the filling of an open sales position.

The ASC Group's operating income in the first nine months of fiscal 2011 was \$0.9 million, compared with \$0.1 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 the first nine months of 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.

The ASC Group's backlog as of June 30, 2011 was not material, which is consistent with the nature of this business.

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, were \$2.1 million in the first nine months of fiscal 2011, compared with \$1.5 million in the same period in fiscal 2010 due to (i) \$0.3 million higher legal and professional expenses primarily resulting from costs associated with the acquisition of TWF, (ii) \$0.1 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 the first nine months of fiscal 2011, compared to a nominal amount in the same period in fiscal 2010. As described more fully in note 4 to the unaudited condensed 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 \$11.7 million from its revolving credit agreement, which amount has been reduced to \$2.2 million at June 30, 2011. The average outstanding balance on the revolving credit agreement from the date of acquisition of TWF through June 30, 2011 was approximately \$6.7 million, with an effective interest rate of 1.35% plus a 0.15% commitment fee expense on the unused balance of the revolving credit agreement.

Other income, net consists principally of \$0.3 million of rental income earned from the lease of the Cork, Ireland facility.

Three Months Ended June 30, 2011 compared with Three Months Ended June 30, 2010

Net sales in the third quarter of fiscal 2011 increased 48.2% to \$28.9 million, compared with \$19.5 million in the comparable period in fiscal 2010. Net income in the third quarter of fiscal 2011 was \$2.1 million, compared with \$1.0 million in the comparable period in fiscal 2010. On December 10, 2010, through its wholly-owned subsidiary, T&W Forge, the Company completed the purchase of the forging business and substantially all related operating assets from TWF.

Aerospace Component Manufacturing Group (ACM Group)

The ACM Group's results for the third quarter of fiscal year 2011 include the results of T&W Forge. Net sales in the third quarter of fiscal 2011 increased 61.6% to \$23.1 million, compared with \$14.3 million in the comparable period of fiscal 2010. 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. The ACM Group produces various turbine engine components for power generation units and for both large and small aircraft such as commercial, business and regional aircraft, as well as military fighter, transport and surveillance aircraft. Turbine engine components are also produced for armored military vehicles powered by small turbine engines. Net sales comparative information for the third quarter of fiscal 2011 and 2010, respectively, is as follows:

(Dollars in millions)	Three Months Ended		Increase (Decrease)
	2011	June 30, 2010	
Net Sales			
Airframe components for small aircraft	\$ 7.9	\$ 7.3	\$ 0.6
Small turbine engine components	7.0	5.4	1.6
Airframe components for large aircraft	1.5	1.3	0.2
Turbine engine components for large aircraft	0.2	0.2	0.0
Engine components for power generation units	5.3	0.0	5.3
Commercial product sales and other revenue	1.2	0.1	1.1
Total	\$ 23.1	\$ 14.3	\$ 8.8

The increase in net sales of airframe components for small aircraft, during the third quarter of fiscal 2011, compared with the comparable period in fiscal 2010, is principally due to an increase in the sales volumes of such components to customers. The increase in net sales of small turbine engine components during the third quarter of fiscal 2011, compared with the comparable period in fiscal 2010, is primarily attributable to increased demand for spare components for turbine engines that power small aircraft. The increase in net sales of engine components for power generation units and commercial products is due primarily to the impact of the recent acquisition of TWF.

The ACM Group's airframe and turbine engine component products have both military and commercial applications. Net sales of such components that solely have military applications were \$7.9 million in the third quarter of fiscal 2011, compared with \$6.9 million in the comparable period in fiscal 2010. This increase is primarily attributable to an increase in the sales volume of components associated with several military programs. Ongoing wartime demand, such as for additional military helicopters and related replacement components, is the primary driver of net sales of the components that have military applications.

The ACM Group's selling, general and administrative expenses increased \$0.7 million to \$1.7 million, or 7.5% of net sales, in the third quarter of fiscal 2011, compared with \$1.0 million, or 6.9% of net sales, in the comparable period in fiscal 2010. The increase in selling, general and administrative expenses is principally due to (i) \$0.6 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) higher variable selling expenses as a result of sales mix.

The ACM Group's operating income increased \$1.5 million to \$3.3 million in the third quarter of fiscal 2011, compared with \$1.8 million in the comparable period in fiscal 2010. The following is a comparison of operating income on both a LIFO and FIFO basis:

(Dollars in millions)	Three Months Ended		Increase (Decrease)
	2011	June 30, 2010	
Operating Income			