

SIFCO INDUSTRIES INC

Form 10-Q/A

December 10, 2007

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

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from _____ to _____

Commission file number 1-5978

SIFCO Industries, Inc.

(Exact name of registrant as specified in its charter)

Ohio

34-0553950

(State or other jurisdiction of incorporation or organization)

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

970 East 64th Street, Cleveland Ohio

44103

(Address of principal executive offices)

(Zip Code)

(216) 881-8600

(Registrant's telephone number, including area code)

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 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

Accelerated filer

Non-accelerated filer

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, 2007 was 5,274,174.

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Explanatory Note

During the fourth quarter of fiscal year 2007, the Company reevaluated its U.S. income tax provision and determined that it had, during the third quarter of fiscal year 2007, incorrectly reflected the accounting for (i) the reversal of its valuation allowance against its net deferred tax assets and (ii) the recognition of the tax benefit resulting from the utilization in fiscal 2007 of its U.S. net operating loss carry forwards. This resulted in the understatement of the Company's U.S. income tax provision and the overstatement of the Company's income from continuing operations for the nine months ended June 30, 2007 in the amount of \$1,780,000. Of the \$1,780,000 restatement of the Company's U.S. income tax provision, \$1,826,000 was recognized as an increase to its deferred income tax provision and \$46,000 was recognized as a decrease to its current income tax provision.

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		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Restated)		(Restated)	
Net sales	\$ 24,022	\$ 18,780	\$ 64,678	\$ 50,837
Operating expenses:				
Cost of goods sold	18,435	15,270	49,118	41,657
Selling, general and administrative expenses	3,144	3,004	8,422	8,184
Loss (gain) on disposal of operating assets	(140)	83	(136)	87
Total operating expenses	21,439	18,357	57,404	49,928
Operating income	2,583	423	7,274	909
Interest income	(1)	(14)	(3)	(50)
Interest expense	53	22	107	55
Foreign currency exchange loss (gain), net	(6)	(3)	(14)	8
Other (income) expense, net	24	(166)	(9)	(205)
Income from continuing operations before income tax provision	2,513	584	7,193	1,101
Income tax provision	618		730	20
Income from continuing operations	1,895	584	6,463	1,081
Income (loss) from discontinued operations, net of tax	(1,532)	2,747	(1,897)	151
Net income	\$ 363	\$ 3,331	\$ 4,566	\$ 1,232
Income per share from continuing operations				
Basic	\$ 0.36	\$ 0.11	\$ 1.23	\$ 0.21
Diluted	\$ 0.36	\$ 0.11	\$ 1.23	\$ 0.21

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Income (loss) per share from discontinued operations, net of tax				
Basic	\$ (0.29)	\$ 0.53	\$ (0.36)	\$ 0.03
Diluted	\$ (0.29)	\$ 0.53	\$ (0.36)	\$ 0.03
Net income per share				
Basic	\$ 0.07	\$ 0.64	\$ 0.87	\$ 0.24
Diluted	\$ 0.07	\$ 0.64	\$ 0.87	\$ 0.24
Weighted-average number of common shares (basic)	5,252	5,222	5,237	5,222
Weighted-average number of common shares (diluted)	5,311	5,228	5,274	5,226
See notes to unaudited consolidated condensed financial statements.				

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

	June 30, 2007 (Unaudited) (Restated)	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,780	\$ 4,744
Receivables, net	20,349	18,652
Inventories	12,873	8,052
Refundable income taxes	22	188
Deferred income taxes	2,992	
Prepaid expenses and other current assets	314	601
Total current assets	42,330	32,237
Property, plant and equipment, net	13,218	14,059
Other assets	2,374	2,479
Total assets	\$ 57,922	\$ 48,775
 LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 2	\$ 52
Accounts payable	9,748	10,454
Accrued liabilities	5,820	6,720
Total current liabilities	15,570	17,226
Long-term debt, net of current maturities	2,646	427
Other long-term liabilities	7,089	5,939
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 5,274 and 5,222 shares at June 30, 2007 and September 30, 2006	5,274	5,222
Additional paid-in capital	6,333	6,323
Retained earnings	27,666	23,100
Accumulated other comprehensive loss	(6,656)	(9,462)

Total shareholders' equity	32,617	25,183
Total liabilities and shareholders' equity	\$ 57,922	\$ 48,775

See notes to unaudited consolidated condensed financial statements.

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

	Nine Months Ended June 30,	
	2007	2006
	(Restated)	
Cash flows from operating activities:		
Net income	\$ 4,566	\$ 1,232
Loss (income) from discontinued operations, net of tax	1,897	(151)
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,081	1,057
Loss (gain) on disposal of property, plant and equipment	(136)	88
Deferred income taxes	594	
Share transactions under employee stock plan	61	117
Changes in operating assets and liabilities:		
Receivables	(4,168)	(4,128)
Inventories	(5,174)	(1,234)
Refundable income taxes	(14)	(15)
Prepaid expenses and other current assets	79	(41)
Other assets	105	82
Accounts payable	(12)	4,006
Accrued liabilities	39	(619)
Other long-term liabilities	12	(187)
Net cash provided by (used for) operating activities of continuing operations	(1,069)	207
Net cash used for operating activities of discontinued operations	(3,464)	(1,398)
Cash flows from investing activities:		
Capital expenditures	(1,051)	(656)
Proceeds from disposal of property, plant and equipment	57	
Acquisition of business, net of cash acquired		(436)
Other	39	37
Net cash used for investing activities of continuing operations	(955)	(1,055)
Net cash provided by investing activities of discontinued operations	4,047	7,566
Cash flows from financing activities:		
Proceeds from revolving credit agreement	23,104	11,451
Repayments of revolving credit agreement	(21,373)	(10,898)
Proceeds from other debt	718	82
Repayments of other debt	(284)	(114)

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Net cash provided by financing activities of continuing operations	2,165	521
Net cash used for financing activities of discontinued operations		(1,913)
Increase in cash and cash equivalents	724	3,928
Cash and cash equivalents at the beginning of the period	4,744	884
Effect of exchange rate changes on cash and cash equivalents	312	
Cash and cash equivalents at the end of the period	\$ 5,780	\$ 4,812
Supplemental disclosure of cash flow information of continuing operations:		
Cash paid for interest	\$ (81)	\$ (116)
Cash paid for income taxes, net	(72)	(530)
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 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. The U.S. dollar is the functional currency for all of the Company's U.S. operations and, effective October 1, 2006, the euro is the functional currency of the Company's Irish subsidiary. Prior to the sale in 2006 of the large aerospace portion of the Irish subsidiary's turbine engine component repair business, a substantial majority of the transactions of the Company's Irish subsidiary were denominated in U.S. dollars and, therefore, its functional currency was the U.S. dollar. 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 2006 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

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, 2006	261,000	\$6.55		
Options granted				
Options exercised	(105,250)	\$9.30		
Options canceled	(31,500)	\$5.94		
June 30, 2007	124,250	\$4.37	6.0	\$1,777
Vested or expected to vest at June 30, 2007	118,250	\$4.41	5.9	\$1,688
Exercisable at June 30, 2007	78,000	\$4.77	5.0	\$1,085

As of June 30, 2007, there was \$25 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 1.2 years.

Under the Company's restricted stock program, Common Shares of the Company may be granted at no cost to certain 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 was charged to shareholders' equity and subsequently amortized to expense over the vesting periods. All such compensation expense was fully amortized and recognized as of September 30, 2006. Compensation expense related to amortization of unearned compensation was \$56 in the nine months ended June 30, 2006.

Table of Contents**2. Inventories**

Inventories consist of:

	June 30, 2007	September 30, 2006
Raw materials and supplies	\$ 5,143	\$ 3,220
Work-in-process	5,430	3,222
Finished goods	2,300	1,610
Total inventories	\$ 12,873	\$ 8,052

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for 74% and 59% of the Company's inventories at June 30, 2007 and September 30, 2006, respectively. Cost is determined using the specific identification method for approximately 10% and 12% of the Company's inventories at June 30, 2007 and September 30, 2006, respectively. The first-in, first-out (FIFO) method is used for the remainder of the inventories. If the FIFO method had been used for the inventories for which cost is determined using the LIFO method, inventories would have been \$7,335 and \$6,860 higher than reported at June 30, 2007 and September 30, 2006, respectively.

3. Comprehensive Income and Accumulated Other Comprehensive Loss

Total comprehensive income is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Net income	\$ 363	\$ 3,331	\$ 4,566	\$ 1,232
Foreign currency translation adjustment	115	85	1,848	82
Currency exchange contract adjustment		131		332
Minimum pension liability adjustment	958		958	
Total comprehensive income	\$ 1,436	\$ 3,547	\$ 7,372	\$ 1,646

The components of accumulated other comprehensive loss are as follows:

	June 30, 2007	September 30, 2006
Foreign currency translation adjustment	\$ (4,795)	\$ (6,643)
Minimum pension liability adjustment	(1,861)	(2,819)
Total accumulated other comprehensive loss	\$ (6,656)	\$ (9,462)

4. Long-Term Debt

In February 2007, the Company entered into an agreement with its bank to extend the maturity date of its revolving credit agreement to April 1, 2008. In May 2007, the Company entered into an agreement with its bank to extend the maturity date of its revolving credit agreement to October 1, 2008. The Company was in compliance with all applicable covenants as of June 30, 2007.

5. Income Taxes

During the third quarter of fiscal 2007, in addition to recognizing, at statutory rates, the utilization of approximately \$2,300 of the Company's deferred tax benefits associated with available U.S. net operating loss carryforwards, the Company (i) provided approximately \$1,300 of U.S. deferred income taxes on the undistributed earnings of its non-U.S. subsidiaries that are available for distribution as of June 30, 2007 and (ii) reversed a substantial portion of the valuation allowance previously established against its net deferred tax assets and, accordingly, recognized a U.S. deferred income tax benefit of approximately \$2,900. This benefit was recognized because management has determined that it is more likely than not that the Company will realize the benefit of such items. Factors considered by management in its determination of the probability of the realization of its deferred tax benefits include (i) historical operating results, (ii) projected future taxable income, and (iii) tax planning strategies available to the Company.

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The Company identifies reportable segments based upon distinct products manufactured and services provided. 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 Turbine Component Services and Repair Group (Repair Group) consists primarily of the repair and remanufacture of small aerospace turbine engine components. The Repair Group is also involved in precision component machining and high-temperature resistant industrial coating applications for turbine engine components. The Applied Surface Concepts Group is a provider of specialized selective electrochemical 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		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net sales:				
Aerospace Component Manufacturing Group	\$ 16,941	\$ 12,534	\$ 44,494	\$ 32,692
Turbine Component Services and Repair Group	3,584	3,185	9,399	9,079
Applied Surface Concepts Group	3,497	3,061	10,785	9,066
Consolidated net sales from continuing operations	\$ 24,022	\$ 18,780	\$ 64,678	\$ 50,837
Operating income (loss):				
Aerospace Component Manufacturing Group	\$ 2,583	\$ 1,333	\$ 7,137	\$ 2,415
Turbine Component Services and Repair Group	403	(7)	381	59
Applied Surface Concepts Group	152	(411)	939	(374)
Corporate unallocated expenses	(555)	(492)	(1,183)	(1,191)
Consolidated operating income from continuing operations	2,583	423	7,274	909
Interest expense, net	52	8	104	5
Foreign currency exchange loss (gain), net	(6)	(3)	(14)	8
Other expense (income), net	24	(166)	(9)	(205)
Consolidated income from continuing operations before income tax provision	\$ 2,513	\$ 584	\$ 7,193	\$ 1,101

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		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006

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Service cost	\$ 70	\$ 235	\$ 210	\$ 694
Interest cost	252	355	756	1,086
Expected return on plan assets	(301)	(374)	(902)	(1,158)
Amortization of prior service cost	33&nbs			