

SIFCO INDUSTRIES INC
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____
Commission file number 1-5978

SIFCO Industries, Inc.
(Exact name of registrant as specified in its charter)

Ohio 34-0553950
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of the Registrant's Common Shares outstanding at June 30, 2016 was 5,466,063.

Part I. Financial Information

Item 1. Financial Statements

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Operations

(Unaudited)

(Amounts in thousands, except per share data)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------------|-----------|----------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | \$31,004 | \$28,717 | \$87,240 | \$73,412 |
| Cost of goods sold | 28,009 | 23,750 | 78,574 | 61,742 |
| Gross profit | 2,995 | 4,967 | 8,666 | 11,670 |
| Selling, general and administrative expenses | 4,157 | 5,863 | 12,907 | 14,793 |
| Amortization of intangible assets | 633 | 520 | 1,961 | 1,560 |
| Loss on disposal of operating assets | — | 61 | 32 | 63 |
| Operating loss | (1,795) | (1,477) | (6,234) | (4,746) |
| Interest income | (9) | (3) | (41) | (10) |
| Interest expense | 428 | 83 | 1,273 | 191 |
| Foreign currency exchange (gain) loss, net | (8) | 109 | 27 | 52 |
| Other income, net | (107) | (180) | (322) | (394) |
| Loss from continuing operations before income tax benefit | (2,099) | (1,486) | (7,171) | (4,585) |
| Income tax benefit | (1,049) | (479) | (3,224) | (1,373) |
| Loss from continuing operations | (1,050) | (1,007) | (3,947) | (3,212) |
| Income from discontinued operations, net of tax | — | — | — | 736 |
| Net loss | \$(1,050) | \$(1,007) | \$(3,947) | \$(2,476) |
| Loss per share from continuing operations | | | | |
| Basic | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.59) |
| Diluted | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.59) |
| Income per share from discontinued operations, net of tax | | | | |
| Basic | \$— | \$— | \$— | \$0.14 |
| Diluted | \$— | \$— | \$— | \$0.14 |
| Net loss per share | | | | |
| Basic | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.45) |
| Diluted | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.45) |
| Weighted-average number of common shares (basic) | 5,466 | 5,448 | 5,460 | 5,435 |
| Weighted-average number of common shares (diluted) | 5,466 | 5,454 | 5,460 | 5,449 |

See notes to unaudited consolidated condensed financial statements.

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------------|-----------|----------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net loss | \$(1,050) | \$(1,007) | \$(3,947) | \$(2,476) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (443) | — | (128) | — |
| Retirement plan liability adjustment, net of tax | 134 | 137 | 390 | 398 |
| Interest rate swap agreement adjustment, net of tax | (50) | — | (50) | 5 |
| Comprehensive loss | \$(1,409) | \$(870) | \$(3,735) | \$(2,073) |

See notes to unaudited consolidated condensed financial statements.

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

| | June 30, 2016 | September 30, 2015 |
|--|------------------|--------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 819 | \$ 667 |
| Receivables, net of allowance for doubtful accounts of \$758 and \$1,127, respectively | 29,333 | 36,024 |
| Inventories, net | 29,325 | 27,943 |
| Refundable income taxes | 2,607 | 2,516 |
| Deferred income taxes | 2,753 | 2,785 |
| Prepaid expenses and other current assets | 1,870 | 1,600 |
| Total current assets | 66,707 | 71,535 |
| Property, plant and equipment, net | 50,318 | 54,865 |
| Intangible assets, net | 11,716 | 13,265 |
| Goodwill | 15,792 | 16,480 |
| Other assets | 451 | 544 |
| Total assets | \$ 144,984 | \$ 156,689 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 9,507 | \$ 10,503 |
| Accounts payable | 16,348 | 14,201 |
| Accrued liabilities | 7,832 | 8,446 |
| Total current liabilities | 33,687 | 33,150 |
| Long-term debt, net of current maturities | 29,905 | 38,426 |
| Deferred income taxes | 5,603 | 4,849 |
| Pension liability | 6,379 | 6,743 |
| Other long-term liabilities | 481 | 452 |
| 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 – 5,525 at June 30, 2016 and 5,468 at September 30, 2015 | 5,525 | 5,468 |
| Additional paid-in capital | 9,315 | 9,778 |
| Retained earnings | 65,865 | 69,811 |
| Accumulated other comprehensive loss | (11,776) | (11,988) |
| Total shareholders' equity | 68,929 | 73,069 |
| Total liabilities and shareholders' equity | \$ 144,984 | \$ 156,689 |

See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(Unaudited, Amounts Nine Months Ended

in thousands)

June 30,

2016

2015

Cash flows from

operating activities:

Net loss \$ (3,947) \$ (2,476)

Income from discontinued operations, net of tax — (736)

Adjustments to

reconcile net loss to

net cash provided by

(used for) operating

activities:

Depreciation and amortization 8,021 5,413

Amortization on debt issuance cost 109 —

Loss on disposal of operating assets 32 63

LIFO (income) expense (144) 558

Share transactions under company stock plan (406) 750

Purchase price inventory adjustment 266 —

Other (101) —

Other long-term liabilities 201 (64)

Deferred income taxes 619 (2)

Changes in operating

assets and liabilities:

Receivables 6,660 224

Inventories (1,555) (9,090)

Refundable taxes (91) (823)

Prepaid expenses and other current assets (268) (473)

Other assets 32 (32)

Accounts payable 2,534 2,306

Other accrued liabilities (79) 1,912

Accrued income and other taxes (508) (73)

Net cash provided by (used for) operating activities of continuing 11,375 (2,543)

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| | | | |
|---|----------|-----------|---|
| operations | | | |
| Net cash used for operating activities of discontinued operations | — | (479) |) |
| Cash flows from investing activities: | | | |
| Acquisition of business | 270 | — | |
| Proceeds from disposal of operating assets | — | 2 | |
| Capital expenditures | (2,034) | (7,174) |) |
| Net cash used for investing activities of continuing operations | (1,764) | (7,172) |) |
| Net cash provided by investing activities of discontinued operations | — | 1,422 | |
| Cash flows from financing activities: | | | |
| Proceeds on long term debt | — | 20,000 | |
| Payments on long term debt | (3,866) | (4,000) |) |
| Proceeds from revolving credit agreement | 35,533 | 58,802 | |
| Repayments of revolving credit agreement | (40,320) | (46,044) |) |
| Payment of debt issue costs | — | (724) |) |
| Short-term debt borrowings | 1,904 | — | |
| Short-term debt repayments | (2,728) | — | |
| Cash dividends paid | — | (1,090) |) |
| Net cash provided by (used for) financing activities of continuing operations | (9,477) | 26,944 | |
| Increase in cash and cash equivalents | 134 | 18,172 | |
| Cash and cash equivalents at the beginning of the period | 667 | 4,596 | |
| Effect of exchange rate changes on cash and cash equivalents | 18 | — | |
| | \$ 819 | \$ 22,768 | |

Cash and cash
equivalents at the end
of the period

Supplemental
disclosure of cash flow
information of

continuing operations:

| | | | | | | |
|------------------------|----|--------|---|----|------|---|
| Cash paid for interest | \$ | (1,059 |) | \$ | (189 |) |
|------------------------|----|--------|---|----|------|---|

| | | |
|---|-------|----|
| Cash paid (received) for income taxes, net | 2,885 | 31 |
|---|-------|----|

See notes to unaudited consolidated condensed financial statements.

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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. The functional currency for the Company's other non-U.S. subsidiaries is the Euro. Assets and liabilities are translated into U.S. dollars at the rates of exchange at the end of the period, and revenues and expenses are translated using average rates of exchange for the period. 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 2015 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 2015 Annual Report on Form 10-K, with the exception of the following:

Goodwill and Intangible Assets

At March 31, 2016, management identified a triggering event, which resulted in the Company performing an interim impairment test at its Orange, California reporting unit and performed a financial analysis of its C*Blade reporting unit in Maniago, Italy as of March 31, 2016. The carrying values at both reporting units, inclusive of assigned goodwill, were compared to their respective fair values and the income approach was used to estimate the fair value of these reporting units. Significant assumptions inherent in the valuation methodologies for goodwill were employed and include, but are not limited to, prospective financial information, growth rates, terminal value and discount rates and requires the Company to make certain assumptions and estimates regarding industry economic factors and future profitability of its business.

When performing the income approach for each reporting unit, SIFCO incorporated the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash flow projections are based on five-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and ratios of return that market participants would require to invest their capital in our plants.

Although the Company believes its assumptions are reasonable, actual results may vary significantly and may expose the Company to material impairment charges in the future. The methodology for determining fair values was consistent for the periods presented.

Based on this quantitative test, we determined that the fair value of these reporting units exceeded their carrying value, and therefore Step 2 of the two-step goodwill impairment test was unnecessary.

C. Net Loss per Share

The Company's net loss per basic share has been computed based on the weighted-average number of common shares outstanding. Net 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 June 30, | | Nine Months Ended June 30, | |
|--|-----------------------------------|-----------|----------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Loss from continuing operations | \$(1,050) | \$(1,007) | \$(3,947) | \$(3,212) |
| Income from discontinued operations, net of tax | — | — | — | 736 |
| Net loss | \$(1,050) | \$(1,007) | \$(3,947) | \$(2,476) |
| Weighted-average common shares outstanding (basic) | 5,466 | 5,448 | 5,460 | 5,435 |
| Effect of dilutive securities: | | | | |
| Restricted shares | — | 6 | — | 13 |
| Performance shares | — | — | — | 1 |
| Weighted-average common shares outstanding (diluted) | 5,466 | 5,454 | 5,460 | 5,449 |
| Net loss per share – basic | | | | |
| Continuing operations | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.59) |
| Discontinued operations | — | — | — | 0.14 |
| Net loss | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.45) |
| Net loss per share – diluted: | | | | |
| Continuing operations | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.59) |
| Discontinued operations | — | — | — | 0.14 |
| Net loss | \$(0.19) | \$(0.19) | \$(0.72) | \$(0.45) |
| Anti-dilutive weighted-average common shares excluded from calculation of diluted earnings per share | 38 | 15 | 23 | 15 |

D. Derivative Financial Instruments

The Company entered into an interest rate swap agreement to reduce risk related to variable-rate debt, which was subject to changes in market rates of interest. The interest rate swap is designated as a cash flow hedge. At June 30, 2016, the Company held one interest rate swap agreement with a notional amount of \$8,571. 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 were based upon LIBOR. At June 30, 2016, the Company's interest rate swap agreement qualified as a fully effective cash flow hedge against the Company's variable-rate term note and its mark-to-market valuation is a \$79 liability at June 30, 2016.

E. Impact to Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic

606): Identifying Performance Obligations and Licensing.” This ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs, along with subsequent updates, apply to all companies that enter into contracts with customers to transfer goods or services, and are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. Companies have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. The Company is currently evaluating the requirements of these standards and has not yet determined the impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” This ASU requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. The ASU is effective for fiscal years

beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the requirements of ASU 2016-02 and has not yet determined its impact on our condensed consolidated financial statements.

On March 30, 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which makes a number of changes meant to simplify and improve accounting for share-based payments. The ASU will be effective for the Company for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently considering early adoption of ASU 2016-09 in the next reporting period, as is permitted under the standard and has not yet determined the impact on our condensed consolidated financial statements.

2. Inventories

Inventories consist of:

| | June 30, 2016 | September 30, 2015 |
|----------------------------|---------------------|--------------------------|
| Raw materials and supplies | \$6,982 | \$ 7,212 |
| Work-in-process | 12,915 | 11,088 |
| Finished goods | 9,428 | 9,643 |
| Total inventories | \$29,325 | \$ 27,943 |

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method for 46% and 38% of the Company's inventories at June 30, 2016 and September 30, 2015, respectively. The first-in, first-out ("FIFO") method is used for the remainder of the inventories. If the FIFO method had been used for the inventories for which cost is determined using the LIFO method, inventories would have been \$8,365 and \$8,508 higher than reported at June 30, 2016 and September 30, 2015, respectively.

3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

| | June 30, 2016 | September 30, 2015 |
|---|------------------|--------------------------|
| Foreign currency translation adjustment | \$(5,859) | \$(5,731) |
| Retirement plan liability adjustment, net of tax | (5,867) | (6,257) |
| Interest rate swap agreement adjustment, net of tax | (50) | — |
| Total accumulated other comprehensive loss | \$(11,776) | \$(11,988) |

4. Long-Term Debt

Long-term debt consists of:

| | June 30, 2016 | September 30, 2015 |
|---|------------------|--------------------------|
| Revolving credit agreement | \$11,713 | \$ 16,500 |
| Foreign subsidiary borrowings | 10,650 | 13,197 |
| Capital lease obligations | 163 | 252 |
| Term loan | 17,143 | 19,286 |
| Less: unamortized debt issuance cost | (257) | (306) |
| Term loan less unamortized debt issuance cost | 16,886 | 18,980 |
| Total Debt | 39,412 | 48,929 |
| Less – current maturities | (9,507) | (10,503) |

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Total long-term debt \$29,905 \$38,426

On June 26, 2015 the Company entered into a Credit and Security Agreement (the "Credit Agreement") with a new lender. The new credit facility is comprised of (i) a five year revolving credit facility with a maximum borrowing amount of up to \$25,000, which reduced to \$20,000 on January 1, 2016, and (ii) a five year term loan of \$20,000.

Amounts borrowed under the credit facility are secured by substantially all the assets of the Company and its U.S. subsidiaries and a pledge of 65% of the stock of its non-U.S. subsidiaries. The term loan is repayable in quarterly installments of \$714 starting September 30, 2015. The amounts

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borrowed under the Credit Agreement were used to repay the Company's previous revolver and term note, to fund the acquisition of C*Blade S.p.A. Forging & Manufacturing ("C*Blade" - see Note 8) and for working capital and general corporate purposes. The Credit Agreement also has an accordion feature, which allows the Company to increase the availability by up to \$15,000 upon consent of the existing lenders or upon additional lenders being joined to the facility. Borrowings will bear interest at the LIBOR rate, prime rate, or the eurocurrency reference rate depending on the type of loan requested by the Company, in each case, plus the applicable margin as set forth in the Credit Agreement.

The revolver has a rate based on LIBOR plus a 2.75% spread and a prime rate which resulted in a weighted average rate of 3.7% at June 30, 2016 and the term loan has a rate of 3.4% at June 30, 2016, which was based on LIBOR plus a 2.75% spread. This rate becomes an effective fixed rate of 3.9% after giving effect to the interest rate swap agreement. There is also a commitment fee ranging from 0.15% to 0.35% to be incurred on the unused balance.

Under the Company's Credit Agreement, the Company is subject to certain customary covenants. These include, without limitation, covenants that require maintenance of certain specified financial ratios, including that the Company not exceed a maximum debt to EBITDA ratio and maintain a minimum fixed charge coverage ratio. On August 5, 2016, the Company entered into an agreement with its lender to waive its compliance with loan covenants as of June 30, 2016 and to amend its financial covenants for future periods.

As of June 30, 2016, the total foreign debt borrowings was \$10,650, of which \$6,650 is the current portion. Current debt consist of \$4,318 of short-term borrowings, \$2,147 is the current portion of long-term debt, \$131 of factoring and \$54 of capital leases. Interest rates on the term note are based on Euribor rates which range from 1.0% to 4.0%. The factoring programs are uncommitted, whereby the Company offers receivables for sale to an unaffiliated financial institution, which are then subject to acceptance by the unaffiliated financial institution. Following the sale and transfer of the receivables to the unaffiliated financial institution, the receivables are not isolated from the Company, and effective control of the receivables is not passed to the unaffiliated financial institution, which does not have the right to pledge or sell the receivables. The Company accounts for the pledge of receivables under this agreement as short-term debt and continues to carry the receivables on its consolidated condensed balance sheets. There was \$131 of short-term borrowings relating to this agreement at June 30, 2016 classified within short-term debt. The carrying value of the receivables pledged as collateral was \$422 at June 30, 2016.

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 nine months of fiscal 2016 was 45%, compared with 30% for the same period of fiscal 2015. This increase is primarily attributable to an increase in U.S. federal tax credits applied against forecasted domestic results in fiscal 2016 as well as discrete tax benefits of \$568 primarily related to the tax effects of legislation enacted during the first quarter of fiscal 2016, applied against a year-to-date loss. The effective tax rate differs from the U.S. federal statutory rate due primarily to (i) application of U.S. tax credits (ii) income and losses in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate, and (iii) the tax effects of legislation enacted during the year.

The Company is subject to income taxes in the U.S. federal jurisdiction, Ireland, Italy, and various state 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 some of its employees. The components of net periodic benefit cost of the Company's defined benefit plans are as follows:

| | |
|--------------------------------------|----------------------------------|
| Three Months Ended June 30, | Nine Months Ended June 30, |
|--------------------------------------|----------------------------------|

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| | 2016 | 2015 | 2016 | 2015 |
|--------------------------------|--------|--------|---------|---------|
| Service cost | \$69 | \$37 | \$209 | \$110 |
| Interest cost | 256 | 244 | 767 | 732 |
| Expected return on plan assets | (407) | (418) | (1,222) | (1,253) |
| Amortization of net loss | 210 | 136 | 630 | 409 |
| Net periodic cost | \$128 | \$(1) | \$384 | \$(2) |

During the nine months ended June 30, 2016 and 2015, the Company made no contributions 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 2016.

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 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 nine months of fiscal 2016, one award was granted for 92 performance shares under the 2007 Plan with a grant date fair value of \$10.50. These shares vest over a three year performance period. A second award was granted for 10 performance shares under the 2007 Plan with a grant date fair value of \$9.50. Half of the shares vest within six months service period and the remaining shares vest within the next six months service 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 or three years.

During the first nine months of fiscal 2016, one award was granted for 29 restricted shares with a grant date fair value of \$9.45. These awards vest over a one year service period. Two separate awards for 20 restricted shares vested under the 2007 Plan. A second award was granted for 30 restricted shares with a grant date fair value of \$9.60. This award vests over a three year service period.

If all outstanding share awards are ultimately earned and vest at the target number of shares, there are approximately 159 shares that remain available for award at June 30, 2016. 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 a \$228 benefit and \$785 expense during the first nine months of fiscal 2016 and 2015, respectively and expense of \$236 and \$385 for the third quarter of fiscal 2016 and 2015, respectively. The Company reversed portions of its long-term incentive accruals in the current period and in fiscal 2015, \$233 of stock compensation expense was included in severance expense for shares issued to a former executive as part of the executive's severance package. As of June 30, 2016, there was \$1,646 of total unrecognized compensation cost related to the performance shares and restricted shares awarded under the 2007 Plan. The Company expects to recognize this cost over the next 2.3 years.

8. Business Acquisition

On July 1, 2015, the Company completed the acquisition of all of the outstanding equity of C*Blade S.p.A. Forging & Manufacturing, from Riello Investimenti Partners SGR S.p.A., Giorgio Visentini, Giorgio Frassini, Giancarlo Sclabi and Matteo Talmassons. The forging business operates at two facilities located in Maniago, Italy. The purchase price paid for the forging business, net the assumed debt was approximately \$16,719, after a \$275 purchase price adjustment received and recorded in the first quarter of fiscal 2016 related to certain adjustments principally related to the final working capital level and indebtedness adjustment.

The Company has completed the purchase accounting related to the C*Blade acquisition.

Changes in the net carrying amount of goodwill was as follows:

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| | |
|---|-----------|
| Balance at September 30, 2015 | \$ 16,480 |
| Goodwill purchase price adjustment (589) | |
| Currency translation (99) | |
| Balance at June 30, 2016 | \$ 15,792 |

The results of operation of C*Blade are included in the Company's unaudited consolidated condensed statements of operations for the three months ended and nine months ended June 30, 2016. The following unaudited pro forma information presents a summary of the results of operations for the Company including C*Blade as if the acquisition had occurred on October 1, 2014:

| | Three Months Ended June 30, 2015 (unaudited) | Nine Months Ended June 30, 2015 (unaudited) |
|------------------------------|--|---|
| Net sales | \$ 34,157 | 89,282 |
| Net loss | \$ (1,562) | (2,410) |
| Net loss per share (basic) | \$ (0.29) | (0.44) |
| Net loss per share (diluted) | \$ (0.29) | (0.44) |

9. Subsequent Events

The Company informed its workforce in July that it would be ceasing production in its Colorado Springs, Colorado facility in the fourth quarter of fiscal 2016. The Company expects to close the facility in the first quarter of fiscal 2017. Employee severance expense is being finalized, but is not expected to be material.

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

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

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Non-GAAP Financial Measures

Presented below is certain financial information based on the Company's EBITDA and Adjusted EBITDA. References to "EBITDA" mean earnings (losses) 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 (loss), net sales, and operating income (loss), 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 loss or cash flow from operations determined in accordance with GAAP. The Company's calculation of EBITDA and Adjusted EBITDA may not be comparable to the calculation of similarly titled measures reported by other companies.

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

| Dollars in thousands | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Net loss | \$ (1,050) | \$ (1,007) | \$ (3,947) | \$ (2,476) |
| Less: Income from discontinued operations, net of tax | — | — | — | 736 |
| Loss from continuing operations | (1,050) | (1,007) | (3,947) | (3,212) |
| Adjustments: | | | | |
| Depreciation and amortization expense | 2,655 | 1,878 | 8,021 | 5,413 |
| Interest expense, net | 419 | 80 | 1,232 | 181 |
| Income tax benefit | (1,049) | (479) | (3,224) | (1,373) |
| EBITDA | 975 | 472 | 2,082 | 1,009 |
| Adjustments: | | | | |
| Foreign currency exchange (gain) loss, net (1) | (8) | 109 | 27 | 52 |
| Other income, net (2) | (107) | (180) | (322) | (394) |
| Loss on disposal of operating assets (3) | — | 61 | 32 | 63 |
| Inventory purchase accounting adjustments (4) | — | — | 266 | — |
| Non-recurring severance expense (5) | — | — | — | 964 |

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| | | | | |
|--|----------|----------|----------|----------|
| Equity compensation expense (benefit) (6) | 227 | 385 | (236 |) 785 |
| Acquisition transaction-related expenses (7) | — | 1,785 | (94 |) 2,553 |
| LIFO impact (8) | (136 |) 373 | (144 |) 558 |
| Orange expansion (9) | 388 | 192 | 775 | 480 |
| Executive search (10) | — | — | 223 | — |
| Adjusted EBITDA | \$ 1,339 | \$ 3,197 | \$ 2,609 | \$ 6,070 |

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- (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 accounting adjustments to value inventory at fair market value associated with the acquisition of a business that was charged to cost of goods sold when the inventory was sold.
 - (5) Represents severance expense related to the departure of an executive officer. Included in the \$964 is \$233 of equity based compensation expense recognized by the Company under its 2007 Long-term Incentive Plan.
 - (6) Represents the equity-based compensation expense (benefit) recognized by the Company under its 2007 Long-Term Incentive Plan.
 - (7) 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.
 - (8) Represents the increase in the reserve for inventories for which cost is determined using the last in, first out ("LIFO") method.
 - (9) Represents costs related to expansion of one of the plant locations that are required to be expensed as incurred.
 - (10) Represents costs incurred for executive search fees as mentioned in its Form 8-K filing on March 18, 2016.
- Nine Months Ended June 30, 2016 compared with Nine Months Ended June 30, 2015

Overview

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 and steam turbine engines for power generation units; and (iv) other commercial applications. The Company completed the acquisition of all of the outstanding equity and assumed debt of C Blade S.p.A. Forging & Manufacturing ("C*Blade") in July, 2015. The Company's results for the first nine months of fiscal 2016 include the results of C*Blade.

Net Sales

Net sales for the first nine months of fiscal 2016 increased 18.8% to \$87.2 million, compared to \$73.4 million in the comparable period of fiscal 2015. Net sales comparative information for the first nine months of fiscal 2016 and 2015 is as follows:

| (Dollars in millions) | Nine Months Ended | | Increase (Decrease) |
|--|-------------------|---------|------------------------|
| | June 30, 2016 | 2015 | |
| Net Sales | | | |
| Aerospace components for: | | | |
| Fixed wing aircraft | \$ 45.8 | \$ 41.1 | \$ 4.7 |
| Rotorcraft | 13.9 | 18.6 | (4.7) |
| Energy components for power generation units | 23.1 | 6.9 | 16.2 |
| Commercial product and other revenue | 4.4 | 6.8 | (2.4) |
| Total | \$ 87.2 | \$ 73.4 | \$ 13.8 |

Overall, net sales for the Company increased \$13.8 million in the first nine months of fiscal 2016 compared to the same period of fiscal 2015. The increase in sales is primarily attributed to \$15.2 million in net sales attributable to the acquisition of C*Blade, which is included within energy components. The increase in fixed wing aircraft and decrease of rotorcraft sales are primarily due to changes in build rates and spare requirements in programs such as the Boeing 777, the Bell-Boeing V-22, the Lockheed Martin F-16 and the Sikorsky H-60, which are driving the changes in volume compared with the same period last year. Commercial product and other revenue decreased \$2.4 million to \$4.4 million in the first nine months of fiscal 2016 due primarily to a decrease of \$1.0 million in a military ordnance program as a result of timing of customer order placement in the current period and build rates within the industrial,

mining, gas and oil markets.

Commercial net sales were 62.4% of total net sales and military net sales were 37.6% of total net sales in the first nine months of fiscal 2016, compared to 55.9% and 44.1%, respectively, in the comparable period in fiscal 2015.

Commercial net sales increased \$13.4 million to \$54.4 million in the first nine months of fiscal 2016, compared to \$41.0 million in the comparable period of fiscal 2015, primarily attributed to the acquisition of C*Blade as noted above. Military net sales increased \$0.4 million to \$32.8 million in the first nine months of fiscal 2016, compared to \$32.4 million in the comparable period of fiscal 2015, primarily due to the changes in build rates to the programs mentioned above.

Cost of Goods Sold

Cost of goods sold increased by \$16.8 million, or 27.3%, to \$78.6 million during the first nine months of fiscal 2016, compared to \$61.7 million in the comparable period of fiscal 2015, primarily due to (i) \$14.7 million attributed to the acquisition of C*Blade, which includes \$0.3 million of adjustments to fair value related to purchase accounting guidelines and (ii) \$0.5 million higher labor and benefits compared to the comparable period.

Gross Profit

Gross profit decreased \$3.0 million to \$8.7 million during the first nine months of fiscal 2016, compared to \$11.7 million in the comparable period of fiscal 2015. Gross margin percent of sales was 9.9% during the first nine months of fiscal 2016, compared with 15.9% in the comparable period in fiscal 2015. The decreased gross margin was due primarily to product mix due to change in customer build rates to programs as noted above and higher labor and benefits charges, which resulted in unabsorbed costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$12.9 million, or 14.8% of net sales during the first nine months of fiscal 2016, compared with \$14.8 million, or 20.2% of net sales in the comparable period of fiscal 2015. One time charges in fiscal 2015 of \$2.7 million of transactional costs related to the July 1, 2015 acquisition of C*Blade and \$1.0 million in severance charges were not incurred in fiscal 2016. The Company also lowered its long-term incentive compensation costs by \$0.8 million compared with the same period last year. These cost decreases were partially offset by \$1.2 million of costs at C*Blade, higher audit-related costs of \$0.8 million, an increase in costs associated with the Company's ERP system of \$0.3 million, and \$0.2 million in search costs for a new CEO as disclosed in the Company's Form 8-K filing on March 18, 2016.

Amortization of Intangibles

Amortization of intangibles increased \$0.4 million to \$2.0 million during the first nine months of fiscal 2016, compared with \$1.6 million in the comparable period of fiscal 2015. The increase is primarily associated with the amortization of new intangible assets acquired from the acquisition of C*Blade.

Other/General

Interest expense increased \$1.1 million to \$1.3 million in the first nine months of fiscal 2016, compared with \$0.2 million in the same period in fiscal 2015. The increase is primarily due to the increased borrowing in connection with the acquisition of the C*Blade business.

The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's debt agreement in the first nine months of both fiscal 2016 and 2015. The Company entered into an interest rate swap as discussed in Note 1 of the notes to the unaudited consolidated condensed statements. The interest rate swap in the prior year matured during the first nine months of fiscal 2015:

| | Weighted Average Interest Rate Nine Months Ended June 30, | | Weighted Average Outstanding Balance Nine Months Ended June 30, | |
|----------------------------|--|------|--|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revolving credit agreement | 3.7% | 1.2% | \$ 14.1 million | \$ 11.7 million |
| Term note | 3.5% | 2.6% | \$ 18.6 million | \$ 3.7 million |
| Foreign term debt | 2.5% | — % | \$ 12.4 million | \$ 0.0 million |

Other income, net, consists principally of \$0.3 million of rental income earned from the lease of the Company's Cork, Ireland facility in both the first nine months of fiscal 2016 and 2015.

Income Taxes

The Company's effective tax rate in the first nine months of fiscal 2016 was 45%, compared to 30% in the comparable period in fiscal 2015. This increase is primarily attributable to an increase in U.S federal tax credits applied against forecasted domestic results in fiscal 2016 as well as discrete tax benefits of \$568 primarily related to the tax effects of legislation enacted during the first quarter of fiscal 2016 and a reduction in the reserve for uncertain tax positions, applied against a year-to-date loss. The effective tax rate differs from the U.S. federal statutory rate due primarily to (i) application of U.S. tax credits (ii) income and losses in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate, and (iii) the tax effects of legislation enacted during the year.

Loss from Continuing Operations

Loss from continuing operations, net of tax, was \$3.9 million, or 4.5% of net sales, during the first nine months of fiscal 2016, compared with loss from continuing operations, net of tax of \$3.2 million, or 4.4% of net sales, in the comparable period of fiscal 2015.

Income from Discontinued Operations

The Company did not incur costs related to discontinued operations in the first nine months of fiscal 2016. Included in the first nine months of fiscal 2015 was \$0.7 million, which includes the after-tax gain on the sale of the building and land of the Turbine Component Service and Repair ("Repair Group") business.

Net Loss

Net loss was \$3.9 million, or 4.5% of net sales, during the first nine months of fiscal 2016, compared with net loss of \$2.5 million, or 3.4% of net sales, in the comparable period of fiscal 2015. Net loss increased primarily due to the items noted above.

Three Months June 30, 2016 compared with Three Months Ended June 30, 2015

Overview

The Company's results for the third quarter of fiscal 2016 include the results of C*Blade.

Net Sales

Net sales for the third quarter of fiscal 2016 increased 8.0% to \$31.0 million, compared with \$28.7 million in the comparable period of fiscal 2015. Net sales comparative information for the third quarter of fiscal 2016 and 2015 is as follows:

| (Dollars in millions) | Three Months Ended | | Increase (Decrease) |
|--|--------------------|---------|------------------------|
| | June 30, 2016 | 2015 | |
| Net Sales | | | |
| Aerospace components for: | | | |
| Fixed wing aircraft | \$ 16.4 | \$ 16.3 | \$ 0.1 |
| Rotorcraft | 4.8 | 7.3 | (2.5) |
| Energy components for power generation units | 8.6 | 3.6 | 5.0 |
| Commercial product and other revenue | 1.2 | 1.5 | (0.3) |
| Total | \$ 31.0 | \$ 28.7 | \$ 2.3 |

Total net sales for the Company increased \$2.3 million in the third quarter of fiscal 2016 compared with the comparable period of fiscal 2015. The increase in sales is primarily attributed to \$5.2 million in net sales attributable to the acquisition of C*Blade, which is included within energy components. The decrease of rotorcraft sales are primarily due to changes in build rates and spare requirements in programs such as the Bell-Boeing V-22 and the Sikorsky H-60, which are driving the changes in volume compared to the comparable period. Commercial product and other revenue decreased \$0.3 million to \$1.2 million in the third quarter of fiscal 2016 compared to \$1.5 million in the comparable period of fiscal 2015 due primarily, to a decrease of the build rates for the industrial, mining, gas and oil markets.

Commercial net sales were 60.9% of total net sales and military net sales were 39.1% of total net sales in the third quarter of fiscal 2016, compared with 56.4% and 43.6%, respectively, in the comparable period in fiscal 2015.

Commercial net sales increased \$2.7 million to \$18.9 million in the third quarter of fiscal 2016, compared from \$16.2 million in the comparable period of fiscal 2015, primarily attributed to the acquisition of C*Blade and the changes due to the build rates to programs mentioned above. Military net sales decreased \$0.4 million to \$12.1 million in the third quarter of fiscal 2016, compared with \$12.5 million in the comparable period of fiscal 2015, primarily due to the changes in build rates to the programs mentioned above.

Cost of Goods Sold

Cost of goods sold increased by \$4.3 million, or 17.9% to \$28.0 million during the third quarter of fiscal 2016, compared with \$23.8 million in the comparable period of fiscal 2015, of which \$5.0 million primarily related to the acquisition of C*Blade.

Gross Profit

Gross profit decreased \$2.0 million to \$3.0 million during the third quarter of fiscal 2016, compared with \$5.0 million in the comparable period of fiscal 2015. Gross margin was 9.7% during the third quarter of fiscal 2016, compared with 17.3% in the comparable period in fiscal 2015. The decrease in gross margin was primarily due to a change in sales mix.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$4.2 million, or 13.4% of net sales, during the third quarter of fiscal 2016, compared with \$5.9 million, or 20.4% of net sales, in the comparable period of fiscal 2015. One time charges of \$1.8 million in the third quarter of fiscal 2015 related to the acquisition of C*Blade were not incurred in the third quarter of fiscal 2016.

Amortization of Intangibles

Amortization of intangibles increased \$0.1 million to \$0.6 million during the third quarter of fiscal 2016, compared with \$0.5 million in the comparable period of fiscal 2015. The increase is primarily due to the amortization of new intangible assets acquired from the acquisition of C*Blade.

Other/General

Interest expense was \$0.4 million in the third quarter of fiscal 2016, compared with \$0.1 million in the same period in fiscal 2015. The increase is primarily due to the new credit agreement entered into in July 2015, in connection with the acquisition of the C*Blade business.

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 2016 and 2015:

| | Weighted Average Interest Rate Three Months Ended June 30, | | Weighted Average Outstanding Balance Three Months Ended June 30, | |
|----------------------------|---|------|---|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revolving credit agreement | 4.4% | 1.3% | \$ 13.4 million | \$ 16.2 million |
| Term note | 3.9% | 3.0% | \$ 17.9 million | \$ 3.9 million |
| Foreign term debt | 2.5% | — % | \$ 11.2 million | \$ 0.0 million |

Other income, net, consists principally of \$0.1 million of rental income earned from the lease of the Company's Cork, Ireland facility in both the third quarter of fiscal 2016 and 2015.

Income Taxes

The Company's effective tax rate in the third quarter of fiscal 2016 was 50%, compared with 32% in the comparable period in fiscal 2015. This increase is primarily attributed to an increase in U.S federal tax credits applied against forecasted domestic results in fiscal 2016 due to tax effects of legislation enacted during fiscal 2016 and a discrete tax benefit recorded during the third quarter of fiscal 2016 related to a reduction in the reserve for uncertain tax positions. The effective tax rate differs from the U.S. federal statutory rate due primarily to application of U.S. tax credits and income and losses in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate.

Net Loss

Net loss was \$1.0 million for both third quarters of fiscal 2016 and 2015, respectively.

B. Liquidity and Capital Resources

Cash and cash equivalents were \$0.8 million at June 30, 2016 compared with \$0.7 million at September 30, 2015. At June 30, 2016 and 2015, approximately \$0.5 million and \$4.5 million, respectively, of the Company's cash and cash equivalents was in the possession of its non-U.S subsidiaries. Distributions from the Company's non-U.S. subsidiaries to the Company may be subject to adverse tax consequences.

Operating Activities

The Company's operating activities from continuing operations provided \$11.4 million of cash in the first nine months of fiscal 2016, compared with \$2.6 million of cash used by operating activities from continuing operations in the first nine months of fiscal 2015. The cash provided by operating activities from continuing operations in the first nine months of fiscal 2016 was primarily due to a \$3.9 million net loss offset by \$6.7 million reduction of working capital

plus non-cash items. Cash provided by working capital is primarily due to a \$6.7 million decrease in accounts receivable due to timing of sales and collection from customers and \$2.5 million from extended accounts payable terms partially offset by a \$1.6 million increase in inventories. The Company benefited from \$8.6 million of non-cash items, such as depreciation and amortization expense, LIFO effect and equity-based compensation expense.

The Company's operating activities from continuing operations used \$2.6 million of cash in the first nine months of fiscal 2015. The cash used by operating activities of continuing operations in the first nine months of 2015 was primarily due to \$2.5 million

net loss and use of \$6.0 million in working capital, partially offset by \$6.7 million from the impact of non-cash items such as depreciation and amortization expense, LIFO effect and equity based compensation expense.

The increase in non-cash items compared to the prior period is primarily due to an increase in depreciation expense related to the implementation of the new ERP system and the completion of the large capital investment at the Cleveland plant location.

The change in working capital is primarily due to factors resulting from normal business conditions of the Company, including (i) increased inventory to support anticipated growth in the business, (ii) the relative timing of sales and collections from customers, and (iii) the relative timing of payments to suppliers.

Investing Activities

Cash used for investing activities of continuing operations was \$1.8 million in the first nine months of fiscal 2016, compared with \$7.2 million in the first nine months of fiscal 2015. The decrease is attributed to the reduced spending on the Company's ERP installation and the completion of the prior year's Cleveland plant investment project. In addition to the \$2.0 million expended during the first nine months of fiscal 2016, \$0.1 million is committed for future capital expense as of June 30, 2016. The Company anticipates that total fiscal 2016 capital expenditures will be within the range of \$2.5 to \$3.0 million and will relate principally to the further enhancement of production and product offering capabilities, operating cost reductions and expansion of one of the Company's plant locations.

In the first nine months of fiscal 2015, the sale of the land and building of the Repair Group was completed and the Company received cash proceeds of \$1.4 million, net of transaction fees. The proceeds from this sale were used to pay down the Company's revolving credit facility.

Financing Activities

Cash used for financing activities was \$9.5 million in the first nine months of fiscal 2016, compared to \$26.9 million of cash provided by financing activities in the first nine months of fiscal 2015.

The Company had net repayments under its revolving credit facility of \$4.8 million in the first nine months of fiscal 2016, compared with net borrowings of \$12.8 million in the first nine months of fiscal 2015. The decrease in net borrowings from the revolving credit facility was due to the management of the Company's working capital requirements offset from prior year activities that resulted in the funding of the capital expenditures completed in the first quarter of fiscal 2015 and the 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.

The Company had repayments under its term loan of \$2.1 million and under its foreign long-term loan of \$1.7 million in the first nine months of fiscal 2016, compared with repayments under its term loan of \$4.0 million in the first nine months of fiscal 2015.

On June 26, 2015 the Company entered into a new Credit and Security Agreement (the "Credit Agreement") with its lender. The new credit facility is comprised of (i) a five year revolving credit facility with a maximum borrowing amount of up to \$25.0 million, which reduced to \$20.0 million on January 1, 2016, and (ii) a five year term loan of \$20.0 million. Amounts borrowed under the credit facility are secured by substantially all the assets of the Company and its U.S. subsidiaries and a pledge of 65% of the stock of its non-U.S. subsidiaries. The new term loan is repayable in quarterly installments of \$0.7 million starting September 30, 2015. The amounts borrowed under the Credit Agreement were used to repay the Company's existing revolver and term note, to fund the acquisition of C*Blade on July 1, 2015, as referenced in Note 8 of the consolidated condensed financial statements and for working capital and general corporate purposes. The Credit Agreement also has an accordion feature, which allows the Company to increase the availability by up to \$15.0 million upon consent of the existing lenders or upon additional lenders being joined to the facility. Borrowings will bear interest at the LIBOR rate, prime rate, or the eurocurrency reference rate depending on the type of loan requested by the Company in each case, plus the applicable margin as set forth in the Credit Agreement. With the Credit Agreement, the Company incurred debt issuance costs of \$0.7 million.

The revolver has a rate based on LIBOR plus a 2.75% spread and a prime rate which resulted in a weighted average rate of 3.7% at June 30, 2016 and the term rate of 3.4% at June 30, 2016, which was based on LIBOR plus a 2.75% spread. This rate becomes an effective fixed rate of 3.9% after giving effect to the interest rate swap agreement. There is also a commitment fee ranging from 0.15% to 0.35%, to be incurred on the unused balance. Under the Company's Credit Agreement, the Company is subject to certain customary covenants. These include, without limitation, covenants that require maintenance of certain specified financial ratios, including that the Company not exceed a maximum debt to EBITDA ratio and maintain a minimum fixed charge coverage ratio. The Company has entered into an agreement with its lender to waive its compliance with loan covenants as of June 30, 2016 and to amend its financial covenants for future periods.

Future cash flows from the Company's operations will be used to pay down amounts outstanding under the 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 the Credit Agreement.

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, 2015 have not materially changed since that report was filed, with the exception of the following:

Derivative Financial Instruments

The Company entered into an interest rate swap agreement to reduce risk related to variable-rate debt, which was subject to changes in market rates of interest. The interest rate swap is designated as a cash flow hedge. At June 30, 2016, the Company held one interest rate swap agreement with a notional amount of \$8,571. 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 were based upon LIBOR. At June 30, 2016, the Company's interest rate swap agreement qualified as a fully effective cash flow hedge against the Company's variable-rate term note and its mark-to-market valuation is a \$79 liability.

D. Impact of Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." This ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs, along with subsequent updates, apply to all companies that enter into contracts with customers to transfer goods or services, and are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. Companies have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. The Company is currently evaluating the requirements of these standards and has not yet determined the impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet and aligns many of the underlying principles of the new lessor model with those in Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the requirements of ASU 2016-02 and has not yet determined its impact on our condensed consolidated financial statements.

On March 30, 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which makes a number of changes meant to simplify and improve accounting for share-based payments. The ASU will be effective for the Company for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently considering early adoption of ASU 2016-09 in the next reporting period, as is

permitted under the standard and has not yet determined the impact on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Interest payable on the Company's revolving credit facility and term loan is based on the LIBOR rate, prime rate, or the eurocurrency. At June 30, 2016, the Company had \$17.1 million outstanding on the term loan and \$11.7 million was drawn on the revolving credit facility. The Company has one interest rate swap. The notional amount of the interest rate swap at June 30, 2016 was \$8.5 million. The term loan has a variable interest rate, which becomes an effective fixed rate after giving effect to the interest rate swap agreement. The balance of the borrowings remain subject to variable interest rates.

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If interest rates were to increase or decrease 100 basis points (1%) from the June 30, 2016 weighted average rate, and assuming no change in the amount outstanding under the term note and the revolving credit facility, the impact to the Company's interest expense on its variable rate debt would be approximately \$0.3 million annually.

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 insure 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 June 30, 2016 (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 weaknesses in the Company's internal controls over financial reporting described in Item 9A of the Company's Annual Report.

The Company is in the process of designing and implementing improved controls to remediate the material weaknesses that continued to exist as of June 30, 2016.

In fiscal 2015, the Company installed a new, complex ERP system at the corporate office and two plant locations. The complexity of the system and lack of adequate training contributed to the following material weaknesses:

- Inadequate journal entry approval controls related to the posting of unapproved manual journal entries, and
- Lack of effective execution of controls related to the testing of completeness and accuracy of system-generated reports.

Significant accounting personnel turnover throughout the year contributed to the following material weaknesses:

- Lack of proper reconciliations performed and the precision and sufficiency of reconciliation reviews performed, and
- Improper application of cash receipts to outstanding receivables balances.

In addition, a material weakness was identified for the lack of processes and controls related to the recording of tooling sales and sales returned for re-work at one location.

Finally, a material weakness was identified related to the ineffectiveness of monitoring controls in place over our plant locations by the Corporate office.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

Management and the Company's Board of Directors are committed to improving the Company's overall system of internal controls over financial reporting. The Company is in the process of designing and implementing additional controls and improving existing controls to remediate the material weaknesses that existed as of September 30, 2015, as set forth above.

With respect to the monitoring of manual journal entries, the Company is instituting automated methods to direct all manual journal entries to an appropriate approver.

With respect to the completeness and accuracy of system-generated reports, the Company is enhancing its control environment related to the segregation of duties that led to the need to perform additional manual testing on system generated reports, and enhancing activity level control testing of system generated reports, as necessary.

With respect to monitoring controls of the operating locations, the Company has implemented a reporting change in its finance organization whereby the site controllers now also report to the Corporate Controller. The Company is also evaluating other organizational and control changes to strengthen its monitoring controls.

With respect to the precision of reviews around account reconciliations, management has implemented additional procedures to enhance the precision of reviews, including additional policies and training for those executing the controls. Additionally, the

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Company is adopting enhanced controls on spreadsheets used in the preparation of reconciliations and is evaluating the need for additional controls to improve the reconciliation process.

With respect to the application of cash receipts, the Company is training the appropriate personnel in the timely and accurate application of cash receipts and has implemented monitoring controls to ensure these procedures are followed.

With respect to revenue recognition, the Company is educating its sales, operations and accounting staff on the proper recognition of revenue, has updated its policies and procedures to incorporate these guidelines and is evaluating the need for enhanced controls, as necessary.

The actions that we are taking are subject to ongoing senior management review as well as audit committee oversight. The Company continues to make progress and it plans to complete this remediation as quickly as possible, however, at this time, we are not able to estimate how long it will take.

Changes in Internal Control over Financial Reporting and other Remediation

Except as for the remediation items described in Item 4 related to prior year findings, 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 |
|-------------|--|
| 2.1 | Stock Purchase Agreement between Riello Investimenti Partners SGR S.p.A., Giorgio Visentini, Giorgio Frassini, Giancarlo Sclabi and Matteo Talmassons and SIFCO Italy Holdings S.R.L (a wholly-owned subsidiary of SIFCO Industries Inc.) dated March 16, 2015 filed as Exhibit 2.1 to the Company's Form 8-K dated July 2, 2015, and incorporated herein by reference |
| 2.2 | Amendment to the Stock Purchase Agreement Riello Investimenti Partners SGR S.p.A., Giorgio Visentini, Giorgio Frassini, Giancarlo Sclabi and Matteo Talmassons and SIFCO Italy Holdings S.R.L (a wholly-owned subsidiary of SIFCO Industries Inc.) dated June 30, 2015 filed as Exhibit 2.2 to the Company's Form 8-K dated July 2, 2015, and incorporated herein by reference |
| 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, 2016, filed as Exhibit 3.2 of the Company's Form 10-K dated September 30, 2015, 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 |
| 4.5 | Credit and Security Agreement among KeyBank National Association and SIFCO Industries, Inc. (and subsidiaries) dated June 26, 2015, filed as Exhibit 4.1 to the Company's Form 8-K dated July 2, 2015 and incorporated herein by reference |
| 4.6 | First Amendment to Credit and Security Agreement among KeyBank National Association and SIFCO Industries, Inc. (and subsidiaries) dated August 5, 2016 filed as Exhibit 4.1 to the Company's Form 8-K dated August 10, 2016 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, filed as Exhibit 9.2 to the Company's Form 10-Q dated December 31, 2014 and incorporated herein by reference |
| 10.1 | 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 |
| 10.2 | 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 by reference |
| 10.3 | 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 |
| 10.4 | Change in Control Agreement and Separation Agreement between the Company and Peter W. Knapper, effective June 29, 2016, filed as Exhibit 10.2 to the Company's Form 8-K dated June 17, 2016, and incorporated herein by reference |
| 10.5 | Change in Control Agreement between the Company and Salvatore Incanno, dated May 11, 2015, filed as Exhibit 10.1 to the Company's Form 8-K dated May 11, 2015, and incorporated herein by reference |
| 10.6 | Form of SIFCO Industries, Inc. Long-term incentive plan performance share award, filed as Exhibit 10.6 to the Company's Form 10-Q dated May 16, 2016, and incorporated herein by reference |
| 10.7 | Form of SIFCO Industries, Inc. Long-term incentive plan restricted share award, filed as Exhibit 10.7 to the Company's Form 10-Q dated May 16, 2016, and incorporated herein by reference |
| 10.8 | Award agreement between the Company and Peter W. Knapper, granted June 29, 2016, filed as Exhibit 10.1 to the Company's Form 8-K dated June 17, 2016, 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 June 30, 2016 filed with the SEC on August 9, 2016, formatted in XBRL includes: (i) Consolidated Condensed Statements of Operations for the fiscal periods ended June 30, 2016 and 2015, (ii) Consolidated Condensed Statements of Comprehensive Income for the fiscal periods ended June 30, 2016 and |

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2015, (iii) Consolidated Condensed Balance Sheets at June 30, 2016 and September 30, 2015,
(iv) Consolidated Condensed Statements of Cash Flow for the fiscal periods ended June 30, 2016 and 2015,
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: August 9, 2016 /s/ Peter W. Knapper
Peter W. Knapper
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2016 /s/ Salvatore Incanno
Salvatore Incanno
Chief Financial Officer
(Principal Financial Officer)