

SIFCO INDUSTRIES INC  
Form 10-Q  
August 09, 2013

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, 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  
(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)  
(216) 881-8600  
(Registrant's telephone number, including area code)

44103  
(Zip 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  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 Exchange Act). Yes  No

The number of the Registrant's Common Shares outstanding at June 30, 2013 was 5,373,526.

## Part I. Financial Information

## Item 1. Financial Statements

## SIFCO Industries, Inc. and Subsidiaries

## Consolidated Condensed Statements of Operations

(Unaudited)

(Amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended		
	June 30,		June 30,		
	2013	2012	2013	2012	
Net sales	\$30,284	\$27,278	\$88,578	\$82,147	
Cost of goods sold	22,757	20,991	69,653	65,275	
Gross margin	7,527	6,287	18,925	16,872	
Selling, general and administrative expenses	3,371	2,661	10,433	8,342	
Amortization of intangible assets	492	709	1,544	2,186	
Loss (gain) on disposal of operating assets	33	—	(89	) —	
Operating income	3,631	2,917	7,037	6,344	
Interest income	(4	) (8	) (18	) (16	)
Interest expense	76	124	261	352	
Foreign currency exchange (gain) loss, net	7	(19	) 7	(22	)
Other income, net	(108	) (113	) (294	) (347	)
Income from continuing operations before income tax provision	3,660	2,933	7,081	6,377	
Income tax provision	1,103	831	2,134	1,990	
Income from continuing operations	2,557	2,102	4,947	4,387	
Income (loss) from discontinued operations, net of tax	(79	) 339	2,381	964	
Net income	\$2,478	\$2,441	\$7,328	\$5,351	
Income per share from continuing operations					
Basic	\$0.47	\$0.40	\$0.92	\$0.83	
Diluted	\$0.47	\$0.40	\$0.92	\$0.82	
Income (loss) per share from discontinued operations, net of tax					
Basic	\$(0.01	) \$0.06	\$0.44	\$0.18	
Diluted	\$(0.01	) \$0.06	\$0.44	\$0.18	
Net income per share					
Basic	\$0.46	\$0.46	\$1.36	\$1.01	
Diluted	\$0.46	\$0.46	\$1.36	\$1.00	
Weighted-average number of common shares (basic)	5,374	5,328	5,359	5,311	
Weighted-average number of common shares (diluted)	5,402	5,353	5,399	5,343	

See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries  
 Consolidated Condensed Statements of Comprehensive Income  
 (Unaudited)

(Amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$2,478	\$2,441	\$7,328	\$5,351
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	—	(204	) (285	) (166
Retirement plan liability adjustment	337	241	895	666
Interest rate swap agreement adjustment	13	(1	) 43	(53
Comprehensive income	\$2,828	\$2,477	\$7,981	\$5,798

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, 2013 (unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4,609	\$7,176
Receivables, net of allowance for doubtful accounts of \$604 and \$539, respectively	22,620	20,780
Inventories, net	20,664	17,505
Deferred income taxes	1,343	1,415
Prepaid expenses and other current assets	1,307	1,122
Current assets of business held for sale	—	3,908
Total current assets	50,543	51,906
Property, plant and equipment, net	29,566	29,726
Intangible assets, net	13,083	14,627
Goodwill	7,015	7,015
Other assets	1,689	695
Noncurrent assets of business held for sale	—	2,576
Total assets	\$101,896	\$106,545
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$4,380	\$2,000
Accounts payable	7,353	9,181
Accrued liabilities	6,864	4,330
Current liabilities of business held for sale	—	1,171
Total current liabilities	18,597	16,682
Long-term debt, net of current maturities	7,130	19,683
Deferred income taxes	203	1,154
Other long-term liabilities	7,664	8,494
Noncurrent liabilities of business held for sale	—	390
Shareholders' equity:		
Serial preferred shares, no par value, authorized 1,000 shares	—	—
Common shares, par value \$1 per share, authorized 10,000 shares; issued and outstanding shares – 5,407 at June 30, 2013 and 5,366 at September 30, 2012	5,407	5,366
Additional paid-in capital	7,661	7,523
Retained earnings	66,925	59,597
Accumulated other comprehensive loss	(11,691	) (12,344 )
Total shareholders' equity	68,302	60,142
Total liabilities and shareholders' equity	\$101,896	\$106,545

See notes to unaudited consolidated condensed financial statements.

Edgar Filing: SIFCO INDUSTRIES INC - Form 10-Q

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

	Nine Months Ended	
	June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$7,328	\$5,351
Income from discontinued operations, net of tax	(2,381	) (964
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,465	4,741
Gain on disposal of operating assets	(89	) —
LIFO expense (income)	(787	) 643
Share transactions under company stock plan	179	753
Deferred income taxes	(179	) (102
Changes in operating assets and liabilities:		
Receivables	(1,840	) 726
Inventories	(2,372	) (5,513
Refundable income taxes	—	281
Prepaid expenses and other current assets	(185	) (435
Other assets	(994	) (218
Accounts payable	(1,829	) (2,091
Accrued liabilities	1,521	982
Other long-term liabilities	143	(161
Net cash provided by operating activities of continuing operations	2,980	3,993
Net cash provided by (used for) operating activities of discontinued operations	(235	) 593
Cash flows from investing activities:		
Acquisition of business	—	(24,886
Proceeds from disposal of operating assets	164	—
Capital expenditures	(2,836	) (1,676
Net cash used for investing activities of continuing operations	(2,672	) (26,562
Net cash provided by (used for) investing activities of discontinued operations	8,641	(115
Cash flows from financing activities:		
Proceeds from term note	—	10,000
Repayments of term note	(1,500	) (1,500
Proceeds from revolving credit agreement	37,563	48,184
Repayments of revolving credit agreement	(46,271	) (35,058
Proceeds from other debt	—	2,302
Dividends paid	(1,073	) (1,060
Other	—	(29
Net cash provided by (used for) financing activities of continuing operations	(11,281	) 22,839
Increase (decrease) in cash and cash equivalents	(2,567	) 748
Cash and cash equivalents at the beginning of the period	7,176	6,431
Effect of exchange rate changes on cash and cash equivalents	—	(60
Cash and cash equivalents at the end of the period	\$4,609	\$7,119
Supplemental disclosure of cash flow information of continuing operations:		
Cash paid for interest	\$(239	) \$(314
Cash paid for income taxes, net	(3,626	) (1,822

See notes to unaudited consolidated condensed financial statements.

5

---

## SIFCO Industries, Inc. and Subsidiaries

## Notes to Unaudited Consolidated Condensed Financial Statements

(Amounts in thousands, except 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. 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 2012 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.

## B. Net Income per Share

The Company's net income per basic share has been computed based on the weighted-average number of common shares outstanding. Net income per diluted share reflects the effect of the Company's outstanding stock options, restricted shares and performance shares under the treasury stock method. The dilutive effect of the Company's stock options, restricted shares and performance shares were as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Income from continuing operations	\$2,557	\$2,102	\$4,947	\$4,387
Income (loss) from discontinued operations, net of tax	(79	) 339	2,381	964
Net income	\$2,478	\$2,441	\$7,328	\$5,351
Weighted-average common shares outstanding (basic)	5,374	5,328	5,359	5,311
Effect of dilutive securities:				
Stock options	1	12	1	19
Restricted shares	14	6	10	6
Performance shares	13	7	29	7
Weighted-average common shares outstanding (diluted)	5,402	5,353	5,399	5,343
Net income per share – basic				
Continuing operations	\$0.47	\$0.40	\$0.92	\$0.83
Discontinued operations	(0.01	) 0.06	0.44	0.18
Net income	\$0.46	\$0.46	\$1.36	\$1.01
Net income per share – diluted:				
Continuing operations	\$0.47	\$0.40	\$0.92	\$0.82
Discontinued operations	(0.01	) 0.06	0.44	0.18
Net income	\$0.46	\$0.46	\$1.36	\$1.00
Anti-dilutive weighted-average common shares excluded from calculation of diluted earnings per share	18	147	58	147

C. Derivative Financial Instruments

The Company uses an interest rate swap agreement to reduce risk related to variable-rate debt, which is subject to changes in market rates of interest. The interest rate swap is designated as a cash flow hedge. At June 30, 2013, the Company held one interest rate swap agreement with a notional amount of \$6,500. Cash flows related to the interest rate swap agreement are included in interest expense. The Company's interest rate swap agreement and its variable-rate term debt are based upon LIBOR. During the first nine months of fiscal year 2013, the Company's interest rate swap agreement qualified as a fully effective cash flow hedge against the Company's variable-rate term note interest risk.

6

---



#### D. Impact of Newly Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2013-2, “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. In March 2013, the Financial Accounting Standards Board issued ASU 2013-5, “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.

#### E. Reclassifications

Certain prior period amounts were reclassified to conform to the current consolidated financial statement presentation.

#### 2. Inventories

Inventories consist of:

	June 30, 2013	September 30, 2012
Raw materials and supplies	\$7,871	\$4,207
Work-in-process	6,631	9,156
Finished goods	6,162	4,142
Total inventories	\$20,664	\$17,505

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (“LIFO”) method for 37% and 44% of the Company’s inventories at June 30, 2013 and September 30, 2012, 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 \$8,750 and \$9,537 higher than reported at June 30, 2013 and September 30, 2012, respectively.

#### 3. Goodwill and Intangible Assets

The Company’s intangible assets by major asset class subject to amortization consist of:

June 30, 2013	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Intangible assets:				
Trade name	10 years	\$1,900	\$397	\$1,503
Non-compete agreement	5 years	1,500	589	911
Below market lease	5 years	900	460	440
Customer relationships	10 years	13,000	2,771	10,229
Order backlog	1 year	2,100	2,100	—
Total intangible assets		\$19,400	\$6,317	\$13,083
September 30, 2012	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Intangible assets:				
Trade name	10 years	\$1,900	\$254	\$1,646
Non-compete agreement	5 years	1,500	364	1,136
Below market lease	5 years	900	325	575
Customer relationships	10 years	13,000	1,796	11,204
Order backlog	1 year	2,100	2,034	66

Total intangible assets	\$19,400	\$4,773	\$14,627
-------------------------	----------	---------	----------

7

---

The amortization expense on identifiable intangible assets for the nine months ended June 30, 2013 and 2012 was \$1,544 and \$2,186, respectively. Amortization expense associated with the identified intangible assets, all of which relates to SIFCO Forged Components, is expected to be as follows:

	Amortization Expense
Fiscal year 2013	\$2,037
Fiscal year 2014	1,970
Fiscal year 2015	1,970
Fiscal year 2016	1,744
Fiscal year 2017	1,507

The Company's goodwill, all of which relates to the SIFCO Forged Components segment, is not being amortized and is subject to annual impairment tests. All of the goodwill is expected to be deductible for tax purposes.

#### 4. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	June 30, 2013	September 30, 2012
Foreign currency translation adjustment, net of tax	\$(5,851)	\$(5,566)
Retirement plan liability adjustment, net of tax	(5,825)	(6,720)
Interest rate swap agreement adjustment, net of tax	(15)	(58)
Total accumulated other comprehensive loss	\$(11,691)	\$(12,344)

#### 5. Long-Term Debt

Long-term debt consists of:

	June 30, 2013	September 30, 2012
Revolving credit agreement	2,630	\$11,338
Term loan	6,500	8,000
Promissory Note	2,380	2,345
	11,510	21,683
Less – current maturities	4,380	2,000
Total long-term debt	\$7,130	\$19,683

In October 2011, the Company entered into an amendment to its existing credit agreement (the "Credit Agreement Amendment") with its bank increasing the maximum borrowing amount from \$30,000 to \$40,000, of which \$10,000 is a five (5) year term loan and \$30,000 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 Irish subsidiary. The term loan is repayable in quarterly installments of \$500 starting December 1, 2011.

The term loan has a Libor-based variable interest rate that was 2.2% at June 30, 2013. This rate 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. At June 30, 2013, the interest rate was 1.0%. The 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 Company was in compliance with all applicable loan covenants as of June 30, 2013.

In connection with the purchase of the forging business and substantially all related operating assets from GEL Industries, Inc. (DBA Quality Aluminum Forge, Inc.) ("QAF"), as discussed more fully in Note 10, the Company issued a non-interest bearing promissory note to the seller, which note is payable by the Company in November 2013. The imputed interest rate used to discount the note was 2.0% per annum.



## 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 for its continuing operations. This estimated effective rate is used in providing for income taxes on a year-to-date basis. The Company's effective tax rate through the first nine months of fiscal 2013 was 30%, compared to 31% for the same period of fiscal 2012, 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 from continuing operations consists of the following:

	Three Months Ended		Nine Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Current income tax provision:				
U.S. federal	\$1,056	\$638	\$1,893	\$1,592
U.S. state and local	80	144	245	321
Non-U.S.	57	9	96	46
Total current tax provision	1,193	791	2,234	1,959
Deferred income tax provision (benefit):				
U.S. federal	(88	) 40	(98	) 31
U.S. state and local	(2	) —	(2	) —
Total deferred tax provision (benefit)	(90	) 40	(100	) 31
Income tax provision	\$1,103	\$831	\$2,134	\$1,990

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states, local and non-U.S. jurisdictions. The Company's federal income tax returns for fiscal years 2010 and 2011, as well as the amended federal income tax returns for fiscal 2008 and 2009, are under review by the Internal Revenue Service, the outcome of which is not known at this time. The Company believes it has appropriate support for its federal income tax returns. 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 2006.

At June 30, 2013 and September 30, 2012, the Company recorded liabilities of \$180 and \$120, 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, 2012	\$120
Increase due to tax positions taken in current year	60
Balance at June 30, 2013	\$180

## 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 June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
Service cost	\$72	\$71	\$216	\$214
Interest cost	212	247	638	740
Expected return on plan assets	(371	) (351	) (1,114	) (1,052
Amortization of prior service cost	13	12	39	35
Amortization of net loss	219	210	656	630
Settlement cost	191	—	382	—
Net periodic benefit cost	\$336	\$189	\$817	\$567

Through June 30, 2013, the Company has made contributions in the amount of \$670 to its defined benefit pension plans. The Company anticipates making \$129 of additional contributions to fund its defined benefit pension plans

during the balance of fiscal 2013.

9

---

## 8. Stock-Based Compensation

In previous periods, the Company 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. The 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, 2013.

At June 30, 2013 and 2012, there was no unrecognized compensation cost related to the stock options granted under the Company’s stock option plans. There was no compensation expense related to stock options recognized in the nine months ended June 30, 2013 and 2012. There is one outstanding and exercisable option as of June 30, 2013, which has a weighted average remaining term of 2.0 years and an intrinsic value of \$12.

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 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) 100% of the target levels for recipients of the performance shares awarded during fiscal 2013, and (ii) 50% of the target levels for recipients of the performance shares awarded during fiscal 2012 and 2011. During each future reporting period, such expense may be subject to adjustment based upon the Company’s financial performance, which impacts 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. The vesting of such shares is determined at the end of the performance period.

The Company has 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) to three (3) years.

If all outstanding share awards are ultimately earned and issued at the target number of shares, then at June 30, 2013 there are approximately 355 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.

Stock-based compensation under the 2007 Plan was \$515 and \$822 during the first nine months of fiscal 2013 and 2012 and \$148 and \$255 during the third quarter of fiscal 2013 and 2012, respectively. As of June 30, 2013, there was \$1,035 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, 2012	158	\$18.30
Restricted shares awarded (2013 award)	12	15.50

Edgar Filing: SIFCO INDUSTRIES INC - Form 10-Q

Restricted shares earned (2012 award)	(5	) 22.00
Performance shares awarded (2013 award)	60	15.98
Performance shares earned (2010 award)	(33	) 16.05
Awards forfeited (various awards)	(38	) 17.00
Outstanding at June 30, 2013	154	\$17.85

9. Business Segments

10

---



The Company identifies reportable segments based upon distinct products manufactured and services performed. SIFCO Forged Components (“Forge Group”) consists of the production, heat-treatment, surface-treatment, non-destructive testing and some machining of both conventional and precision forged components in various steel, titanium and aluminum alloys utilizing a variety of processes for application principally in the aerospace and power generation industries. Turbine Component Services and Repair (“Repair Group”) consists primarily of the repair and remanufacture of small aerospace and industrial turbine engine components, and is also involved in providing precision component machining and industrial coating of turbine engine components. The Company’s reportable segments are separately managed.

The following table summarizes certain information regarding segments of the Company’s continuing operations:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net sales:				
SIFCO Forged Components	\$28,672	\$25,650	\$84,121	\$76,500
Turbine Component Services and Repair	1,612	1,628	4,457	5,647
Consolidated net sales	\$30,284	\$27,278	\$88,578	\$82,147
Operating income (loss):				
SIFCO Forged Components	\$5,457	\$4,137	\$12,740	\$9,931
Turbine Component Services and Repair	(561	) (393	) (1,659	) (854
Corporate unallocated expenses	(1,265	) (827	) (4,044	) (2,733
Consolidated operating income	3,631	2,917	7,037	6,344
Interest expense, net	72	116	243	336
Foreign currency exchange (gain) loss, net	7	(19	) 7	(22
Other income, net	(108	) (113	) (294	) (347
Consolidated income from continuing operations before income tax provision	\$3,660	\$2,933	\$7,081	\$6,377
Depreciation and amortization expense:				
SIFCO Forged Components	\$1,289	\$1,477	\$3,950	\$4,269
Turbine Component Services and Repair	99	86	260	250
Corporate unallocated expenses	91	74	255	222
Consolidated depreciation and amortization expense	\$1,479	\$1,637	\$4,465	\$4,741
LIFO expense (income) for SIFCO Forged Components	\$(380	) \$214	\$(787	) \$643
			June 30,	September 30,
			2013	2012
Identifiable assets:				
SIFCO Forged Components			\$87,398	\$84,519
Turbine Component Services and Repair			3,620	3,480
Corporate			10,878	12,063
Assets of business held for sale			—	6,483
Consolidated total assets			\$101,896	\$106,545

#### 10. Business Acquisition

On October 28, 2011, through its wholly-owned subsidiary, Forge Acquisition, LLC, now known as Quality Aluminum Forge, LLC, the Company completed the acquisition of the QAF business. This forging business is operated in QAF’s Orange and Long Beach, California facilities, all of which are leased. The QAF purchase transaction was accounted for under the purchase method of accounting.

The results of operation of QAF from its date of acquisition are included in the Company’s unaudited consolidated condensed statements of operations and are reported in the SIFCO Forged Components segment. The following

unaudited pro forma information presents a summary of the results of operations for the Company including QAF as if the acquisition had occurred on October 1, 2011:

11

---

	Nine Months Ended June 30, 2012
Net sales	\$83,661
Net income	5,375
Net income per share (basic)	\$1.00
Net income per share (diluted)	1.00

#### 11. Discontinued Operations, Assets Held for Sale, and Business Divestiture

On December 10, 2012, the Company completed the divestiture of its Applied Surface Concepts (“ASC Group”) business segment. The Company received cash proceeds, net of certain transaction fees, of approximately \$8,100 for this business and \$980 was placed in escrow, pending expiration in June 2014 of indemnification holdback provisions under the sale agreement. The ASC Group business included its U.S. operations, headquartered in Cleveland, Ohio, and three European operations located in France, Sweden and the United Kingdom. The ASC Group business developed, manufactured and sold selective plating products and provided contract services for low volume repair, refurbishment and OEM applications. The transaction resulted in a pre-tax gain of \$3,980 in the first nine months of fiscal 2013.

The table below presents the components of the balance sheet accounts classified as assets and liabilities held for sale at September 30, 2012.

##### Assets:

Receivables, net	\$2,574
Inventories, net	1,188
Deferred income taxes	47
Prepaid expenses and other current assets	99
Total current assets of business held for sale	\$3,908
Property, plant and equipment, net	\$2,533
Other assets	43
Total noncurrent assets of business held for sale	\$2,576

##### Liabilities:

Current maturities of long-term debt	\$2
Accounts payable	546
Accrued liabilities	623
Total current liabilities of business held for sale	\$1,171
Deferred income taxes	\$388
Other long-term liabilities	2
Total noncurrent liabilities of business held for sale	\$390

The financial results of ASC Group included in discontinued operations were as follows:

	Three Months Ended		Nine Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net sales	\$—	\$3,690	\$2,727	\$11,410
Income before income tax provision	—	369	180	1,354
Income tax provision	79	30	127	390
Income (loss) from operations, net of tax	(79	) 339	53	964
Gain (loss) on sale of discontinued operations, net of tax	—	—	2,328	—
Income (loss) from discontinued operations, net of tax	\$(79	) \$339	\$2,381	\$964

12. Subsequent Events

On July 23, 2013, through its wholly-owned subsidiary, General Aluminum Forgings, LLC, the Company completed the purchase of the forging business and substantially all related operating assets from MW General, Inc. (DBA General Aluminium Forgings) (“GAF”). The forging business is operated in GAF's Colorado Springs, Colorado facility. The purchase

12

---

price for the forging business and related operating assets is approximately \$4.5 million payable in cash, subject to certain adjustments related principally to the delivered working capital level or indemnification holdback provisions under the purchase agreement. In addition, the Company has assumed certain current operating liabilities of the forging business. The Company has not yet completed the purchase price accounting related to the GAF acquisition.

Effective July 23, 2013, the Company, entered into its second amendment to its existing credit agreement (“the Credit Agreement Amendment”) with Fifth Third Bank. The only material change was to add General Aluminum Forgings, LLC as a new borrower to its existing Credit Agreement.

The collective bargaining agreement with the hourly workers at the T&W forging facility, part of SIFCO Forged Components, expired on July 31, 2013. Negotiations regarding extension or renewal of the agreement are ongoing.

## 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 in general, and on the demand for product in the aerospace and power generation 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) successful development of turbine component repair processes and/or procurement of new repair process licenses from turbine engine manufacturers and/or the Federal Aviation Administration; (5) metals and commodities price increases and the Company’s ability to recover such price increases; (6) successful development and market introduction of new products and services; (7) continued reliance on consumer acceptance of regional and business aircraft powered by more fuel efficient turboprop engines; (8) continued reliance on military spending, in general, and/or several major customers, in particular, for revenues; (9) the impact on future contributions to the Company’s defined benefit pension plans due to changes in actuarial assumptions, government regulations and the market value of plan assets; (10) stable governments, business conditions, laws, regulations and taxes in economies where business is conducted and (11) the ability to successfully integrate businesses that may be acquired into the Company’s operations.

The Company and its subsidiaries engage in the production and sale of a variety of metalworking processes, services and products produced primarily to the specific design requirements of its customers. The processes and services include 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. The Company’s operations are conducted in two business segments: (1) SIFCO Forged Components (“Forge Group”) and (2) Turbine Component Services and Repair (“Repair Group”). The Company endeavors to plan and evaluate its businesses’ operations while taking into consideration certain factors including the following : (i) the projected build rate for commercial, business and military aircraft as well as the engines that power such aircraft, (ii) the projected build rate for industrial gas turbine engines, and (iii) the projected maintenance, repair and overhaul schedules for commercial, business and military aircraft as well as the engines that power such aircraft.

### A. Results of Operations

#### Non-GAAP Financial Measures

Edgar Filing: SIFCO INDUSTRIES INC - Form 10-Q

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

13

---

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.

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA:

Dollars in thousands	Three Months Ended		Nine Months Ended		
	June 30,		June 30,		
	2013	2012	2013	2012	
Net income	\$2,478	\$2,441	\$7,328	\$5,351	
Less: Income (loss) from discontinued operations, net of tax	(79	) 339	2,381	964	
Income from continuing operations	2,557	2,102	4,947	4,387	
Adjustments:					
Depreciation and amortization expense	1,479	1,637	4,465	4,741	
Interest expense, net	72	116	243	336	
Income tax provision	1,103	831	2,134	1,990	
EBITDA	5,211	4,686	11,789	11,454	
Adjustments:					
Foreign currency exchange (gain) loss, net (1)	7	(19	) 7	(22	)
Other income, net (2)	(108	) (113	) (294	) (347	)
Loss (gain) on disposal of operating assets (3)	33	—	(89	) —	
Inventory purchase accounting adjustments (4)	—	(4	) —	436	
Non-recurring severance expense (5)	—	—	658	—	
Equity compensation expense (6)	148	255	515	822	
Pension settlement expense (7)	191				