

SIFCO INDUSTRIES INC
Form 10-Q
February 03, 2015

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 December 31, 2014

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 December 31, 2014 was 5,430,976.

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 December 31,	
	2014	2013
Net sales	\$20,080	\$26,652
Cost of goods sold	17,081	21,082
Gross profit	2,999	5,570
Selling, general and administrative expenses	4,444	3,459
Amortization of intangible assets	520	545
(Gain) on disposal of operating assets	—	(2
Operating income (loss)	(1,965	) 1,568
Interest income	(3	) (4
Interest expense	60	85
Foreign currency exchange (gain) loss, net	(10	) 5
Other income, net	(107	) (108
Income (loss) from continuing operations before income tax provision	(1,905	) 1,590
Income tax provision (benefit)	(560	) 436
Income (loss) from continuing operations	(1,345	) 1,154
(Loss) from discontinued operations, net of tax	(63	) (207
Net income (loss)	\$(1,408	) \$947
Income (loss) per share from continuing operations		
Basic	\$(0.25	) \$0.22
Diluted	\$(0.25	) \$0.21
Income (loss) per share from discontinued operations, net of tax		
Basic	\$(0.01	) \$(0.04
Diluted	\$(0.01	) \$(0.04
Net income (loss) per share		
Basic	\$(0.26	) \$0.18
Diluted	\$(0.26	) \$0.17
Weighted-average number of common shares (basic)	5,422	5,378
Weighted-average number of common shares (diluted)	5,447	5,408
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 December 31,	
	2014	2013
Net income (loss)	\$(1,408	) \$947
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	—	—
Retirement plan liability adjustment	129	150
Interest rate swap agreement adjustment	5	9
Comprehensive income (loss)	\$(1,274) \$1,106

See notes to unaudited consolidated condensed financial statements.

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

	December 31, 2014 (unaudited)	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,975	\$4,596
Receivables, net of allowance for doubtful accounts of \$284 and \$333, respectively	19,919	25,915
Inventories, net	23,990	18,919
Refundable income taxes	1,045	410
Deferred income taxes	791	791
Prepaid expenses and other current assets	2,481	1,878
Current assets of business from discontinued operations	347	392
Total current assets	53,548	52,901
Property, plant and equipment, net	37,083	37,148
Intangible assets, net	10,970	11,490
Goodwill	7,658	7,658
Other assets	512	500
Total assets	\$109,771	\$109,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$2,000	\$2,000
Accounts payable	8,002	10,526
Accrued liabilities	3,572	6,432
Current liabilities of business from discontinued operations	204	196
Total current liabilities	13,778	19,154
Long-term debt, net of current maturities	14,952	8,429
Deferred income taxes	775	774
Pension liability	4,194	4,331
Other long-term liabilities	386	389
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 – 5,458 at December 31, 2014 and 5,448 at September 30, 2014	5,458	5,448
Additional paid-in capital	9,429	9,102
Retained earnings	71,278	72,683
Accumulated other comprehensive loss	(10,479	) (10,613)
Total shareholders' equity	75,686	76,620
Total liabilities and shareholders' equity	\$109,771	\$109,697

See notes to unaudited consolidated condensed financial statements.

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

	Three Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$(1,408	) \$947
Loss from discontinued operations, net of tax	63	207
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,714	1,743
Gain on disposal of operating assets	—	(2
LIFO (income) expense	30	(82
Share transactions under company stock plan	337	238
Other long-term liabilities	(7	) 12
Deferred income taxes	1	41
Changes in operating assets and liabilities:		
Receivables	5,996	3,636
Inventories	(5,101	) (951
Refundable taxes	(635) —
Prepaid expenses and other current assets	(604	) (246
Other assets	(7	) (15
Accounts payable	(165	) (154
Other accrued liabilities	(1,792	) (817
Accrued income and other taxes	21	(531
Net cash provided by (used for) operating activities of continuing operations	(1,557	) 4,026
Net cash provided by (used for) operating activities of discontinued operations	(9	) 86
Cash flows from investing activities:		
Proceeds from disposal of operating assets	—	—
Capital expenditures	(3,488	) (1,154
Net cash used for investing activities of continuing operations	(3,488	) (1,154
Net cash provided by investing activities of discontinued operations	—	950
Cash flows from financing activities:		
Payments on long term debt	(500	) (2,892
Proceeds from revolving credit agreement	15,355	11,965
Repayments of revolving credit agreement	(8,332	) (11,707
Proceeds from exercise of stock options	—	4
Cash dividends paid	(1,090	) (1,081
Net cash provided by (used for) financing activities of continuing operations	5,433	(3,711
Increase in cash and cash equivalents	379	197
Cash and cash equivalents at the beginning of the period	4,596	4,508
Cash and cash equivalents at the end of the period	\$4,975	\$4,705
Supplemental disclosure of cash flow information of continuing operations:		
Cash paid for interest	\$(70	) \$(71
Cash paid for income taxes, net	(17	) (802

See notes to unaudited consolidated condensed financial statements.

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 2014 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. Accounting Policies

A summary of the Company's significant accounting policies is included in Note 1 to the audited consolidated financial statements of the Company's fiscal 2014 Annual Report on Form 10-K. Since the Annual Report, the Company has changed its estimates process for its workers' compensation reserve. The Company uses a third party actuary to evaluate its reserves annually. Effective in the first quarter of fiscal 2015, the Company changed to a new third party administrator that also evaluates the reserve on a monthly basis. The change in administrators resulted in a reduction in the Company's reserve and a corresponding decrease in expense of approximately \$400. The change is reflected in the Company's first quarter fiscal 2015 results.

C. Net Income (loss) per Share

The Company's net income (loss) per basic share has been computed based on the weighted-average number of common shares outstanding. Net income (loss) 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 restricted shares and performance shares were as follows:

	Three Months Ended December 31,	
	2014	2013
Income (loss) from continuing operations	\$(1,345	) \$1,154
Income (loss) from discontinued operations, net of tax	(63	) (207
Net income (loss)	\$(1,408	) \$947
Weighted-average common shares outstanding (basic)	5,422	5,378
Effect of dilutive securities:		
Restricted shares	25	16
Performance shares	—	14
Weighted-average common shares outstanding (diluted)	5,447	5,408
Net income (loss) per share – basic		
Continuing operations	\$(0.25	) \$0.22
Discontinued operations	(0.01	) (0.04
Net income (loss)	\$(0.26) \$0.18
Net income (loss) per share – diluted:		
Continuing operations	\$(0.25) \$0.21

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Discontinued operations	(0.01) (0.04)
Net income (loss)	\$(0.26) \$0.17)
Anti-dilutive weighted-average common shares excluded from calculation of diluted earnings per share	8	20	

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D. 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 September 30, 2014, the Company held one interest rate swap agreement with a notional amount of \$4,000. The interest rate swap matured as of December 31, 2014. 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 quarter of fiscal 2015, 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.

E. Reclassifications

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

2. Inventories

Inventories consist of:

	December 31, 2014	September 30, 2014
Raw materials and supplies	\$7,034	\$5,957
Work-in-process	7,977	6,232
Finished goods	8,979	6,730
Total inventories	\$23,990	\$18,919

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method for 45% and 40% of the Company's inventories at December 31, 2014 and September 30, 2014, respectively. The first-in, first-out ("FIFO") method is used for the remainder of the inventories. If the FIFO method had been used for the inventories for which cost is determined using the LIFO method, inventories would have been \$7,909 and \$7,879 higher than reported at December 31, 2014 and September 30, 2014, respectively.

3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	December 31, 2014	September 30, 2014
Foreign currency translation adjustment, net of tax	\$(5,851)	\$(5,851)
Retirement plan liability adjustment, net of tax	(4,628)	(4,757)
Interest rate swap agreement adjustment, net of tax	—	(5)
Total accumulated other comprehensive loss	\$(10,479)	\$(10,613)

4. Long-Term Debt

Long-term debt consists of:

	December 31, 2014	September 30, 2014
Revolving credit agreement	\$13,452	\$6,429
Term loan	3,500	4,000
	16,952	10,429
Less – current maturities	2,000	2,000
Total long-term debt	\$14,952	\$8,429

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 year term loan and \$30,000 is a five year revolving loan, secured by substantially all of 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 December 31, 2014. This rate becomes an effective fixed rate of 2.9% after giving effect to an interest rate swap agreement, which matured in the first quarter of fiscal 2015.

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 December 31, 2014, 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 December 31, 2014.

5. 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 three months of fiscal 2015 was 29%, compared with 27% for the same period of fiscal 2014, and differs from the U.S. federal statutory rate due primarily to (i) application of foreign tax credits (ii) other U.S. tax credits, and (iii) a domestic production activities deduction.

The Internal Revenue Service finalized regulations, as of August 2014, governing the income tax treatment of acquisitions, dispositions, and repairs of tangible property. Taxpayers are required to follow the new regulations in taxable years beginning on or after January 1, 2014. Management is currently assessing the impact of the regulations and does not expect they will have a material impact on the Company's consolidated financial statements.

The Company is subject to income taxes in the U.S. federal jurisdiction, Ireland and various states and local jurisdictions. The Company believes it has appropriate support for its federal income tax returns.

6. 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 December 31,	
	2014	2013
Service cost	\$37	\$31
Interest cost	245	249
Expected return on plan assets	(417	) (393
Amortization of net loss	141	148
Settlement cost	—	75
Net periodic cost	\$6	\$110

During the three months ended December 31, 2014 and 2013, the Company has made no contributions and \$157, respectively, to its defined benefit pension plans. The Company does not anticipate making any additional contributions to fund its defined benefit pension plans during the balance of fiscal 2015.

7. Stock-Based Compensation

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 unvested 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 award is exercisable no later than ten years from the date of the grant.

The performance shares that have been awarded under the 2007 Plan generally provide for the vesting 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. 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 vest upon the completion of the performance period. The performance shares were valued at the closing

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market price of the Company's common shares on the date of the grant. The vesting of such shares is determined at the end of the performance period.

During the first three months of fiscal 2015, the Company granted 45 performance share awards under the 2007 Plan with a grant date fair value of \$30.57 per share. The shares vest over a three year performance period.

The Company has awarded restricted shares to its directors, officers, and other employees of the Company. The restricted shares were valued at the closing market price of the Company's common shares on the date of the grant, and such value was recorded as unearned compensation. The unearned compensation is being amortized ratably over the restricted stock vesting period of one year.

During the first three months of fiscal 2015, the Company granted 16 restricted shares under the 2007 Plan with a grant date fair value of \$30.57 per share. The shares vest over a one year service period.

If all outstanding share awards are ultimately earned and vest at the target number of shares, there are approximately 263 shares that remain available for award at December 31, 2014. If any of the outstanding share awards are ultimately earned and vest 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 \$529 and \$238 during the first three months of fiscal 2015 and 2014, respectively. As of December 31, 2014, there was \$2,882 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 2.8 years.

8. Discontinued Operations, Assets Held for Sale, and Business Divestiture

As part of the Company's strategy to focus on the Aerospace and Energy ("A&E") market, the Company decided to exit the Turbine Component Service and Repair ("Repair Group") business in the fourth quarter of fiscal 2013.

The table below presents the components of the balance sheet accounts classified as assets and liabilities held for sale at December 31, 2014 and September 30, 2014, respectively.

	December 31, 2014	September 30, 2014
Assets:		
Cash	\$25	\$—
Receivables, net	43	91
Deferred income taxes	15	15
Prepaid expenses and other current assets	—	22
Asset held for sale	264	264
Total current assets of business from discontinued operations	\$347	\$392
Liabilities:		
Accounts payable	—	23
Accrued liabilities	204	173
Total current liabilities of business from discontinued operations	\$204	\$196

As of December 31, 2014 and September 30, 2014, certain assets were recorded at the lower of their carrying value or fair value.

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

	Three Months Ended December 31,	
	2014	2013
Net sales	\$—	\$1,339
Loss before income tax provision	(99	) (331
Income tax benefit	(36	) (124
Loss from discontinued operations, net of tax	\$(63	) \$(207

9. Subsequent Events

On January 15, 2015, all the conditions were met under the executed purchase agreement between the Company and a buyer for the sale of the Repair Group's building and land that is currently classified as asset held for sale within Note 8 of the consolidated condensed statements. The Company completed the transaction on January 30, 2015 for the sale price of \$1,550.

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 Energy ("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) the future business environment, including capital and consumer spending; (3) competitive factors, including the ability to replace business that 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 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 is engaged in the production of forgings and machined components primarily for the A&E markets. The processes and services include forging, heat-treating and machining. The Company operates under one business segment.

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; and (iii) the projected maintenance, repair and overhaul schedules for commercial, business and military aircraft, as well as the engines that power such aircraft.

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 the Company's 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.

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

Dollars in thousands	Three Months Ended	
	December 31,	
	2014	2013
Net income (loss)	\$ (1,408	) \$ 947
Less: Income (loss) from discontinued operations, net of tax	(63	) (207
Income (loss) from continuing operations	(1,345	) 1,154
Adjustments:		
Depreciation and amortization expense	1,714	1,743
Interest expense, net	57	81
Income tax provision (benefit)	(560	) 436
EBITDA	(134	) 3,414
Adjustments:		
Foreign currency exchange (gain) loss, net (1)	(10	) 5
Other income, net (2)	(107	) (108
Loss (gain) on disposal of operating assets (3)	—	(2
Equity compensation expense (4)	529	238
Pension settlement expense (5)	—	75
Acquisition transaction-related expenses (6)	254	12
LIFO impact (7)	30	(82
Orange expansion (8)	143	—
Adjusted EBITDA	\$ 705	\$ 3,552

(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 the Company's 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 the equity-based compensation expense recognized by the Company under its 2007 Long-Term Incentive Plan.

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

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

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

(8) Represents cost related to expansion of one of the plant locations.

Three Months Ended December 31, 2014 compared with Three Months Ended December 31, 2013

Net Sales

Net sales for the first quarter of fiscal 2015 decreased 24.7% to \$20.1 million, compared to \$26.7 million in the comparable period of fiscal 2014. 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 components for power generation units; and (iv) other commercial applications. Net sales comparative information for the first quarter of fiscal 2015 and 2014 is as follows:

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(Dollars in millions)	Three Months Ended		Increase (Decrease)
	December 31, 2014	2013	
Net Sales			
Aerospace components for:			
Fixed wing aircraft	\$ 11.1	\$ 14.6	\$(3.5)
Rotorcraft	5.2	8.7	(3.5)
Energy components for power generation units	1.1	2.6	(1.5)
Commercial product and other revenue	2.7	0.8	1.9
Total	\$20.1	\$26.7	\$(6.6)

Overall, net sales for the Company decreased \$6.6 million in the first quarter of fiscal 2015 compared to the comparable period of fiscal 2014. The decrease in fixed wing aircraft and rotorcraft sales are primarily due from changes in build rates in programs such as V-22 and C130, which are driving the decline in volume compared to the comparable period. The Company's lower energy components sales were due to a major customer closing their facility. The Company's higher commercial products and other revenue sales were due to sales related to a new ordnance program.

Commercial net sales were 55.1% of total net sales and military net sales were 44.9% of total net sales in the first quarter of fiscal 2015, compared to 49.7% and 50.3%, respectively, in the comparable period in fiscal 2014. Military net sales decreased \$4.4 million to \$9.0 million in the first quarter of fiscal 2015, compared to \$13.4 million in the comparable period of fiscal 2014 primarily due to the changes in build rates to the programs mentioned above. Lower sales of the Company's energy components impacted commercial net sales for the first quarter fiscal 2015.

Cost of Goods Sold

Cost of goods sold decreased by \$4.0 million, or 19.0%, to \$17.1 million during the first quarter of fiscal 2015, compared to \$21.1 million in the comparable period of fiscal 2014, primarily due to decrease in sales volume, cost reduction efforts at the Company's plant locations and lower workers' compensation costs due to a change in the estimate process in the first quarter.

Gross Profit

Gross profit decreased \$2.6 million to \$3.0 million during the first quarter of fiscal 2015, compared to \$5.6 million in the comparable period of fiscal 2014. Gross margin was 14.9% during the first quarter of fiscal 2015, compared with 20.9% in the comparable period in fiscal 2014. The decrease in gross margin was primarily due to lower volume, product mix and higher costs associated with a new aerospace program in one of the Company's facilities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$4.4 million, or 22.1% of net sales, during the first quarter of fiscal 2015, compared to \$3.5 million, or 13.0% of net sales, in the comparable period of fiscal 2014. The increase in selling, general and administrative expenses is primarily due to increases in IT consultant costs as a result of the implementation of a new Enterprise Resource Planning ("ERP) system and legal and professional costs associated with the Company's Sarbanes-Oxley compliance, increased compensation and benefit costs due higher long-term incentive compensation.

Amortization of Intangibles

Amortization of intangibles was \$0.5 million during both the first quarter of fiscal 2015 and 2014.

Other/General

The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's debt agreement in the first quarter of both fiscal 2015 and 2014. The interest rate swap matured during the first quarter of fiscal 2015:

	Weighted Average Interest Rate Three Months Ended December 31,		Weighted Average Outstanding Balance Three Months Ended December 31,	
	2014	2013	2014	2013
Revolving credit agreement	1.0	% 1.0	% \$ 8.3 million	\$ 2.1 million

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Term note	2.5	% 2.9	% \$ 3.9 million	\$ 5.7 million
Promissory note	—	% 2.0	% \$ 0.0 million	\$ 1.6 million

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Other income, net, consists principally of \$0.1 million of rental income earned from the lease of the Company's Cork, Ireland facility for both first quarters of fiscal 2015 and 2014.

Income Taxes

The Company's effective tax rate in the first three months of fiscal 2015 was 29%, compared to 27% in the comparable period in fiscal 2014. The Company's effective tax rate differs from the U.S. federal statutory rate due primarily to (i) application of tax credits, (ii) other U.S. tax credits, and (iii) a domestic production activities deduction.

The effective tax rate includes the value of the research and development for the three months ending December 31, 2014 as the federal tax credit was extended through this period. The research and development credit has not formally been extended through September 30, 2015 and is not fully incorporated into the income tax provision.

(Loss)/Income from Continuing Operations

Loss from continuing operations, net of tax, was \$1.4 million, or 6.7% of net sales, during the first quarter of fiscal 2015, compared to income from continuing operations, net of tax of \$1.2 million, or 4.3% of net sales, in the comparable period of fiscal 2014.

Loss from Discontinued Operations

Loss from discontinued operations, net of tax, was \$0.1 million during the first quarter of fiscal 2015, compared to a loss from discontinued operations, net of tax, of \$0.2 million in the comparable period of fiscal 2014. This line item consists of losses from discontinued operations from the Repair Group.

The loss in fiscal 2015 and 2014 is due to certain minimal continued operating costs associated with the closure of the Repair Group in the first quarter of fiscal 2014. The Company anticipates finalizing the sale of the building and land in the second quarter of fiscal 2015.

Net (Loss)/Income

Net loss was \$1.4 million, or 7.0% of net sales, during the first quarter of fiscal 2015, compared to net income of \$0.9 million, or 3.6% of net sales, in the comparable period of fiscal 2014. Net income decreased primarily due to decreased net sales and higher selling, general and administrative expenses as noted above.

B. Liquidity and Capital Resources

Cash and cash equivalents were \$5.0 million at December 31, 2014 compared with \$4.6 million at September 30, 2014. At December 31, 2014, essentially all of the \$5.0 million of the Company's cash and cash equivalents were in the possession of its non-operating Irish subsidiary. Distributions from the Company's Irish subsidiary to the Company may be subject to adverse tax consequences.

The Company's operating activities of continuing operations used \$1.6 million of cash in the first quarter of fiscal 2015 compared with \$4.0 million of cash provided by operating activities of continuing operations in the first quarter of fiscal 2014. The cash used by operating activities of continuing operations in the first quarter of fiscal 2015 was primarily due to net loss of \$1.4 million and \$2.1 million from the impact of such non-cash items as depreciation and amortization expense and equity based compensation expense, which was partially offset by a \$2.2 million decrease in working capital. These changes were due to factors resulting from normal business conditions of the Company, including (i) supporting growth in the business, (ii) the relative timing of sales and collections from customers, and the relative timing of payments to suppliers.

Capital expenditures were \$3.5 million in the first quarter of fiscal 2015 compared with \$1.2 million in the comparable period of fiscal 2014. The increase is attributed to the Company's ERP installation and a large capital investment at the Cleveland plant which will reduce operating costs. In addition to the \$3.5 million expended during

the first quarter of fiscal 2015, \$0.1 million was committed as of December 31, 2014. The Company anticipates that total fiscal 2015 capital expenditures will be within the range of \$11.0 to \$12.0 million and will relate principally to the further enhancement of production and product offering capabilities, operating cost reductions and the implementation of a new ERP system.

In the fourth quarter of fiscal 2014, the Company declared a cash dividend of \$0.20 per common share, which resulted in a cash expenditure of \$1.1 million during the first quarter of fiscal 2015.

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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 \$30.0 million to \$40.0 million, of which \$10.0 million is a five (5) year term loan and \$30.0 million is a five year revolving loan, secured by substantially all of 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 \$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, which matured in the first quarter of fiscal 2015. 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. In November 2013, the Company repaid a non-interest bearing promissory note that was issued to the seller of one of the Company's plant locations known as Quality Aluminum Forgings, LLC. The Company was in compliance with all applicable loan covenants as of December 31, 2014. Future cash flows from the Company'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 operations from the combination of (i) the Company's expected cash flows from operations and (ii) funds available under its existing credit agreement.

As described more fully in Note 8 to the unaudited consolidated condensed financial statements, the Company exited the Repair Group business in December 2013. In December 2013, the Company received net cash proceeds of \$1.0 million from the sale of the Repair Group's machinery and equipment.

C. Critical Accounting Policies and Estimates

The Company's disclosures of critical accounting estimates in its Annual Report on Form 10-K for the year ended September 30, 2014 have not materially changed since that report was filed, with the exception of the following:

Workers' Compensation Reserve

In the first quarter of fiscal 2015, the Company switched third party administrators, who with the Company took a different view of the Company's estimate process. As a result of this change in estimate, the Company recorded a reduction to the workers' compensation reserve and a corresponding decrease in expense of approximately \$400. The change is reflected in the Company's results in the first quarter of fiscal 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Interest payable on the Company's term loan is at a variable rate based upon LIBOR. As of December 31, 2014, the Company had \$3.5 million outstanding on the term note. Interest payable under the Company's revolving credit facility is at a variable rate based upon the LIBOR rate plus a margin depending on a leverage ratio. As of December 31, 2014, the Company had \$13.5 million drawn on the revolving credit facility.

If interest rates were to increase or decrease 100 basis points (1%) from the December 31, 2014 rate, and assuming no change in the amount outstanding under the term note and the revolving credit facility, interest expense would result in a change of \$0.1 million per quarter.

Item 4. Controls and Procedures

As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's

disclosure controls and procedures include components of the Company's internal control over financial reporting. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design

and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of December 31, 2014 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were not effective, as a result of the continuing existence of the material weakness in the Company's internal controls over financial reporting described in Item 9A of the Company's Annual Report. The Company identified material weaknesses in internal controls in the following areas: segregation of duties within the information technology environment at one facility; and the precision and sufficiency of reviews performed on reconciliations and calculations around inventory related items.

During the quarter ended December 31, 2014, the Company completed the implementation of a new enterprise software system at one of the Company's locations. Where appropriate, the Company made changes to the affected internal controls and are in the process of testing their operating effectiveness.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

The Company is in the process of designing and implementing improved controls to remediate the material weaknesses that continued to exist as of December 31, 2014, set forth above.

With respect to segregation of duties, management is actively investigating other information technology tools and additional detective and monitoring controls to either eliminate or mitigate potential segregation of duties concerns due to the uncertainty around the timing of the ERP implementation at the facility with the segregation of duties issue. With respect to the precision of reviews, management is in the process of designing procedures to enhance the precision of reviews and has added controls to validate the accuracy of reconciliations related to inventory.

Certain of the changes described above were in process as of December 31, 2014, but had not yet been completed, documented or tested. The Company expects that the remediation of the material weaknesses described in this Item 4 will be completed in fiscal 2015.

Changes in Internal Control over Financial Reporting and other Remediation

Except as described in Item 4, there have been no changes in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Part II. Other Information

Items 1A, 3, 4 and 5 are not applicable or the answer to such items is negative; therefore, the items have been omitted and no reference is required in this Quarterly Report.

Item 1. 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.

Item 6.(a) Exhibits

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

Exhibit No.	Description
3.1	Third Amended Articles of Incorporation of SIFCO Industries, Inc., filed as Exhibit 3(a) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference
3.2	SIFCO Industries, Inc. Amended and Restated Code of Regulations dated January 28, 2014, filed as Exhibit 3.2 of the Company's Form 10-Q dated March 31, 2014 and incorporated herein by reference

- 4.1 Credit and Security Agreement among Fifth Third Bank and SIFCO Industries, Inc. (and subsidiaries) dated December 10, 2010, filed as Exhibit 4.23 to the Company's Form 8-K dated December 10, 2010 and incorporated herein by reference

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Exhibit No.	Description
4.2	First Amendment and Joinder to Credit and Security Agreement among Fifth Third Bank and SIFCO Industries, Inc. (and subsidiaries) dated October 28, 2011, filed as Exhibit 4.2 to the Company's Form 8-K dated October 28, 2011 and incorporated herein by reference
4.3	Second Amendment and Joinder to Credit and Security Agreement among Fifth Third Bank and SIFCO Industries, Inc. (and subsidiaries) dated July 23, 2013, filed as Exhibit 4.3 to the Company's Form 8-K dated July 23, 2013 and incorporated herein by reference
4.4	Third Amendment and Joinder to Credit and Security Agreement among Fifth Third Bank and SIFCO Industries, Inc. (and subsidiaries) dated September 25, 2014, filed as Exhibit 99.1 to the Company's Form 8-K dated September 29, 2014 and incorporated herein by reference
9.1	Voting Trust Agreement dated January 31, 2013, filed as Exhibit 9.1 to the Company's Form 10-Q dated December 31, 2012 and incorporated herein by reference
*9.2	Voting Trust Extension Agreement dated January 15, 2015
10.1	SIFCO Industries, Inc. 1995 Stock Option Plan, filed as Exhibit 10(d) of the Company's Form 10-Q dated March 31, 2002, and incorporated herein by reference
10.2	SIFCO Industries, Inc. 2007 Long-Term Incentive Plan, filed as Exhibit A of the Company's Proxy and Notice of 2008 Annual Meeting to Shareholders dated December 14, 2007, and incorporated herein by reference
10.3	Letter Agreement between the Company and Jeffrey P. Gotschall, dated August 12, 2009 filed as Exhibit 10.1 of the Company's Form 8-K dated August 12, 2009 and incorporated herein
10.4	Amended and Restated Change in Control and Severance Agreement, between James P. Woidke and SIFCO Industries, Inc., dated April 27, 2010 filed as Exhibit 10.15 of the Company's Form 8-K dated April 30, 2010, and incorporated herein by reference
10.5	Asset Purchase Agreement between T&W Forge, Inc and TWF Acquisition, LLC (a wholly-owned subsidiary of SIFCO Industries Inc.) dated December 10, 2010 filed as Exhibit 10.14 to the Company's Form 8-K dated December 10, 2010, and incorporated herein by reference
10.6	Amendment No. 1 to the SIFCO Industries, Inc. 2007 Long-Term Incentive Plan, filed as Exhibit A of the Company's Proxy and Notice of 2011 Annual Meeting to Shareholders dated December 15, 2010, and incorporated herein by reference
10.7	Asset Purchase Agreement between GEL Industries, Inc (DBA Quality Aluminum Forge) and Forge Acquisition, LLC (a wholly-owned subsidiary of SIFCO Industries Inc.) dated October 28, 2011, filed as Exhibit 10.16 to the Company's Form 8-K dated October 28, 2011, and incorporated herein by reference
10.8	Change in Control Agreement between the Company and Catherine M. Kramer, dated November 1, 2013, filed as Exhibit 10.1 to the Company's Form 8-K dated November 1, 2013, and incorporated herein by reference
14.1	Code of Ethics, filed as Exhibit 14.1 of the Company's Form 10-K dated September 30, 2003, and incorporated herein by reference
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) / 15d-14(a)
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) / 15d-14(a)
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
*101	The following financial information from SIFCO Industries, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 filed with the SEC on February 3, 2015, formatted in XBRL includes: (i) Consolidated Condensed Statements of Operations for the fiscal periods ended December 31, 2014 and 2013, (ii) Consolidated Condensed Statements of Comprehensive Income for the fiscal periods ended December 31, 2014 and 2013, (iii) Consolidated Condensed Balance Sheets at December 31, 2014 and September 30, 2014, (iv) Consolidated Condensed Statements of Cash Flow for the fiscal periods ended December 31, 2014 and 2013, and (iv) the Notes to the Consolidated Condensed Financial Statements.

SIGNATURES

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

SIFCO Industries, Inc.
(Registrant)

Date: February 3, 2015

/s/ Michael S. Lipscomb
Michael S. Lipscomb
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 3, 2015

/s/ Catherine M. Kramer
Catherine M. Kramer
Vice President-Finance and
Chief Financial Officer
(Principal Financial Officer)