

SIFCO INDUSTRIES INC
Form 10-K
November 27, 2013

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

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended September 30, 2013

or

// TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission file number 1-5978

SIFCO Industries, Inc.

(Exact name of registrant as specified in its charter)

Ohio

34-0553950

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

970 East 64th Street, Cleveland Ohio

44103

(Address of principal executive offices)

(Zip Code)

(216) 881-8600

(Registrant's telephone number, including area code)

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

Common Shares, \$1 Par Value

NYSE MKT

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive

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proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter is \$61,438,754.

The number of the Registrant's Common Shares outstanding at October 31, 2013 was 5,373,526.

Documents incorporated by reference: Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on January 28, 2014 (Part III).

PART I

Item 1. Business

A. The Company

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

The Company is engaged in the production and sale of a variety of metal working services and products produced primarily to the specific design requirements of its customers. The services include forging, heat-treating, coating welding, machining and selective plating. The products include forged components (both conventional and precision), machined forged parts, other machined metal components as well as turbine engine component repairs. The Company's operations were conducted in three business segments during fiscal 2013: (i) SIFCO Forged Components, continuing into fiscal 2014; (ii) Turbine Component Services and Repair ("Repair Group"), discontinued in fiscal 2013; and (iii) Applied Surface Concepts ("ASC"), divested in fiscal 2013. Due to the divestiture and discontinuation of the two segments in fiscal 2013, management will evaluate the Company as a single reporting segment in the Aerospace and Energy ("A&E") industries.

B. Principal Products and Services

1. SIFCO Forged Components

SIFCO Forged Components has multiple locations. SIFCO Forge ("SF") is located in Cleveland, Ohio; T&W Forge ("TWF") is located in Alliance, Ohio; Quality Aluminum Forge ("QAF") is located in Orange, California and Long Beach, California; and General Aluminum Forge ("GAF") is located in Colorado Springs, Colorado. As discussed more fully in Note 11 to the consolidated financial statements included in Item 8, on July 23, 2013, the Company completed the purchase of the forging business and substantially all related operating assets from MW General, Inc. (DBA General Aluminium Forgings), which business is operated in GAF's Colorado Springs, Colorado facility. This portion of the Company's business consists principally of the manufacture of aluminum forged components for applications primarily in the commercial aerospace market.

Operations

SIFCO Forged Components is a manufacturer of forgings and machined components for the A&E markets that range in size from approximately 2 to 1,200 pounds (depending on configuration and alloy), primarily in steel, stainless steel, titanium and aluminum. SIFCO Forged Components' products include: original equipment manufacturer ("OEM") and aftermarket components for aircraft and industrial gas turbine engines; structural airframe components; aircraft landing gear components; wheels and brakes; critical rotating components for helicopters; and commercial/industrial products. SIFCO Forged Components also provides heat-treatment, surface-treatment, non-destructive testing and select machining of forged components.

SIFCO Forged Components generally has multiple sources for its raw materials, which consist primarily of high quality metals essential to this business. Suppliers of such materials are located principally in North America, Taiwan and Europe. SIFCO Forged Components generally does not depend on a single source for the supply of its materials. Due to the limited supply of certain raw materials, some material is provided by a small number of suppliers; however, SIFCO Forged Components believes that its sources are adequate for its business. SIFCO Forged Components various operations are AS 9100C and/or ISO 9001:2000 certified.

Industry

The performance of the domestic and international air transport industry and the energy industry, as well as government defense spending, directly and significantly impact the performance of SIFCO Forged Components.

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SIFCO Forged Components supplies new and spare components for commercial aircraft, principally for large aircraft produced by Boeing and Airbus. Demand for air travel from emerging economies and fleet expansion have led to a considerable backlog of orders in the global commercial aircraft industry. Rising oil prices also helped drive demand for more fuel-efficient aircraft, particularly the Boeing 737Max, Boeing 747-8, Boeing 787 and the Airbus A320neo.

- SIFCO Forged Components also supplies new and spare components to the U.S. military for aircraft, helicopters, vehicles, and ammunition. While military spending in the United States has been negatively impacted by sequestration, the demand for certain programs in which the Company participates remains strong.

SIFCO Forged Components supplies new and spare components to the energy industry, particularly the industrial gas turbine market. The industrial gas turbine market is projecting stable OEM growth and increased demand in

the maintenance, repair and overhaul market. The market for gas turbines will benefit from the ongoing global shale gas boom. This is expected to lead to increased investment in natural gas plants for power generation, which will lead to expanded demand for gas turbines.

Competition

While there has been some consolidation in the forging industry, SIFCO Forged Components believes that there is limited opportunity to increase prices, other than for the pass-through of raw material price increases and valued added services. SIFCO Forged Components believes that it has an advantage in the primary markets it serves due to: (i) demonstrated A&E expertise; (ii) focus on quality and customer service; (iii) operating initiatives such as SMART (Streamlined Manufacturing Activities to Reduce Time/Cost) and Six Sigma; and (iv) offering a broad range of capabilities. SIFCO Forged Components competes with both U.S. and non-U.S. suppliers of forgings, some of which are significantly larger than SIFCO Forged Components. As customers establish new facilities throughout the world, SIFCO Forged Components will continue to encounter non-U.S. competition. SIFCO Forged Components believes it can expand its markets by (i) acquiring additional forging operations; (ii) broadening its product lines through investment in equipment that expands its manufacturing capabilities; and (iii) developing new customers in markets in which the participants require similar technical competence and service as those in the A&E industries and who are willing to pay a premium for quality and service.

Customers

During fiscal 2013, SIFCO Forged Components had three customers, consisting of various business units of United Technologies Corporation, Textron, Inc. and General Electric Corporation, which accounted for 16%, 13% and 10%, respectively, of consolidated net sales. The net sales to these three customers, and to their direct subcontractors, accounted for 49% of consolidated net sales in fiscal 2013. SIFCO Forged Components believes that the loss of sales to such customers would result in a materially adverse impact on the business and its income. However, SIFCO Forged Components has maintained a business relationship with many of these customers for well over ten years and is currently conducting business with some of them under multi-year agreements. Although there is no assurance that this will continue, historically, as one or more major customers have reduced their purchases, SIFCO Forged Components has generally been successful in replacing such reduced purchases, thereby avoiding a material adverse impact on SIFCO Forged Components. SIFCO Forged Components attempts to rely on its ability to adapt its services and operations to changing requirements of the market in general and its customers in particular. No material part of SIFCO Forged Components' business is seasonal.

Backlog of Orders

SIFCO Forged Components' backlog as of September 30, 2013 decreased to \$99.9 million, of which \$83.4 million is scheduled for delivery during fiscal 2014, compared to \$106.0 million as of September 30, 2012, of which \$87.8 million was scheduled for delivery during fiscal 2013. All orders are subject to modification or cancellation by the customer with limited charges. The decrease in the backlog as of September 30, 2013 compared to September 30, 2012 is primarily attributed to changes in customer ordering patterns due to shortened delivery lead times. Accordingly, such backlog decrease, to the extent it may occur, may not necessarily be indicative of a reduction in expected future sales.

2. Turbine Component Services and Repair

Turbine Component Services and Repair has a single operation in Minneapolis, Minnesota. This segment of the Company's business consists principally of the repair and remanufacture of small turbine engine components principally for aerospace applications. As a part of the repair and remanufacture process, the business performs precision component machining and applies high temperature-resistant coatings to turbine engine components. In August 2013, the Company announced the exit of the Repair Group. The Repair Group's operations were discontinued as of September 30, 2013, as discussed more fully in Note 12 to the consolidated financial statements included in Item

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3. Applied Surface Concepts

Applied Surface Concepts provided surface enhancement technologies principally related to selective plating and anodizing. Principal product offerings included (i) the development, production and sale of metal plating solutions and equipment required for selective plating and (ii) providing selective plating contract services. ASC was divested from the Company on December 10, 2012, as discussed more fully in Note 12 to the consolidated financial statements included in Item 8.

4. General

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

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C. Environmental Regulations

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

D. Employees

The number of the Company's employees decreased from approximately 565 at the beginning of fiscal 2013 to approximately 538 employees at the end of fiscal 2013. The Company is party to collective bargaining agreements with certain employees located at its SIFCO Forged Components' Cleveland, Ohio (expires in May 2015) and Alliance, Ohio (expires in July 2017) facilities and at its Repair Group's Minneapolis, Minnesota facility (expires in July 2014).

E. Non-U.S. Operations

The Company's products and services were distributed and performed in both U.S. and non-U.S. markets. The Company commenced its ASC operations in the United Kingdom and France as a result of an acquisition of a business in 1992 and in Sweden as a result of an acquisition of a business in 2006. Wholly-owned subsidiaries of its ASC operations operated the Company's service and distribution facilities in the United Kingdom, France and Sweden prior to the divestiture of these operations as part of the Applied Surface Concepts segment in fiscal 2013. Further discussion about the divestiture is set forth in Note 12 to the consolidated financial statements included in Item 8.

As of September 30, 2013, essentially all of the Company's cash and cash equivalents are in the possession of its non-operating Irish subsidiary and relate to undistributed earnings of the Irish subsidiary. Distributions from the Company's non-operating Irish subsidiary to the Company may be subject to statutory restrictions, adverse tax consequences or other limitations.

Item 2. Properties

The Company's property, plant and equipment include the facilities described below and a substantial quantity of machinery and equipment, most of which consists of industry specific machinery and equipment using special dies, jigs, tools and fixtures and in many instances having automatic control features and special adaptations. In general, the Company's property, plant and equipment are in good operating condition, are well maintained and substantially all of its facilities are in regular use. The Company considers its investment in property, plant and equipment as of September 30, 2013 suitable and adequate given the current product offerings for the respective business segments' operations in the current business environment. The square footage numbers set forth in the following paragraphs are approximations:

The Repair Group operates a single, owned facility in Minneapolis, Minnesota with a total of 59,000 square feet and is involved in the repair and remanufacture of principally small aerospace turbine engine components. As of September 30, 2013, the assets are classified as assets from discontinued operations.

SIFCO Forged Components operates in multiple facilities—(i) an owned 240,000 square foot facility located in Cleveland, Ohio, which is also the site of the Company's corporate headquarters, (ii) a leased 450,000 square foot facility located in Alliance, Ohio, (iii) leased facilities aggregating approximately 67,000 square feet located in Orange and Long Beach, California, and (iv) leased facilities aggregating approximately 18,000 square feet located in Colorado Springs, Colorado.

Prior to the divestiture in fiscal 2013, as more fully discussed in Note 12 to the consolidated financial statements included in Item 8, ASC was headquartered in an owned 34,000 square foot facility in Cleveland, Ohio. ASC leased space aggregating 52,000 square feet for sales offices and/or for its contract selective plating services in Norfolk, Virginia; Hartford, Connecticut; Houston, Texas; Paris, France; and Birmingham, England. ASC also operated in an owned 3,000 square foot facility in Rattvik, Sweden. As of September 30, 2013, ASC properties are no longer a part of the Company's property.

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

Item 3. Legal Proceedings

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

PART II

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

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

	Years Ended September 30,			
	2013		2012	
	High	Low	High	Low
First Quarter	\$17.17	\$14.15	\$19.93	\$17.81
Second Quarter	19.20	14.47	22.43	18.54
Third Quarter	18.25	15.16	22.98	18.06
Fourth Quarter	20.00	16.08	23.75	18.20

Dividends and Shares Outstanding

The Company declared a cash dividend of \$0.20 per Common Share in fiscal 2013. While the Company does not necessarily anticipate paying regular annual dividends, the Company will continue to evaluate the payment of such dividends annually based on its relative profitability and available resources. The Company currently intends to retain a significant majority of its earnings for the operation and growth of its businesses. The Company's ability to declare or pay cash dividends is limited by its credit agreement covenants. At October 31, 2013, there were approximately 532 shareholders of record of the Company's Common Shares, as reported by Computershare, Inc., the Company's Transfer Agent and Registrar, which maintains its U.S. corporate offices at 250 Royall Street, Canton, MA 02021.

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

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

This Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, may contain various forward-looking statements and includes assumptions concerning the Company's operations, future results and prospects. These forward-looking statements are based on current expectations and are subject to risk and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides this cautionary statement identifying important economic, political and technological factors, among others, the absence or effect of which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions. Such factors include the following: (1) the impact on business conditions in general, and on the demand for product in the A&E industries in particular, of the global economic outlook, including the continuation of military spending at or near current levels and 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) metals and commodities price increases and the Company's ability to recover such price increases;

(5) successful development and market introduction of new products and services; (6) continued reliance on consumer acceptance of regional and business aircraft powered by more fuel efficient turboprop engines; (7) continued reliance on military spending, in general, and/or several major customers, in particular, for revenues; (8) 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; (9) stable

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governments, business conditions, laws, regulations and taxes in economies where business is conducted; and (10) the ability to successfully integrate businesses that may be acquired into the Company's operations.

The Company and its subsidiaries engage in the production and sale of a variety of metalworking processes, services and products produced primarily to the specific design requirements of its customers. The processes and services include both conventional and precision forging, heat-treating, coating, welding, and precision component machining. The products include conventional and precision forged components, machined forged components, other machined metal components, and remanufactured component parts for turbine engines. As of the end of fiscal 2013, the Company operates under one business segment: SIFCO Forged Components.

The Company endeavors to plan and evaluate its business operations while taking into consideration certain factors including the following: (i) the projected build rate for commercial; business and military aircraft as well as the engines that power such aircraft; (ii) the projected build rate for industrial gas turbine engines; (iii) the projected maintenance, repair and overhaul schedules for commercial, business and military aircraft as well as the engines that power such aircraft; and (iv) anticipated exploration and production activities relative to oil and gas products. The Company operates within a cost structure that includes a significant fixed component. Therefore, higher net sales volumes are expected to result in greater operating income because such higher volumes allow the business operations to better leverage the fixed component of their respective cost structures. Conversely, the opposite effect is expected to occur at lower net sales and related production volumes.

A. Results of Operations

Non-GAAP Financial Measures

Presented below is certain financial information based on our EBITDA and Adjusted EBITDA. References to "EBITDA" mean earnings from continuing operations before interest, taxes, depreciation and amortization, and references to "Adjusted EBITDA" mean EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliations of net income to EBITDA and Adjusted EBITDA.

Neither EBITDA nor Adjusted EBITDA is a measurement of financial performance under generally accepted accounting principles in the United States of America ("GAAP"). The Company presents EBITDA and Adjusted EBITDA because it believes that they are useful indicators for evaluating operating performance and liquidity, including the Company's ability to incur and service debt and it uses EBITDA to evaluate prospective acquisitions. Although the Company uses EBITDA and Adjusted EBITDA for the reasons noted above, the use of these non-GAAP financial measures as analytical tools has limitations. Therefore, reviewers of the Company's financial information should not consider them in isolation, or as a substitute for analysis of the Company's results of operations as reported in accordance with GAAP. Some of these limitations include:

• Neither EBITDA nor Adjusted EBITDA reflects the interest expense, or the cash requirements necessary to service interest payments, on indebtedness;

• Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor Adjusted EBITDA reflects any cash requirements for such replacements;

• The omission of the substantial amortization expense associated with the Company's intangible assets further limits the usefulness of EBITDA and Adjusted EBITDA; and

• Neither EBITDA nor Adjusted EBITDA includes the payment of taxes, which is a necessary element of operations. Because of these limitations, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to the Company to invest in the growth of its businesses. Management compensates for these limitations by not viewing EBITDA or Adjusted EBITDA in isolation and specifically by using other GAAP measures, such as net income, net sales, and operating profit, to measure operating performance. Neither EBITDA nor Adjusted EBITDA is a measurement of financial performance under GAAP, and neither should be considered as an alternative to net income or cash flow from operations determined in accordance with GAAP. The Company's calculation of EBITDA and Adjusted EBITDA may not be comparable to the calculation of similarly titled measures

reported by other companies.

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The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA:
(Dollars in thousands)

	Years Ended September 30,	
	2013	2012
Net income	\$10,234	\$6,548
Less: Income (loss) from discontinued operations, net of tax	476	241
Income from continuing operations	9,758	6,307
Adjustments:		
Depreciation and amortization expense	5,725	6,032
Interest expense, net	318	444
Income tax provision	4,088	2,861
EBITDA	19,889	15,644
Adjustments:		
Foreign currency exchange (gain) loss, net (1)	23	(16)
Other income, net (2)	(421)	(575)
Loss (gain) on disposal of operating assets (3)	(89)	—
Inventory purchase accounting adjustments (4)	286	437
Non-recurring severance expense (5)	813	—
Equity compensation expense (6)	126	892
Pension settlement expense (7)	248	513
Acquisition transaction-related expenses (8)	197	407
LIFO expense (income) (9)	(1,560)	1,563
Adjusted EBITDA	\$19,512	\$18,865

(1) Represents the gain or loss from changes in the exchange rates between the functional currency and the foreign currency in which the transaction is denominated.

(2) Represents miscellaneous non-operating income or expense, primarily rental income from our Irish subsidiary.

(3) Represents the difference between the proceeds from the sale of operating equipment and the carrying value shown on the Company's books.

(4) Represents accounting adjustments to value inventory at fair market value associated with the acquisition of a business that was charged to cost of goods sold when the inventory was sold.

(5) Represents severance expense related to the departure of an executive officer. Included in the \$0.8 million is \$0.2 million of equity-based compensation expense recognized by the Company under its 2007 Long-term Incentive Plan.

(6) Represents the equity-based compensation expense recognized by the Company under its 2007 Long-term Incentive Plan.

(7) Represents expense incurred by a defined benefit pension plan related to settlement of pension obligations.

(8) Represents transaction-related costs such as legal, financial, tax due diligence expenses, valuation services, costs, and executive travel that are required to be expenses as incurred.

(9) Represents the increase (decrease) in the reserve for inventories for which cost is determined using the last in, first out ("LIFO") method.

Overview

The Company is engaged in the production and sale of a variety of metal working services and products produced primarily to the specific design requirements of its customers. As discussed more fully in Note 12 to the consolidated financial statements included in Item 8, the Company divested the Applied Surface Concepts business segment and discontinued the Turbine Component Services and Repair business during fiscal 2013. As of September 30, 2013, the Company operates the Company under one reporting segment: SIFCO Forged Components. The Company is involved in the production of heat-treatment, surface-treatment, non-destructive testing, and machining of both conventional and precision forged components in various steel, stainless steel, titanium and aluminum alloys using a variety of

processes for application principally in the A&E industries. As discussed more fully in Note 11 to the consolidated financial statements included in Item 8, the Company completed the purchase of the forging businesses and substantially all related operating assets of GAF and QAF on July 23, 2013 and October 28, 2011, respectively.

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Fiscal Year 2013 Compared with Fiscal Year 2012

Net Sales

The Company's results for fiscal 2013 include the results of GAF from the date of its acquisition and the Company's results for fiscal 2012 include the results of QAF from the date of its acquisition. Net sales in fiscal 2013 increased 12.8% to \$116.0 million, compared to \$102.9 million in fiscal 2012. The Company produces forged components for (i) turbine engines that power commercial business and regional aircraft as well as military aircraft and armored military vehicles; (ii) airframe applications for a variety of aircraft; (iii) industrial gas turbine engines for power generation units; and (iv) other commercial applications. Net sales comparative information for fiscal 2013 and 2012, respectively, is as follows:

(Dollars in millions)	Years Ended		Increase (Decrease)
	September 30, 2013	2012	
Net Sales			
Aerospace components for:			
Fixed wing aircraft	\$57.7	\$52.9	\$4.8
Rotorcraft	32.5	28.2	4.3
Components for power generation units	19.4	17.1	2.3
Commercial product sales and other revenue	6.4	4.7	1.7
Total	\$116.0	\$102.9	\$13.1

The increase in net sales of forged components for fixed wing aircraft and rotorcraft during fiscal 2013 compared to fiscal 2012 is principally due to additional sales volume from its base business, the impact of the acquisition of GAF during the fourth quarter of fiscal 2013, along with the full year impact in fiscal 2013 of the acquisition of QAF during the first quarter of fiscal 2012. The increase in net sales of components for power generation units is due to organic growth and acquisition related synergies.

The Company's aerospace components have both military and commercial applications. Commercial net sales were 52.4% and military net sales were 47.6% in fiscal 2013 compared to 50.2% and 49.8% in fiscal 2012, respectively. The increase in commercial net sales is attributable to higher concentration of commercial sales and the acquisition of QAF. Despite the effect of sequestration, military net sales increased \$3.7 million to \$55.2 million in fiscal 2013, compared to \$51.5 million in fiscal 2012, due to the continued demand of selective programs.

Cost of Goods Sold

Cost of goods sold increased by \$6.9 million, or 8.5%, to \$88.0 million during fiscal 2013, compared to \$81.1 million in fiscal 2012. The increase in the dollar amount of cost of goods sold in fiscal 2013 compared to fiscal 2012 was primarily due to organic sales growth and increased sales from acquisitions.

Gross Margin

Gross margin increased by \$6.2 million, or 28.5%, to \$28.0 million during fiscal 2013, compared to \$21.8 million in fiscal 2012. Gross margin as a percentage of sales increased by 3.0 percentage points to 24.2% during fiscal 2013, compared to 21.2% in fiscal 2012. The improvement in gross margin as a percentage of sales in fiscal 2013 compared to fiscal 2012 was primarily due to enriched sales mix, lower material costs, and increased plant efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$2.4 million, to \$12.3 million, or 10.6% of net sales, during fiscal 2013, compared to \$9.9 million, or 9.6% of sales, in fiscal 2012. The increase in the dollar amount of selling, general and administrative expenses in fiscal 2013 compared to fiscal 2012 was primarily due to a non-recurring severance payment to a former executive, as well as increases in salary, bonus, and benefit costs. These higher expenses were partially offset by a decrease in equity-based compensation costs.

Amortization of Intangibles

Amortization of intangibles decreased by \$0.8 million to \$2.1 million during fiscal 2013, compared to \$2.9 million in fiscal 2012. This was primarily due to certain intangibles associated with prior acquisitions becoming fully amortized during the year. This decrease was partially offset by the start of amortization on the intangibles related to the GAF acquisition.

Other/General

Interest expense decreased \$0.1 million to \$0.4 million during fiscal 2013, compared to \$0.5 million in fiscal 2012. As described more fully in Note 5 to the consolidated financial statements, the Company borrowed \$12.4 million from its revolving credit facility, \$10.0 million on a term note, and issued a \$2.4 million promissory note to the seller in connection with the October, 2011 acquisition of the QAF business.

The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's debt agreements in the fiscal 2013 and 2012:

	Weighted Average Interest Rate		Weighted Average Outstanding Balance	
	Years Ended September 30,		Years Ended September 30,	
	2013	2012	2013	2012
Revolving credit agreement	1.1	% 1.3	% \$ 4.0 million	\$ 11.9 million
Term note	2.9	% 2.9	% \$ 7.2 million	\$ 9.0 million
Promissory note	2.0	% 2.0	% \$ 2.4 million	\$ 2.3 million

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

The Company believes that inflation did not materially affect its results of operations in either fiscal 2013 or 2012 and does not expect inflation to be a significant factor in fiscal 2014.

Income Taxes

The Company's effective tax rate in fiscal 2013 was 30%, compared to 31% in fiscal 2012, and differs from the U.S. federal statutory rate due primarily to (i) the impact of U.S. state and local taxes, (ii) domestic production activities deduction, (iii) application of tax credits, and (iv) the recognition of federal income taxes on undistributed earnings of non-U.S. subsidiaries.

Income from Continuing Operations

Income from continuing operations increased by \$3.5 million, or 55.5%, to \$9.8 million, or 8.4% of net sales, during fiscal 2013, compared to \$6.3 million, or 6.1% of net sales, in fiscal 2012 due primarily to the factors noted above.

Income from Discontinued Operations

Income from discontinued operations, net of tax, was \$0.5 million during fiscal 2013, compared to income from discontinued operations of \$0.2 million in fiscal 2012. This line item consists of income from discontinued operations related to ASC and the Repair Group. The change is primarily due to the after-tax gain of \$2.5 million on the sale of ASC during the first quarter of fiscal 2013, which was offset by an after-tax loss of \$2.0 million due to the exiting of the Repair Group as of September 30, 2013, as more fully discussed in Item 8, Note 12 to the consolidated financial statements.

Net Income

Net income increased by \$3.7 million, or 56.3%, to \$10.2 million, or 8.8% of net sales, during fiscal 2013, compared to \$6.5 million, or 6.4% of net sales, in fiscal 2012. Net income increased primarily due to the factors noted above.

B. Liquidity and Capital Resources

Cash and cash equivalents decreased to \$4.5 million at September 30, 2013, compared to \$7.2 million at September 30, 2012. At September 30, 2013, essentially all of the \$4.5 million of the Company's cash and cash equivalents is in the possession of its non-operating Irish subsidiary. In the future, if the Company determines that there is no longer a need to maintain such cash within its non-operating Irish subsidiary, it may elect to distribute such cash to its U.S. operations. Distributions from the Company's non-operating Irish subsidiary to the Company may be subject to adverse tax consequences.

The Company's operating activities of continuing operations provided \$7.8 million of cash in fiscal 2013 compared to \$9.2 million in fiscal 2012. The \$7.8 million of cash provided by operating activities of continuing operations in fiscal 2013 was primarily due to net income of \$10.2 million and \$5.3 million from the net impact of such non-cash items as depreciation and amortization expense, deferred taxes, equity compensation expense and LIFO effect. These were offset by a \$7.2 million increase in operating

assets. These changes in the components of working capital do not reflect the impact of the opening balance sheet related to the acquisition of GAF and QAF and were due primarily to factors resulting from normal business conditions of the Company, including (i) to support growth in the business, (ii) the relative timing of sales and collections from customers and (iii) the relative timing of payments to suppliers and tax authorities.

Capital expenditures for the Company were \$3.4 million in fiscal 2013 compared to \$2.9 million in fiscal 2012. In addition to the \$3.4 million expended during fiscal 2013, \$0.1 million has been committed as of September 30, 2013. The Company anticipates that total fiscal 2014 capital expenditures will be within the range of \$12.0 to \$13.0 million and will relate principally to the further enhancement of production and product offering capabilities.

In the fourth quarter of fiscal 2013, the Company declared a special cash dividend of \$0.20 per common share, which will result in a cash expenditure of \$1.1 million during first quarter of fiscal 2014.

As described more fully in Note 11 to the consolidated financial statements included in Item 8, the Company acquired GAF, a forging business, in July 2013 for approximately \$4.4 million at closing payable in cash by drawing on its revolving credit facility. In October 2011, the Company acquired QAF, a forging business, for approximately \$24.8 million at closing. The acquisition was financed by borrowing approximately \$22.4 million from its bank, which borrowing consisted of a new \$10.0 million term loan and drawing approximately \$12.4 million from its revolving credit facility. The balance of the acquisition was financed by the Company issuing a \$2.4 million promissory note to the seller, which is payable by the Company in November 2013.

In October 2011, the Company entered into an amendment to its existing credit agreement with its bank increasing the maximum borrowing amount from \$30.0 million to \$40.0 million, of which \$10.0 million is a five (5) year term loan and \$30.0 million is a five (5) year revolving loan, 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. The term loan is repayable in quarterly installments of \$0.5 million starting December 1, 2011.

The term loan has a variable interest rate based on Libor, which becomes an effective fixed rate of 2.9% after giving effect to an interest rate swap agreement. Borrowing under the revolving loan bears interest at a rate equal to Libor plus 0.75% to 1.75%, which percentage fluctuates based on the Company's leverage ratio of outstanding indebtedness to EBITDA. The bank loans are 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. There is also a commitment fee ranging from 0.10% to 0.25% to be incurred on the unused balance. The promissory note issued to the seller of QAF is non-interest bearing and is due in November of 2013. The Company was in compliance with all applicable loan covenants as of September 30, 2013.

Future cash flows from the Company's U.S. operations will be used to pay down amounts outstanding under the Company's credit agreement. The Company believes it has adequate cash/liquidity available to finance its U.S. operations from the combination of (i) the Company's expected cash flows from U.S. operations and (ii) funds available under its existing credit agreement.

As described more fully in Note 12 to the consolidated financial statements included in Item 8, the Company completed its divestiture of ASC segment in December 2012. The Company received cash proceeds of approximately \$8.1 million, net of transaction fees. These proceeds were used to pay down the Company's revolving credit facility. In conjunction with this divestiture, the ASC segment non-U.S. subsidiaries paid a \$1.1 million cash dividend to the Company. Proceeds from the dividend were used to pay down the Company's revolving credit facility during the first quarter of fiscal 2013.

C. Off-Balance Sheet Arrangements

Other than an interest rate swap agreement that the Company entered into with its bank, as described more fully in Note 5 to the consolidated financial statements included in Item 8, the Company does not have any obligations that meet the definition of an off-balance sheet arrangement that have had, or are reasonably likely to have, a material effect on the Company's financial condition or results of operations.

D. Critical Accounting Policies and Estimates

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of certain customers to make required payments. The Company evaluates the adequacy of its allowances for doubtful accounts each quarter based on the customers' credit-worthiness, current economic trends or market conditions, past collection history, aging of outstanding

accounts receivable and specific identified risks. As these factors change, the Company's allowances for doubtful accounts may change in subsequent periods. Historically, losses have been within management's expectations and have not been significant.

Inventories

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

Impairment of Long-Lived Assets

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

In projecting future undiscounted cash flows, the Company relies on internal budgets and forecasts, and projected proceeds upon disposal of long-lived assets. The Company's budgets and forecasts are based on historical results and anticipated future market conditions, such as the general business climate and the effectiveness of competition. The Company believes that its estimates of future undiscounted cash flows and fair value are reasonable; however, changes in estimates of such undiscounted cash flows and fair value could change the Company's estimates of fair value, which could result in future impairment charges.

Impairment of Goodwill

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

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

Purchase Price Allocations

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

Defined Benefit Pension Plan Expense

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

One significant assumption in determining net pension expense is the expected return on plan assets. The Company determines the expected return on plan assets principally based on (i) the expected return for the various asset classes in the respective plans’ investment portfolios and (ii) the targeted allocation of the respective plans’ assets. The expected return on plan assets is developed using historical asset return performance as well as current and anticipated market conditions such as inflation, interest rates and

market performance. Should the actual rate of return differ materially from the assumed/expected rate, the Company could experience a material adverse effect on the funded status of its plans and, accordingly, on its related future net pension expense.

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

Deferred Tax Valuation Allowance

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

E. Impact of Newly Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which defines the presentation requirements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements. The new guidance will be effective for the Company beginning October 1, 2014. The Company is currently evaluating the impact of adopting this guidance.

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters", which provides guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The new guidance will be effective for the Company beginning October 1, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income", which provides guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income ("AOCI"). This new guidance requires entities to present (either on the face of the income statement or in the notes to the financial statements) the effects on the income statement of amounts reclassified out of AOCI. The new guidance will be effective for the Company beginning October 1, 2013. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of SIFCO Industries, Inc. (an Ohio Corporation) and Subsidiaries (the "Company") as of September 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended September 30, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule appearing under Schedule II. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SIFCO Industries, Inc. and Subsidiaries as of September 30, 2013 and 2012, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

Cleveland, Ohio
November 27, 2013

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

	Years Ended September 30,		
	2013	2012	
Net sales	\$ 116,001	\$ 102,900	
Cost of goods sold	87,986	81,094	
Gross margin	28,015	21,806	
Selling, general and administrative expenses	12,262	9,906	
Amortization of intangible assets	2,076	2,879	
(Gain) on disposal of operating assets	(89) —	
Operating income	13,766	9,021	
Interest income	(24) (27)
Interest expense	342	471	
Foreign currency exchange (gain) loss, net	23	(16)
Other income, net	(421) (575)
Income from continuing operations before income tax provision	13,846	9,168	
Income tax provision	4,088	2,861	
Income from continuing operations	9,758	6,307	
Income from discontinued operations, net of tax	476	241	
Net income	\$ 10,234	\$ 6,548	
Income per share from continuing operations			
Basic	\$ 1.82	\$ 1.19	
Diluted	\$ 1.81	\$ 1.18	
Income per share from discontinued operations, net of tax			
Basic	\$ 0.09	\$ 0.04	
Diluted	\$ 0.09	\$ 0.04	
Net income per share			
Basic	\$ 1.91	\$ 1.23	
Diluted	\$ 1.90	\$ 1.22	
Weighted-average number of common shares (basic)	5,363	5,317	
Weighted-average number of common shares (diluted)	5,401	5,380	
See notes to consolidated financial statements.			

SIFCO Industries, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income
 (Amounts in thousands, except per share data)

	Years Ended September 30,	
	2013	2012
Net income	\$10,234	\$6,548
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(284) 204
Retirement plan liability adjustment	2,854	212
Interest rate swap agreement adjustment	31	(58
Comprehensive income	\$12,835	\$6,906
See notes to the consolidated financial statements.		

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

September 30,
2013 2012

ASSETS