

SIFCO INDUSTRIES INC
Form 10-Q
February 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2011

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)

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Ohio (State or other jurisdiction of incorporation or organization)	34-0553950 (I.R.S. Employer Identification No.)
970 East 64th Street, Cleveland Ohio (Address of principal executive offices)	44103 (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 December 31, 2011 was 5,290,328.

Part I. Financial Information**Item 1. Financial Statements****SIFCO Industries, Inc. and Subsidiaries****Consolidated Condensed Statements of Operations****(Unaudited)****(Amounts in thousands, except per share data)**

	Three Months Ended December 31,	
	2011	2010
Net sales	\$ 28,510	\$ 21,396
Operating expenses:		
Cost of goods sold	22,045	16,421
Selling, general and administrative expenses	3,969	3,176
Amortization of intangible assets	815	57
Total operating expenses	26,829	19,654
Operating income	1,681	1,742
Interest income	(7)	(22)
Interest expense	94	20
Foreign currency exchange (gain) loss, net	(22)	4
Other income, net	(117)	(117)
Income before income tax provision	1,733	1,857
Income tax provision	547	651
Net income	\$ 1,186	\$ 1,206
Net income per share		
Basic	\$ 0.22	\$ 0.23
Diluted	\$ 0.22	\$ 0.23
Weighted-average number of common shares (basic)	5,299	5,259
Weighted-average number of common shares (diluted)	5,325	5,290

See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Balance Sheets

(Amounts in thousands, except per share data)

	December 31, 2011 (unaudited)	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,784	\$ 6,431
Receivables, net	20,850	20,739
Inventories, net	17,069	10,239
Refundable income taxes	19	281
Deferred income taxes	1,378	1,500
Prepaid expenses and other current assets	1,040	468
Total current assets	47,140	39,658
Property, plant and equipment, net	32,193	27,558
Intangible assets, net	16,791	8,506
Goodwill	6,830	3,493
Other assets	916	796
Total assets	\$ 103,870	\$ 80,011
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 2,002	\$ 30
Accounts payable	8,239	9,778
Accrued liabilities	3,426	4,626
Total current liabilities	13,667	14,434
Long-term debt, net of current maturities	24,702	1,186
Deferred income taxes	2,004	2,233
Other long-term liabilities	8,551	8,749
Shareholders' equity:		
Serial preferred shares, no par value, authorized 1,000 shares	0	0
Common shares, par value \$1 per share, authorized 10,000 shares; issued shares 5,334 at December 31, 2011 and 5,335 at September 30, 2011; outstanding shares 5,299 at December 31, 2011 and September 30, 2011	5,334	5,335
Additional paid-in capital	7,254	7,032
Retained earnings	55,308	54,122
Accumulated other comprehensive loss	(12,590)	(12,702)
Common shares held in treasury at cost, 35 shares at December 31, 2011 and 36 shares at September 30, 2011	(360)	(378)
Total shareholders' equity	54,946	53,409
Total liabilities and shareholders' equity	\$ 103,870	\$ 80,011

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See notes to unaudited consolidated condensed financial statements.

SIFCO Industries, Inc. and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Three Months Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 1,186	\$ 1,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,660	620
LIFO provision	159	42
Share transactions under company stock plan	239	54
Other	(54)	(6)
Changes in operating assets and liabilities:		
Receivables	3,662	1,085
Inventories	(3,175)	678
Refundable income taxes	262	572
Prepaid expenses and other current assets	(374)	(126)
Accounts payable	(1,883)	(1,640)
Accrued liabilities	(203)	(379)
Other	(187)	(53)
 Net cash provided by operating activities	 1,292	 2,053
Cash flows from investing activities:		
Acquisition of business	(24,809)	(22,674)
Capital expenditures	(526)	(630)
 Net cash used for investing activities	 (25,335)	 (23,304)
Cash flows from financing activities:		
Proceeds from term note	10,000	0
Repayments of term note	(500)	0
Proceeds from revolving credit agreement	25,886	11,674
Repayments of revolving credit agreement	(12,270)	0
Proceeds from other debt	2,400	0
Dividends paid	(1,060)	(789)
Other	(28)	(28)
 Net cash provided by financing activities	 24,428	 10,857
 Increase (decrease) in cash and cash equivalents	 385	 (10,394)
Cash and cash equivalents at the beginning of the period	6,431	18,671
Effect of exchange rate changes on cash and cash equivalents	(32)	(12)
 Cash and cash equivalents at the end of the period	 \$ 6,784	 \$ 8,265

Supplemental disclosure of cash flow information of continuing operations:

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Cash paid for interest	\$	(87)	\$	(13)
Cash paid for income taxes, net		(115)		(63)
See notes to unaudited consolidated condensed financial statements.				

SIFCO Industries, Inc. and Subsidiaries
Notes to Unaudited Consolidated Condensed Financial Statements

(Dollars in thousands, except share and 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. For the Company's other non-U.S. subsidiaries, the functional currency is the local currency. 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. 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 2011 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 may have been reclassified in order to conform to current period classifications.

B. Net Income Per Share

The Company's net income per basic share has been computed based on the weighted-average number of common shares outstanding. Net income per diluted share reflects the effect of the Company's outstanding stock options under the treasury stock method. The dilutive effect of the Company's stock options was 26,000 and 31,000 shares for the three months ended December 31, 2011 and 2010, respectively. However, during periods when operating losses may occur, outstanding stock options would not be included in the calculation of net loss per diluted share because such inclusion would be anti-dilutive.

C. Derivative Financial Instruments

The Company uses an interest rate swap agreement to reduce risk related to variable-rate debt, which is subject to changes in market rates of interest. The interest rate swap is designated as a cash flow hedge. At December 31, 2011, the Company held one interest rate swap agreement with a notional amount of \$9,500. Cash flows related to the interest rate swap agreement are included in interest expense. The Company's interest rate swap agreement and its variable-rate term debt are based upon LIBOR. During the first quarter of fiscal year 2012, the Company's interest rate swap agreement qualified as a fully effective cash flow hedge against the Company's variable-rate term note interest risk. The following table reports the effects of the mark-to-market valuation of the Company's interest rate swap agreement for the three months ended December 31, 2011:

Interest rate swap agreement market adjustment	\$ (72)
Tax effect of interest rate swap agreement market adjustment	27
Net interest rate swap agreement market adjustment	\$ (45)

2. Inventories

Inventories consist of:

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	December 31, 2011	September 30, 2011
Raw materials and supplies	\$ 5,451	\$ 4,216
Work-in-process	6,915	3,194
Finished goods	4,703	2,829
Total inventories	\$ 17,069	\$ 10,239

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method for 48% and 54% of the Company's inventories at December 31, 2011 and September 30, 2011, 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 \$8,132 and \$7,974 higher than reported at December 31, 2011 and September 30, 2011, respectively.

3. Goodwill and Intangible Assets

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

December 31, 2011	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Intangible assets:				
Trade name	10 years	\$ 1,900	\$ 112	\$ 1,788
Non-compete agreement	5 years	1,300	132	1,168
Below market lease	5 years	900	190	710
Customer relationships	10 years	13,200	825	12,375
Order backlog	1 year	2,200	1,450	750
Transition services agreement	< 1 year	23	23	