SIFCO INDUSTRIES INC
Form 10-Q/A
April 06, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
AMENDMENT NO. 1

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

For the quarterly period ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-5978

SIFCO Industries, Inc.

(Exact name of registrant as specified in its charter)

Ohio	34-0553950
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
970 East 64th Street, Cleveland Ohio	44103
(Address of principal executive offices)	(Zip Code)

(216) 881-8600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities and 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

Yes o No þ

The number of the Registrant s Common Shares outstanding at January 31, 2006 was 5,205,391.

Table of Contents

Explanatory Note

Subsequent to the issuance of the Company s unaudited consolidated condensed financial statements for the quarter ended December 31, 2005, the Company identified a clerical error in the calculation of its December 31, 2005 inventory valuation that resulted in a net understatement of inventory of approximately $403,000. This resulted in an overstatement of Cost of Goods Sold and a corresponding understatement of Income Before Income Tax Provision of approximately $403,000 for the quarter ended December 31, 2005. In addition, the Company identified a clerical error in the calculation of its employee benefit expense for the quarter ended December 31, 2005. This resulted in an understatement of Cost of Goods Sold and a corresponding overstatement of Income Before Income Tax Provision of approximately $45,000.

TABLE OF CONTENTS

Part I. Financial Information
Item 1. Financial Statements
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 4. Controls And Procedures
Part II Other Information
Item 1. Legal Proceedings
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Item 3. Defaults Upon Senior Securities
Item 4. Submission of Matters to a Vote of Security Holders
Item 5. Other Information
Item 6. Exhibits
SIGNATURES
EX-31.1 Certification
EX-31.2 Certification
EX-32.1 Certification
EX-32.2 Certification

Table of Contents

Part I. Financial Information
Item 1. Financial Statements

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

	Three Months Ended December 31,	
	2005 (restated)	**2004**
Net sales	**$ 19,820**	$ 19,081
Operating expenses:		
Cost of goods sold	**18,011**	18,321
Selling, general and administrative expenses	**3,270**	3,102
Total operating expenses	**21,281**	21,423
Operating loss	**(1,461)**	(2,342)
Interest income	**(8)**	(36)
Interest expense	**41**	230
Foreign currency exchange loss (gain), net	**(24)**	301
Other income, net	**(17)**	(6,510)
Income (loss) before income tax provision	**(1,453)**	3,673
Income tax provision	**13**	1,315
Net income (loss)	**$ (1,466)**	$ 2,358
Net income (loss) per share (basic)	**$ (0.28)**	$ 0.45
Net income (loss) per share (diluted)	**$ (0.28)**	$ 0.45
Weighted-average number of common shares (basic)	**5,222**	5,214
Weighted-average number of common shares (diluted)	**5,222**	5,223

See notes to unaudited consolidated condensed financial statements.

Table of Contents

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

	December 31, 2005 (unaudited) (restated)	September 30, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 251**	$ 884
Receivables, net	**14,721**	17,661
Inventories	**10,613**	8,746
Refundable income taxes	**183**	171
Prepaid expenses and other current assets	**759**	627
Total current assets	**26,527**	28,089
Property, plant and equipment, net	**18,289**	18,744
Other assets	**2,959**	2,690
Total assets	**$ 47,775**	$ 49,523
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	**$ 441**	$ 1,915
Accounts payable	**9,830**	9,288
Accrued liabilities	**7,303**	7,267
Total current liabilities	**17,574**	18,470
Long-term debt, net of current maturities	**701**	10
Other long-term liabilities	**8,632**	8,645
Shareholders equity:		
Serial preferred shares, no par value, authorized 1,000 shares		
Common shares, par value $1 per share, authorized 10,000 shares; issued 5,224 and 5,228 shares at December 31, 2005 and September 30, 2005, respectively; outstanding 5,222 shares at December 31, 2005 and September 30, 2005	**5,224**	5,228
Additional paid-in capital	**6,278**	6,282
Retained earnings	**20,674**	22,140

Accumulated other comprehensive loss		**(11,249)**		(11,149)
Unearned compensation restricted common shares		**(43)**		(60)
Common shares held in treasury at cost, 2 and 6 shares at December 31, 2005 and September 30, 2005, respectively		**(16)**		(43)
Total shareholders equity		**20,868**		22,398
Total liabilities and shareholders equity	**$**	**47,775**	$	49,523

See notes to unaudited consolidated condensed financial statements.

Table of Contents

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

	Three Months Ended December 31,	
	2005 (restated)	**2004**
Cash flows from operating activities:		
Net income (loss)	**$ (1,466)**	$ 2,358
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	**811**	828
Gain on disposal of property, plant and equipment		(6,328)
Deferred income taxes		575
Share transactions under employee stock plan	**36**	21
Asset impairment charges		21
Changes in operating assets and liabilities:		
Receivables	**3,036**	2,892
Inventories	**(1,788)**	(901)
Refundable income taxes	**(4)**	
Prepaid expenses and other current assets	**(119)**	(384)
Other assets	**65**	(20)
Accounts payable	**500**	(22)
Accrued liabilities	**(180)**	(78)
Other long-term liabilities	**(13)**	334
Net cash provided by (used for) operating activities	**878**	(704)
Cash flows from investing activities**:**		
Capital expenditures	**(214)**	(470)
Proceeds from disposal of property, plant and equipment		10,581
Acquisition of business, net of cash acquired	**(427)**	
Other	**(25)**	167
Net cash provided by (used for) investing activities	**(666)**	10,278
Cash flows from financing activities:		
Proceeds from debt purchase agreement	**5,600**	
Repayment of debt purchase agreement	**(7,136)**	
Proceeds from revolving credit agreement	**1,482**	9,033
Repayments of revolving credit agreement	**(791)**	(12,140)
Repayments of long-term debt		(7,245)

Net cash used for financing activities	**(845)**	(10,352)
Decrease in cash and cash equivalents	**(633)**	(778)
Cash and cash equivalents at the beginning of the period	**884**	5,578
Cash and cash equivalents at the end of the period	**$ 251**	$ 4,800
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ (49)**	$ (271)
Cash paid for income taxes, net	**(531)**	(405)

See notes to unaudited consolidated condensed financial statements.

Table of Contents

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

1. Summary of Significant Accounting Policies

A. Principles of Consolidation

The unaudited consolidated condensed financial statements included herein include the accounts of SIFCO Industries, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments, which include only normal recurring adjustments necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented, have been included. 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 2005 Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year. Certain prior period amounts have been reclassified in order to conform to current period classifications.

B. Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Accounting for Stock-Based Compensation . This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No 123 (revised 2004) requires all equity instrument-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

On October 1, 2005, the Company adopted SFAS No. 123 (revised 2004) using the modified prospective method, as permitted under SFAS 123 (revised 2004). Accordingly, prior period results have not been restated. Under this method, the Company is required to record compensation expense for all equity instrument-based awards granted after the date of adoption and for the unvested portion of previously granted equity instrument-based awards that remain outstanding at the date of adoption. Total compensation expense recognized for the three months ended December 31, 2005 was $19. No tax benefit was recognized for this compensation expense.

Prior to the adoption of SFAS No. 123 (revised 2004) the Company employed the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). The following pro forma information regarding net income and earnings per share was determined as if the Company had accounted for its stock options under the fair value method prescribed by SFAS No. 123. For purposes of pro forma disclosure, the estimated fair value of the stock options is amortized over the options vesting periods. The pro forma information is as follows:

	Three Months Ended December 31, 2004
Net income as reported	$ 2,358
Less: Stock-based compensation expense determined under fair value based method for all awards, net of related income tax effects	15
Pro forma net income as if the fair value based method had been applied to all awards	$ 2,343

Net income per share:		
Basic as reported	$	0.45
Basic pro forma	$	0.45
Diluted as reported	$	0.45
Diluted pro forma	$	0.45

Table of Contents

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. Option exercise price is not less than fair market value on date of grant and options are exercisable no later than ten years from date of grant. Options issued under all plans generally vest at a rate of 25% per year.
Aggregate option activity is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
September 30, 2005	278,000	$ 6.40		
Options granted				
Options exercised				
Options canceled	(5,000)	$ 5.16		
December 31, 2005	273,000	$ 6.42	6.1	$ (690)
Vested or expected to vest at December 31, 2005	228,250	$ 6.95	5.5	$ (697)
Exercisable at December 31, 2005	177,625	$ 7.79	4.6	$ (691)

As of December 31, 2005, there was $115 of total unrecognized compensation cost related to the unvested stock options granted under the Company s stock option plans. That cost is expected to be recognized over a weighted average period of 1.5 years.
The Company used the Black-Scholes option-pricing model as its method of valuation of stock options issued. This fair value is then amortized on a straight-line basis over the vesting periods of the awards, which is generally four years. The Black-Scholes option-pricing model was also previously used for the Company s pro forma information required under SFAS No. 123 for periods prior to fiscal 2006. The fair value of options on the date of grant as determined by the Black-Scholes option-pricing model is affected by the Company s stock price as well as other assumptions. These assumptions include, but are not limited to, the expected stock price volatility over the term of the option and actual and projected employee stock option exercise behaviors.
Under the Company s restricted stock program, Common Shares of the Company may be granted at no cost to certain officers and key employees. These shares vest over either a four or five-year period, with either 25% or 20% vesting each year, respectively. Under the terms of the program, participants will not be entitled to dividends nor voting rights until the shares have vested. Upon issuance of Common Shares under the program, unearned compensation equivalent to the market value of the Common Shares at the date of award is charged to shareholders equity and subsequently amortized to expense over the vesting periods. Compensation expense related to amortization of unearned compensation was $17 and $22 in the three months ended December 31, 2005 and 2004, respectively. At December 31, 2005, there was $43 of total unrecognized compensation expense related to restricted stock awards. This compensation expense is expected to be recognized over a weighted-average period of less than one year.

2. Acquisition

On October 12, 2005, the Company s Applied Surface Concepts Group acquired the stock of Selmet Norden AB of Rattvik, Sweden, a supplier of contract manufacturing services for selective plating that serves the industrial community in Scandinavia. The acquisition was accounted for as a purchase, with the results of operations included in the consolidated financial statements beginning with the acquisition date. The purchase price, net of cash acquired,

was $427. The preliminary purchase price allocation resulted in current assets of $198 , property, plant and equipment of $437, other assets of $47, and current liabilities of $255. Pro forma financial information is not presented as the effect of the acquisition is not material to the Company s financial position or results of operations.

Table of Contents

3. Inventories

Inventories consist of:

	December 31, 2005	September 30, 2005
Raw materials and supplies	**$ 4,152**	$ 3,437
Work-in-process	**3,519**	2,793
Finished goods	**2,942**	2,516
Total inventories	**$ 10,613**	$ 8,746

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for 63% of the Company s inventories at December 31, 2005 and 60% at September 30, 2005. Cost is determined using the specific identification method for approximately 15% and 18% of the Company s inventories at December 31, 2005 and September 30, 2005, 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 $4,493 and $4,122 higher than reported at December 31, 2005 and September 30, 2005, respectively.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing . SFAS No. 151 was issued to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges... This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal . In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The adoption of this statement in the first quarter of fiscal year 2006 did not have a material impact on the Company s financial position or results of operations.

4. Comprehensive Income (Loss) and Accumulated Other Comprehensive Loss

Total comprehensive income (loss) is as follows:

	Three Months Ended December 31,	
	2005	2004
Net income (loss)	**$ (1,466)**	$ 2,358
Foreign currency translation adjustment	**(33)**	184
Currency exchange contract adjustment	**(67)**	125
Minimum pension liability adjustment		1,356
Total comprehensive loss	**$ (1,566)**	$ 4,023

The components of accumulated other comprehensive loss are as follows:

	December 31, 2005	September 30, 2005

Foreign currency translation adjustment	**$**	**(6,751)**	$	(6,718)
Currency exchange contract adjustment		**(355)**		(288)
Minimum pension liability adjustment		**(4,143)**		(4,143)
Total accumulated other comprehensive loss	**$**	**(11,249)**	$	(11,149)

Table of Contents

5. Long-Term Debt

In February 2006, the Company entered into an agreement with its U.S. bank to waive and/or amend certain provisions of its revolving credit agreement. The amendment (i) waives the minimum tangible net worth and the minimum EBITDA levels as of December 31, 2005, (ii) amends the minimum tangible net worth and the minimum EBITDA levels for future periods, (iii) removes a $3,000 reserve against the $6,000 total revolving credit agreement amount, and (iv) extends the maturity date of the credit agreement to March 31, 2007. Taking into consideration the impact of this amendment, the Company was in compliance with all applicable covenants as of December 31, 2005.

6. Business Segments

The Company identifies reportable segments based upon distinct products manufactured and services provided. The Turbine Component Services and Repair Group (Repair Group) consists primarily of the repair and remanufacture of aerospace and industrial turbine engine components. The Repair Group is also involved in precision component machining for aerospace applications. The Aerospace Component Manufacturing Group consists of the production, heat treatment and some machining of forgings in various alloys utilizing a variety of processes for application in the aerospace industry. The Applied Surface Concepts Group is a provider of specialized selective electrochemical metal finishing processes and services used to apply metal coatings to a selective area of a component. The Company s reportable segments are separately managed.

Segment information is as follows:

	Three Months Ended December 31,	
	2005	**2004**
Net sales:		
Turbine Component Services and Repair Group	**$ 8,916**	$ 8,812
Aerospace Component Manufacturing Group	**8,196**	7,413
Applied Surface Concepts Group	**2,708**	2,856
Consolidated net sales	**$ 19,820**	$ 19,081
Operating income (loss):		
Turbine Component Services and Repair Group	**$ (950)**	$ (1,846)
Aerospace Component Manufacturing Group	**92**	(214)
Applied Surface Concepts Group	**(66)**	19
Corporate unallocated expenses	**(537)**	(301)
Consolidated operating loss	**(1,461)**	(2,342)
Interest expense, net	**33**	194
Foreign currency exchange loss (gain), net	**(24)**	301
Other income, net	**(17)**	(6,510)
Consolidated income (loss) before income tax provision	**$ (1,453)**	$ 3,673

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 December 31,	
	2005	**2004**
Service cost	**$ 230**	$ 178
Interest cost	**365**	361
Expected return on plan assets	**(392)**	(423)
Amortization of transition asset		(3)
Amortization of prior service cost	**33**	33
Amortization of net loss	**76**	26
Net periodic benefit cost	**$ 312**	$ 172

Table of Contents

Through December 31, 2005, the Company has made $364 of contributions to its defined benefit pension plans. The Company anticipates contributing an additional $785 to fund its defined benefit pension plans during the balance of fiscal 2006, resulting in total projected contributions of $1,149 in fiscal 2006.

8. Restatement

Subsequent to the issuance of the Company s unaudited consolidated condensed financial statements for the quarter ended December 31, 2005, the Company identified a clerical error in the calculation of its December 31, 2005 inventory valuation that resulted in a net understatement of inventory of approximately $403,000. In addition, the Company identified a clerical error in the calculation of its employee benefit expense for the quarter ended December 31, 2005, resulting in the understatement of employee benefit expense of approximately $45,000.

A summary of the effects of this restatement is as follows:

Statement of Operations Data:

	Three Months Ended December 31, 2005	
	As Previously Reported	As Restated
Cost of goods sold	$ 18,369	$ 18,011
Total operating expenses	21,639	21,281
Operating loss	(1,819)	(1,461)
Loss before income tax provision	(1,811)	(1,453)
Net loss	(1,824)	(1,466)
Net loss per share (basic)	(0.35)	(0.28)
Net loss per share (diluted)	(0.35)	(0.28)

Balance Sheet Data:

	December 31, 2005	
	As Previously Reported	As Restated
Inventories	$ 10,210	$ 10,613
Total current assets	26,124	26,527
Total assets	47,372	47,775
Accrued liabilities	7,258	7,303
Total current liabilities	17,529	17,574
Retained earnings	20,316	20,674
Total shareholders equity	20,510	20,868
Total liabilities and shareholders equity	47,372	47,775

Statement of Cash Flows data:

	Three Months Ended December 31, 2005	
	As Previously Reported	As Restated
Net loss	$ (1,824)	$ (1,466)
Changes in operating assets and liabilities:		

Inventories	(1,385)	(1,788)
Accrued liabilities	(225)	(180)

Table of Contents

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) future business environment, including capital and consumer spending; (2) competitive factors, including the ability to replace business which may be lost due to increased direct involvement by the turbine engine manufacturers in turbine component service and repair markets; (3) successful procurement of certain repair materials and new repair process licenses from turbine engine manufacturers and/or the Federal Aviation Administration; (4) fluctuating foreign currency (primarily the euro) exchange rates; (5) metals and commodities price increases and the Company s ability to recover such price increases; (6) successful development and market introductions of new products, including an advanced coating technology and the continued development of industrial turbine repair processes; (7) regressive pricing pressures on the Company s products and services, with productivity improvements as the primary means to maintain margins; (8) success with the further development of strategic alliances with certain turbine engine manufacturers for turbine component repair services; (9) the impact on business conditions, and on the aerospace industry in particular, of global terrorism threat; (10) successful replacement of declining demand for repair services for turboprop engine components with component repair services for small turbofan engines utilized in the business and regional aircraft markets; (11) continued reliance on several major customers for revenues; (12) the Company s ability to continue to have access to its revolving credit facility, including the Company s ability to (i) continue to comply with the terms of its credit agreements, including financial covenants, (ii) continue to enter into amendments to its credit agreement containing financial covenants, which it and its bank lender find mutually acceptable, or (iii) continue to obtain waivers from its bank lender with respect to its compliance with the covenants contained in its credit agreement; (13) the impact of changes in defined benefit pension plan actuarial assumptions on future contributions; and (14) stable governments, business conditions, laws, regulations and taxes in economies where business is conducted.

SIFCO Industries, Inc. and its subsidiaries engage in the production and sale of a variety of metalworking processes, services and products produced primarily to the specific design requirements of its customers. The processes and services include forging, heat-treating, coating, welding, machining and selective electrochemical metal finishing. The products include forgings, machined forged parts and other machined metal parts, remanufactured component parts for turbine engines, and selective electrochemical metal finishing solutions and equipment.

A. Results of Operations

Three Months Ended December 31, 2005 Compared with Three Months Ended December 31, 2004

Net sales in the first quarter of fiscal 2006 increased 3.9% to $19.8 million, compared with $19.1 million in the comparable period in fiscal 2005. Net loss in the first quarter of fiscal 2006 was $1.5 million, compared with net income of $2.4 million in the comparable period in fiscal 2005.

Turbine Component Services and Repair Group (Repair Group)

Net sales in the first quarter of fiscal 2006 increased 1.2% to $8.9 million, compared with $8.8 million in the comparable fiscal 2005 period. Component manufacturing and repair net sales increased $0.8 million to $8.4 million in the first quarter of fiscal 2006, compared with $7.6 million in the comparable fiscal 2005 period. Demand for precision component machining and for component repairs for large and small aerospace turbine engines increased in the first quarter of fiscal 2006, compared with the comparable fiscal 2005 period. The demand for component repairs for industrial turbine engines was comparable in the first quarters of fiscal 2006 and 2005. Net sales associated with the demand for replacement parts, which often complement component repair services provided to customers, decreased $0.6 million to $0.6 million in the first quarter of fiscal 2006, compared with $1.2 million in the comparable fiscal 2005 period.

During the first quarter of fiscal 2006, the Repair Group s selling, general and administrative expenses decreased $0.2 million to $1.0 million, or 11.1% of net sales, from $1.2 million, or 13.3% of net sales in the comparable fiscal 2005 period. Included in the $1.2 million of selling, general and administrative expenses in the first quarter of fiscal 2005 were $0.1 million related to severance charges. The remaining selling, general and administrative expenses in the first quarter of fiscal 2005 were $1.1 million, or 11.8% of net sales.

Table of Contents

The Repair Group s operating loss was $0.9 million in the first quarter of fiscal 2006 compared with a $1.8 million loss in the comparable fiscal 2005 period. Operating results improved in the first quarter of fiscal 2006 principally due to (i) improved margins on sales of replacement parts and (ii) the positive impact on margins of increased sales volumes for component manufacturing and repair services. The improved margins on sales of replacement parts were principally attributable to certain replacement part sales consisting of inventory that had been previously written down.

During the last half of fiscal 2005 and continuing into the first quarter of fiscal 2006, the U.S. dollar strengthened against the euro. The Repair Group s non-U.S. operation has most of its sales denominated in U.S. dollars while a significant portion of its operating costs are denominated in euros. Therefore, as the U.S. dollar strengthens against the euro, costs denominated in euros are positively impacted and vice versa. However, during the first quarter of fiscal 2006, The Repair Group hedged its exposure to the euro at exchange rates that were less favorable than the exchange rates used to hedge the same exposure in the first quarter of fiscal 2005 and, therefore, the Repair Group s operating results were not significantly impacted by a stronger U.S. dollar during the first quarter of fiscal 2006 compared to the first quarter of fiscal 2005.

The Repair Group s backlog as of December 31, 2005, was $5.2 million, compared with $4.8 million as of September 30, 2005. At December 31, 2005, $3.3 million of the total backlog is scheduled for delivery over the next twelve months and $1.9 million was on hold. All orders are subject to modification or cancellation by the customer with limited charges. The Repair Group believes that the backlog may not be indicative of actual sales for any succeeding period

Aerospace Component Manufacturing Group (ACM Group)

Net sales in the first quarter of fiscal 2006 increased 10.6% to $8.2 million, compared with $7.4 million in the comparable period of fiscal 2005. For purposes of the following discussion, the ACM Group considers aircraft that can accommodate less than 100 passengers to be small aircraft and those that can accommodate 100 or more passengers to be large aircraft. Net sales of airframe components for small aircraft were $3.4 million in the first quarter of fiscal 2006, compared with $3.5 million in the first quarter of fiscal 2005. Net sales of turbine engine components for small aircraft, which consist primarily of business aircraft and regional commercial jets, as well as military transport and surveillance aircraft, decreased $0.1 million to $2.7 million in the first quarter of fiscal 2006, compared with $2.8 million in the comparable period in fiscal 2005. Net sales of airframe components for large aircraft increased $0.2 million to $0.7 million in the first quarter of fiscal 2006, compared with $0.5 million in the comparable period in fiscal 2005. Net sales of turbine engine components for large aircraft increased $0.3 million to $0.6 million in the first quarter of fiscal 2006, compared with $0.3 million in the comparable period in fiscal 2005. Other product and non-product sales were $0.8 million and $0.3 million in the first quarters of fiscal 2006 and 2005, respectively.

The ACM Group s airframe and turbine engine component products have both military and commercial applications. Net sales of airframe and turbine engine components that solely have military applications were $2.7 million in the first quarter of fiscal 2006, compared with $3.2 million in the comparable period in fiscal 2005.

During the first quarter of fiscal 2006, the ACM Group s selling, general and administrative expenses increased $0.1 million to $0.6 million, or 7.8% of net sales, compared with $0.5 million, or 7.2% of net sales, in the comparable fiscal 2005 period.

The ACM Group s operating income in the first quarter of fiscal 2006 was $0.1 million, compared with a loss of $0.2 million in the same period in fiscal 2005. Operating results were favorably impacted by higher net sales volumes in the first quarter of fiscal 2006 compared with the same period in fiscal 2005 offset in part by (i) an increase in raw material prices, (ii) lower sales of scrap material; (iii) an increase in spending on energy and other operating costs; and (iii) an increase in expenditures for tooling.

The ACM Group s backlog as of December 31, 2005 was $55.0 million, compared with $46.5 million as of September 30, 2005. At December 31, 2005, $44.2 million of the total backlog was scheduled for delivery over the next twelve months and $10.8 million was scheduled for delivery beyond the next twelve months. All orders are subject to modification or cancellation by the customer with limited charges. The ACM Group believes that the backlog may not be indicative of actual sales for any succeeding period.

Applied Surface Concepts Group (ASC Group)

Net sales of the ASC Group decreased 5.2% to $2.7 million in the first quarter of fiscal 2006, compared with net sales of $2.9 million in the comparable period of fiscal 2005. In the first quarter of fiscal 2006, product net sales, consisting of selective electrochemical finishing equipment and solutions, increased 11.9% to $1.5 million, compared with $1.4 million in the same

Table of Contents

period in fiscal 2005. In the first quarter of fiscal 2006, customized selective electrochemical finishing contract service net sales decreased 20.4% to $1.2 million, compared with $1.5 million in the same period in fiscal 2005. In the first quarter of fiscal 2006, net sales decreased to customers in the automotive industry, the power generation industry and the military compared with the same period in fiscal 2005. These net sales decreases were partially offset in the first quarter of fiscal 2006 by a net sales increase to the aerospace industry, compared with the same period in fiscal 2005.
During the first quarter of fiscal 2006, The ASC Group s selling, general and administrative expenses increased $0.1 million to $1.1 million, or 40.5% of net sales, compared with $1.0 million, or 35.6% of net sales, in the first quarter of fiscal 2005.
The ASC Group s operating loss in the first quarter of fiscal 2006 was $0.1 million, compared with breakeven results in the same period in fiscal 2005.
The Applied Surface Concepts Group essentially had no backlog at December 31, 2005.

Corporate Unallocated Expenses

Corporate unallocated expenses, consisting of corporate salaries and benefits, legal and professional and other corporate expenses, increased $0.2 million to $0.5 million in the first quarter of fiscal 2006 compared with $0.3 million in the first quarter of fiscal 2005. The increase is principally attributable to an increase in legal and professional expenses.

Other/General

Interest expense was nominal in the first quarter of fiscal 2006, compared with $0.2 million in the first quarter of fiscal 2005. The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company s credit agreements in the first quarter of fiscal years 2006 and 2005.

	Weighted Average Interest Rate Three Months Ended December 31,		**Weighted Average Outstanding Balance Three Months Ended December 31,**	
Credit Agreement	**2005**	**2004**	**2005**	**2004**
Industrial development variable rate demand revenue bond (1)	N/A	1.8%	N/A	$2.7 million
Term note (1)	N/A	7.7%	N/A	$4.3 million
Revolving credit agreement	7.8%	5.4%	$0.1 million	$3.0 million
Debt Purchase agreement (2)	4.2%	N/A	$1.3 million	N/A

(1) The industrial development variable rate demand revenue bond and the term note were paid off during the first quarter of fiscal 2005.

(2) The debt purchase agreement was entered into on September 29, 2005.

Currency exchange gain was nominal in the first quarter of fiscal 2006 compared with a loss of $0.3 million in the first quarter of fiscal 2005. This gain or loss is the result of the impact of currency exchange rate fluctuations on the Company s monetary assets and liabilities that are not denominated in U.S. dollars. During the first quarter of fiscal 2006, the U.S. dollar strengthened in relation to the euro.

Other income in the first quarter of fiscal 2005 includes a $6.3 gain on the sale of two buildings and land that were part of the Repair Group s operations.

Income Tax Provision

In the first quarters of fiscal 2006 and 2005 the income tax benefit related to the Company s U.S. and non-U.S. subsidiary losses was offset by a valuation allowance based upon an assessment of the Company s ability to realize such benefits. In assessing the Company s ability to realize its deferred tax assets, management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Future reversal of the valuation allowance will be achieved either when the tax benefit is realized or when it has been determined that it is more likely than not that the benefit will be realized through future taxable income. The Company recorded a U.S. income tax

Table of Contents

provision in first quarter of fiscal 2005 under the American Jobs Creation Act of 2004 for a dividend it received from its non-U.S. subsidiaries. The Company also recorded a non-U.S. income tax provision in the first quarter of fiscal 2005 related to the gain on the sale of certain non-U.S. assets.

B. Liquidity and Capital Resources

Cash and cash equivalents decreased to $0.3 million at December 31, 2005 from $0.9 million at September 30, 2005. The Company s operating activities provided cash of $0.9 million in the first quarter of fiscal 2006, compared with $0.7 million of cash used in the first quarter of fiscal 2005. The $0.9 million of cash provided by operating activities in first quarter of fiscal 2006 is primarily due to (i) an increase in accounts payable of $0.5 million and a decrease in accounts receivable of $3.0 million partially offset by (ii) an operating loss of $1.5 million and an increase in inventories of $1.8 million. The change in these components of working capital was due to factors resulting from normal business conditions of the Company, including sales levels, collections from customers, the relative timing of payments to suppliers, and inventory levels required to support customer demand in general and, in particular, the increase in prices and significant extension of aerospace grade alloy lead times currently experienced by the ACM Group.

Capital expenditures were $0.2 million in the first quarter of fiscal 2006, compared with $0.5 million in the first quarter of fiscal 2005. Fiscal 2006 capital expenditures consist of $0.1 million by the ACM Group and $0.1 million by the ASC Group. During the first quarter of fiscal 2006, the ASC Group also invested $0.4 million to acquire a related business. The Company anticipates that total fiscal 2006 capital expenditures will approximate $2.0 million.

At December 31, 2005, the Company has a $6.0 million revolving credit agreement with a U.S. bank, subject to sufficiency of collateral, which expires on December 31, 2006 and bears interest at the U.S. bank s base rate plus 0.50%. The interest rate was 7.75% at December 31, 2005. A 0.375% commitment fee is incurred on the unused balance of the revolving credit agreement. At December 31, 2005, $0.7 million was outstanding and the Company had $2.3 million available under its $6.0 million revolving credit agreement. The Company s revolving credit agreement is secured by substantially all of the Company s assets located in the U.S., a guarantee by its U.S. subsidiaries and a pledge of 65% of the Company s ownership interest in its non-U.S. subsidiaries.

Under its revolving credit agreement with the U.S. bank, the Company is subject to certain customary covenants. These include, without limitation, covenants (as defined) that require maintenance of certain specified financial ratios, including a minimum tangible net worth level and a minimum EBITDA level. In February 2006, the Company entered into an agreement with its U.S. bank to waive and/or amend certain provisions of its revolving credit agreement. The amendment (i) waives the minimum tangible net worth and minimum EBITDA levels as of December 31, 2005; (ii) amends the minimum tangible net worth and minimum EBITDA levels for future periods; (iii) removes a $3.0 million reserve against the $6.0 million total revolving credit agreement amount, and (iv) extends the maturity date of the revolving credit agreement to March 31, 2007. Taking into consideration the impact of this agreement, the Company was in compliance with all applicable covenants at December 31, 2005.

At December 31, 2005, the Company s Irish subsidiary, has a debt purchase agreement and certain related agreements with an Irish bank. The debt purchase agreement expires on September 26, 2006 and covers eligible accounts receivable of the Company s Irish subsidiary, as defined. The maximum amount of this facility is approximately $3.6 million and the facility s discounting rate is (i) the Irish bank s prime rate plus 2% (4.84% at December 31, 2005) on euro denominated accounts receivable; (ii) the Irish bank s cost of funds plus 2.5% (3.55% at December 31, 2005) on U.S. dollar denominated accounts receivable; and (iii) the Irish bank s cost of funds plus 2.5% (6.98% at December 31, 2005) on British sterling denominated accounts receivable. The amount outstanding at December 31, 2005 under the debt purchase agreement was $0.4 million, and the Company had $1.4 million available under such agreement.

The debt purchase agreement provides for certain customary events of default including, without limitation, failure to pay any sum due to the Irish bank, failure to comply with covenants, and the occurrence of a material adverse change in the business condition of the Company. Upon an event of default, the Irish bank may terminate the debt purchase agreement and all outstanding accounts receivable purchased by the Irish bank will be repayable by the Company to the Irish bank at the recourse price as defined. This facility is secured by one of the Company s Irish subsidiary s buildings.

The Company believes that cash flows from its operations together with existing cash reserves and the funds available under its revolving credit agreement will be sufficient to meet its working capital requirements through the end of fiscal year 2006. However, no assurances can be given as to the sufficiency of the Company s working capital to support the Company s operations. If the existing cash reserves, cash flow from operations and funds available under the revolving credit agreement are insufficient; if working capital requirements are greater than currently estimated; and/or if the Company is unable to

Table of Contents

satisfy the covenants set forth in its credit agreement, the Company may be required to adopt one or more alternatives, such as reducing or delaying capital expenditures, restructuring indebtedness, selling assets or operations, or issuing additional shares of capital stock in the Company. There can be no assurance that any of these actions could be accomplished, or if so, on terms favorable to the Company, or that they would enable the Company to continue to satisfy its working capital requirements.

C. Restatement of Financial Statements

Subsequent to the issuance of the Company s unaudited consolidated condensed financial statements for the quarter ended December 31, 2005, the Company identified a clerical error in the calculation of its December 31, 2005 inventory valuation that resulted in a net understatement of inventory of approximately $403,000. In addition, the Company identified a clerical error in the calculation of its employee benefit expense for the quarter ended December 31, 2005, resulting in the understatement of employee benefit expense of approximately $45,000.

Item 4. Controls And Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Chairman and Chief Executive Officer of the Company and Chief Financial Officer of the Company, 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 the end of the period covered by this report. Based upon that evaluation, the Chairman and Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings. The Chairman and Chief Executive Officer of the Company and the Chief Financial Officer of the Company have concluded that this restatement does not indicate a material deficiency in the Company s controls and procedures. As a result of the restatement, management considered the effectiveness of disclosure controls and procedures in place with respect to the inventory valuation process. Management believes that key controls were in place and the disclosure controls were functioning properly. However, because the circumstances surrounding the error were unusual and infrequent, the error was not identified in a timely manner. Management believes that this error was isolated.

There has been no significant change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

No change.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No change.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

(a) Exhibits

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

Exhibit No.	Description
3.1	Third Amended Articles of Incorporation of SIFCO Industries, Inc., filed as Exhibit 3(a) of the Company s Form 10-Q dated March 31, 2002, and incorporated herein by reference
3.2	SIFCO Industries, Inc. Amended and Restated Code of Regulations dated January 29, 2002, filed as Exhibit 3(b) of the Company s Form 10-Q dated March 31, 2002, and incorporated herein by reference
4.2	Amended and Restated Credit Agreement Between SIFCO Industries, Inc. and National City Bank dated April 30, 2002, filed as Exhibit 4(b) of the Company s Form 10-Q dated March 31, 2002, and incorporated herein by reference
4.5	Consolidated Amendment No. 1 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated November 26, 2002 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.5 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference
4.6	Consolidated Amendment No. 2 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated February 13, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.6 of the Company s Form 10-Q dated December 31, 2002, and incorporated herein by reference
4.7	Consolidated Amendment No. 3 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated May 13, 2003 between SIFCO Industries Inc. and National City Bank, filed as Exhibit 4.7 of the Company s Form 10-Q dated March 31, 2003, and incorporated herein by reference
4.8	Consolidated Amendment No. 4 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated July 28, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.8 of the Company s Form 10-Q dated June 30, 2003, and incorporated herein by reference
4.9	Consolidated Amendment No. 5 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated November 26, 2003 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.9 of the Company s Form 10-K dated September 30, 2003, and incorporated herein by reference
4.10	Amendment No. 6 to Amended and Restated Credit Agreement dated March 31, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.10 of the Company s Form 10-Q dated March 31, 2004, and incorporated herein by reference
4.11	Consolidated Amendment No. 7 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note dated May 14, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.11 of the Company s Form 10-Q dated March 31, 2004, and

incorporated herein by reference

4.12 Consolidated Amendment No. 8 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note effective June 30, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.12 of the Company s Form 10-Q dated June 30, 2004, and incorporated herein by reference

4.13 Consolidated Amendment No. 9 to Amended and Restated Credit Agreement, Amended and Restated Reimbursement Agreement and Promissory Note effective November 12, 2004 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.13 to the Company s Form 10-K dated September 30, 2004, and incorporated herein by reference

Table of Contents

Exhibit No.	Description
4.14	Amendment No. 10 to Amended and Restated Credit Agreement effective December 31, 2004 between SIFCO Industries, Inc. and National City Bank, filed on Exhibit 4.14 to the Company s Form 10-Q dated December 31, 2004, and incorporated herein by reference
4.15	Amendment No. 11 to Amended and Restated Credit Agreement dated May 19, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.15 to the Company s Form 10-Q/A dated March 31, 2005, and incorporated herein by reference
4.16	Amendment No. 12 to Amended and Restated Credit Agreement dated August 10, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.16 to the Company s Form 10-Q dated June 30, 2005, and incorporated herein by reference
4.17	Debt Purchase Agreement Between The Governor and Company of the Bank of Ireland and SIFCO Turbine Components Limited, filed as Exhibit 4.17 to the Company s Form 8-K dated September 29, 2005, and incorporated herein by reference
4.18	Mortgage and Charge dated September 26, 2005 between SIFCO Turbine Components Limited and the Governor and Company of the Bank of Ireland, filed as Exhibit 4.18 to the Company s Form 8-K dated September 29, 2005, and incorporated herein by reference
4.19	Amendment No. 13 to Amended and Restated Credit Agreement dated November 23, 2005 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.19 to the Company s Form 10-K dated September 30, 2005, and incorporated herein by reference
4.20	Amendment No. 14 to Amended and Restated Credit Agreement dated February 10, 2006 between SIFCO Industries, Inc. and National City Bank, filed as Exhibit 4.20 to the Company s Form 10-Q dated December 31, 2005, and incorporated herein by reference.
9.1	Voting Trust Extension Agreement dated January 14, 2002, filed as Exhibit 9.1 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference
9.2	Voting Trust Agreement dated January 15, 1997, filed as Exhibit 9.2 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference
10.2	Deferred Compensation Program for Directors and Executive Officers (as amended and restated April 26, 1984), filed as Exhibit 10(b) of the Company s Form 10-Q dated March 31, 2002, and incorporated herein by reference
10.3	SIFCO Industries, Inc. 1998 Long-term Incentive Plan, filed as Exhibit 10.3 of the Company s form 10-Q dated June 30, 2004, and incorporated herein by reference
10.4	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
10.5	Change in Control Severance Agreement between the Company and Frank Cappello, dated September 28, 2000, filed as Exhibit 10(g) of the Company s Form 10-Q dated December 31, 2000, and incorporated

herein by reference

10.7 Change in Control Severance Agreement between the Company and Remigijus Belzinskas, dated September 28, 2000, filed as Exhibit 10 (i) of the Company s Form 10-Q dated December 31, 2000, and incorporated herein by reference

10.8 Change in Control Agreement between the Company and Frank Cappello, dated November 9, 2000, filed as Exhibit 10 (j) of the Company s Form 10-Q dated December 31, 2000, and incorporated herein by reference

10.9 Change in Control Severance Agreement between the Company and Timothy V. Crean, dated July 30, 2002, filed as Exhibit 10.9 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference

Table of Contents

Exhibit No.	Description
10.10	Change in Control Severance Agreement between the Company and Jeffrey P. Gotschall, dated July 30, 2002, filed as Exhibit 10.10 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference
10.11	Form of Restricted Stock Agreement, filed as Exhibit 10.11 of the Company s Form 10-K dated September 30, 2002, and incorporated herein by reference
10.12	Form of Tender, Condition of Tender, Condition of Sale and General Conditions of Sale dated June 30, 2004, filed as Exhibit 10.12 of the Company s Form 8-K dated October 14, 2004, and incorporated herein by reference
10.13	Separation Agreement and Release between Hudson D. Smith and SIFCO Industries, Inc. effective January 31, 2005, filed as Exhibit 10.13 of the Company s Form 8-K dated February 8, 2005, and incorporated herein by reference
10.14	Separation Pay Agreement between Frank A. Cappello and SIFCO Industries, Inc. dated December 16, 2005, filed as Exhibit 10.14 of the Company s Form 10-K dated September 30, 2005, and incorporated herein by reference
14.1	Code of Ethics, files as Exhibit 14.1 of the Company s Form 10-K dated September 30, 2003, and incorporated herein by reference
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) / 15d-14(a)
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) / 15d-14(a)
*32.1	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

Table of Contents

SIGNATURES

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

SIFCO Industries, Inc.
(Registrant)

Date: April 6, 2006 /s/ Jeffrey P. Gotschall

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

Date: April 6, 2006 /s/ Frank A. Cappello

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