

SIFCO INDUSTRIES INC  
Form 10-Q  
May 04, 2018

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 March 31, 2018  
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 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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act. "

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

The number of the Registrant's Common Shares outstanding at March 31, 2018 was 5,691,164

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## 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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net sales	\$27,794	\$31,302	\$52,044	\$62,776
Cost of goods sold	25,265	27,643	47,487	54,948
Gross profit	2,529	3,659	4,557	7,828
Selling, general and administrative expenses	3,861	4,396	7,933	9,699
Amortization of intangible assets	433	573	858	1,165
Gain on disposal of operating assets	(29)	—	(1,429)	(6)
Operating loss	(1,736)	(1,310)	(2,805)	(3,030)
Interest income	(14)	(16)	(29)	(30)
Interest expense	436	541	886	1,219
Foreign currency exchange (gain) loss, net	(43)	12	(80)	17
Other income, net	(80)	(107)	(396)	(214)
Loss from operations before income tax expense (benefit)	(2,035)	(1,740)	(3,186)	(4,022)
Income tax expense (benefit)	3	(83)	(237)	244
Net loss	\$(2,038)	\$(1,657)	\$(2,949)	\$(4,266)
Net loss per share				
Basic	\$(0.37)	\$(0.30)	\$(0.53)	\$(0.78)
Diluted	\$(0.37)	\$(0.30)	\$(0.53)	\$(0.78)
Weighted-average number of common shares (basic)	5,535	5,479	5,519	5,473
Weighted-average number of common shares (diluted)	5,535	5,479	5,519	5,473

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net loss	\$(2,038)	\$(1,657)	\$(2,949)	\$(4,266)
Other comprehensive income (loss):				
Foreign currency translation adjustment	534	245	831	(803)
Retirement plan liability adjustment	161	214	323	448
Interest rate swap agreement adjustment	—	13	19	29
Comprehensive loss	\$(1,343)	\$(1,185)	\$(1,776)	\$(4,592)

See notes to unaudited consolidated condensed financial statements.

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

	March 31, 2018 (unaudited)	September 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 885	\$ 1,399
Receivables, net of allowance for doubtful accounts of \$488,261 and \$330, respectively		25,894
Inventories, net	18,874	20,381
Refundable income taxes	99	292
Prepaid expenses and other current assets	2,016	1,644
Assets held for sale	1,027	2,524
Total current assets	49,112	52,134
Property, plant and equipment, net	37,894	39,508
Intangible assets, net	6,075	6,814
Goodwill	12,544	12,170
Other assets	175	261
Total assets	\$ 105,800	\$ 110,887
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 7,463	\$ 7,560
Revolving credit agreement	16,807	18,557
Accounts payable	13,225	12,817
Accrued liabilities	7,095	6,791
Total current liabilities	44,590	45,725
Long-term debt, net of current maturities	4,048	5,151
Deferred income taxes	2,478	3,266
Pension liability	5,972	6,184
Other long-term liabilities	117	430
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 —5,691 at March 31, 2018 and 5,596 at September 30, 2017	5,691	5,596

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Additional paid-in capital	9,664		9,519	
Retained earnings	41,318		44,267	
Accumulated other comprehensive loss	(8,078	)	(9,251	)
Total shareholders' equity	48,595		50,131	
Total liabilities and shareholders' equity	\$	105,800	\$	110,887

See notes to unaudited consolidated condensed financial statements.

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

	Six Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(2,949)	\$(4,266)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,319	4,939
Amortization and write-off of debt issuance cost	110	328
Gain on disposal of operating assets	(1,429)	(6)
LIFO expense	115	225
Share transactions under company stock plan	242	325
Other long-term liabilities	(203)	202
Deferred income taxes	(896)	32
Changes in operating assets and liabilities:		
Receivables	(10)	(1,245)
Inventories	1,606	2,581
Refundable taxes	194	(52)
Prepaid expenses and other current assets	(382)	322
Other assets	73	243
Accounts payable	451	881
Other accrued liabilities	(445)	597
Accrued income and other taxes	592	167
Net cash provided by operating activities	1,388	5,273
Cash flows from investing activities:		
Proceeds from disposal of operating assets	3,023	48
Capital expenditures	(1,561)	(964)
Net cash provided by (used for) investing activities	1,462	(916)
Cash flows from financing activities:		
Payments on long term debt	(1,936)	(12,907)
Proceeds from revolving credit agreement	34,243	45,069
Repayments of revolving credit agreement	(35,993)	(36,247)
Payment of debt issue costs	(100)	(498)
Short-term debt borrowings	3,093	2,330
Short-term debt repayments	(2,705)	(1,218)
Net cash used for financing activities	(3,398)	(3,471)
(Decrease) Increase in cash and cash equivalents	(548)	886
Cash and cash equivalents at the beginning of the period	1,399	471
Effect of exchange rate changes on cash and cash equivalents	34	(1)
Cash and cash equivalents at the end of the period	\$885	\$1,356
Supplemental disclosure of cash flow information of operations:		
Cash paid for interest	\$(702)	\$(790)
Cash refund (paid) for income taxes, net	159	(55)
See notes to unaudited consolidated condensed financial statements.		





SIFCO Industries, Inc. and Subsidiaries

Notes to Unaudited Consolidated Condensed Financial Statements

(Amounts in thousands, except per share data)

1. Summary of Significant Accounting Policies

A. Principles of Consolidation

The accompanying unaudited consolidated condensed financial statements include the accounts of SIFCO Industries, Inc. and its wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The U.S. dollar is the functional currency for all of the Company's U.S. operations and its Irish subsidiaries. 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 2017 Annual Report on Form 10-K. The year-end consolidated balance sheet data was derived from the audited financial statements and disclosures required by accounting principles generally accepted accounting in the United States ("U.S."). 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 2017 Annual Report on Form 10-K, except for the following:

Income taxes

On December 22, 2017, the U.S. enacted the Tax Cut and Jobs Act (the "Act") which, among other items, reduces the U.S. corporate tax rate effective January 1, 2018 from 35% to 21%, creates a participation exemption regime for future distributions of foreign earnings, imposes a one-time transition tax on a taxpayer's foreign subsidiaries' earnings not previously subject to U.S. taxation and creates new taxes on certain foreign-sourced earnings. On the same date the Act was enacted, the Securities and Exchange Commission (the "SEC") issued Staff Bulletin 118 ("SAB 118"). SAB 118 expresses views of the SEC regarding ASC Topic 740, Income taxes ("ASC 740") in the reporting period that includes the enactment date of the Act. The SEC staff, in issuing SAB 118 recognized that a company's review of certain income tax effects of the Act may be incomplete at the time the financial statements are issued for the reporting period that includes the enactment date, including interim periods therein. If a company does not have the necessary information available, prepared or analyzed for certain income tax effects of the Act, SAB 118 allows a company to report provisional numbers and adjust those amounts during the measurement period not to extend beyond one year from the day of enactment.

The Act also includes provisions for Global Intangible Low-Taxed Income ("GILTI") wherein taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. This income will effectively be taxed at a 10.5% tax rate in general. Because of the complexity of the new provisions, the Company is continuing to evaluate how the provisions will be accounted for under the U.S. generally accepted accounting principles wherein companies are allowed to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the Company is subject to the rules (the "period cost method"), or (ii) account for GILTI in the Company's measurement of deferred taxes (the "deferred method"). Currently, the Company has not elected a method and will only do so after its completion of the analysis of the GILTI provisions and its election method will depend, in part, on analyzing its global income to determine whether the Company expects to have future material U.S. inclusions in its taxable income related to GILTI and, if so, the impact that is expected.

Refer to Note 5, Income Taxes.



## 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. Due to the net loss for each reporting period, no restricted shares are included in the calculation of basic or diluted earnings per share because the effect would be anti-dilutive. The dilutive effect of the Company's restricted shares and performance shares were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Net loss	\$(2,038)	\$(1,657)	\$(2,949)	\$(4,266)
Weighted-average common shares outstanding (basic and diluted)	5,535	5,479	5,519	5,473
Net loss per share – basic and diluted:				
Net loss per share	\$(0.37 )	\$(0.30 )	(0.53 )	\$(0.78 )
Anti-dilutive weighted-average common shares excluded from calculation of diluted earnings per share	140	120	125	90

## D. Derivative Financial Instruments

The Company entered into an interest rate swap agreement on March 29, 2016 to reduce risk related to variable-rate debt, which was subject to changes in market rates of interest. The interest rate swap was designated as a cash flow hedge. The agreement was canceled as part of the debt modification on November 9, 2016, as further discussed in Note 4, Debt. The Company accounted for the interest rate swap termination by releasing the loss in accumulated other comprehensive loss as of December 31, 2016 into earnings. The amount incurred in interest expense was nominal. As part of the Credit Facility, described further in Note 4, Debt, the Company entered into a new interest rate swap on November 30, 2016 to reduce risk related to the variable debt over the life of the new term loan.

At March 31, 2018, the Company held one interest rate swap agreement with a notional amount of \$3,572. 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 was based upon LIBOR. The interest rate swap was dedesignated as a cash flow hedge as of March 31, 2018. Due to the dedesignation of the interest rate swap, future changes in the fair value are recorded in current period earnings, which are included in interest expense. The change in fair value was a \$17 gain at March 31, 2018. The Company's interest rate swap agreement had previously qualified as a fully effective cash flow hedge against the Company's variable-rate debt. The mark-to-market valuation prior to dedesignation was a \$23 asset at March 31, 2018. The Company will not offset this balance from accumulated other comprehensive loss into earnings until the forecasted transaction either effects earnings or subsequently becomes probable of not occurring. The mark-to-market valuation was a \$4 asset at September 30, 2017.

## E. Impact of Recently Issued Accounting Standards

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows an optional reclassification from accumulated other comprehensive income to retained earnings for standard tax effects resulting from the Act. ASU 2018-02 must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. This ASU is effective for fiscal years, including interim periods within, beginning after December 15, 2018 with early adoption permitted in any interim period. Due to the valuation allowance in the U.S., the Company has elected not to adopt this optional reclassification.

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 standard requires a modified retrospective transition for capital and operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial adoption. 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 will adopt the new guidance on October 1, 2019 and is currently evaluating the requirements of ASU 2016-02 and anticipates that the adoption will impact the consolidated condensed balance sheets due to the recognition of the right-to-use asset and lease liability related to its current operating leases.

In May 2014, the FASB issued 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. The Company will adopt the new guidance on October 1, 2018. The Company is executing a bottom up approach to analyze the standard's impact on its revenues by looking at historical policies and practices and identifying the differences from applying the new standard to its revenue streams. SIFCO has developed a project plan and is currently reviewing its contracts and evaluating the impact of the guidance on its revenue. The Company has determined that many of its long-term agreements contain variable consideration clauses and is in the process of quantifying the impact to its consolidated financial statements. In addition, some of the Company's agreements have clauses which may require the Company to recognize revenue over time. The majority of the Company's current revenue is recognized at a point-in-time. As such, SIFCO continues to evaluate the impact of the standard on its financial reporting, disclosures and related systems and internal controls. The Company has engaged a third party to assist with its efforts.

#### F. Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. ASU 2016-09 was adopted by the Company effective October 1, 2017.

This guidance requires all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement and also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company changed its policy to recognize the impact of forfeitures when they actually occur. There was no impact to the consolidated condensed financial statements as of October 1, 2017. Also, this guidance requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the consolidated condensed statement of cash flows as a financing activity, which differs from the Company's previous method of classification of such cash payments as an operating activity. The Company applied this provision retrospectively, and for the first quarter of fiscal 2017, the impact between operating activities to financing activities was nominal. This guidance also requires the tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur, which was applied prospectively, beginning October 1, 2017 by the Company. Due to the Company having recorded a domestic valuation allowance, the tax impact upon adoption of this ASU was not material to the consolidated condensed financial statements. Lastly, the guidance requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of excess tax benefits as cash inflows from financing activities. The Company elected to apply this provision using the prospective transition method.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which provides new guidance to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of this ASU in the first quarter ended December 31, 2017 had no impact on the Company's consolidated condensed financial statements.

## 2. Inventories

Inventories consist of:

	March 31, 2018	September 30, 2017
Raw materials and supplies	\$5,515	\$ 6,108
Work-in-process	6,808	7,650
Finished goods	6,551	6,623
Total inventories	\$18,874	\$ 20,381

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the last-in, first-out (“LIFO”) method for 42% and 38% of the Company’s inventories at March 31, 2018 and September 30, 2017, 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 \$8,434 and \$8,319 higher than reported at March 31, 2018 and September 30, 2017, respectively.

### 3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	March 31, 2018	September 30, 2017
Foreign currency translation adjustment	\$(3,776)	\$(4,607 )
Retirement plan liability adjustment, net of tax	(4,325 )	(4,648 )
Interest rate swap agreement adjustment, net of tax	23	4
Total accumulated other comprehensive loss	\$(8,078)	\$(9,251 )

### 4. Debt

Debt consists of:

	March 31, 2018	September 30, 2017
Revolving credit agreement	\$16,807	\$18,557
Foreign subsidiary borrowings	8,394	8,346
Capital lease obligations	297	352
Term loan	2,872	4,060
Less: unamortized debt issuance cost	(52 )	(47 )
Term loan less unamortized debt issuance cost	2,820	4,013
Total debt	28,318	31,268
Less – current maturities	(24,270 )	(26,117 )
Total long-term debt	\$4,048	\$5,151

On November 9, 2016, the Company entered into an Amended and Restated Credit and Security Agreement ("Credit Facility") with its Lender. The Credit Facility matures on June 25, 2020 and consisted of secured loans in an aggregate principal amount of up to \$39,871. The Credit Facility was comprised of (i) a senior secured revolving credit facility of a maximum borrowing amount of \$35,000, including swing line loans and letters of credit provided by the Lender and (ii) senior secured term loan facility in the amount of \$4,871 (the "Term Facility"). The Term Facility is repayable in monthly installments of \$81, which commenced December 1, 2016. The terms of the Credit Facility contain both a lock-box arrangement and subjective acceleration clause. As a result, the amounts outstanding on the revolving credit facility are classified as a short-term liability. The amounts borrowed under the Credit Facility were used to repay the amounts outstanding under the Company's previous Credit Agreement, for working capital, for general corporate purposes and to pay fees and expenses associated with this transaction. In connection with entering into the Credit Facility, the Company terminated its interest rate swap agreement with the Lender, as referenced in Note 1, Summary of Significant Accounting Policies - Derivative Financial Instruments.

Borrowings 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 Facility. The revolver has a rate based on LIBOR plus a 3.75% spread and a prime rate, which resulted in a weighted average rate of 5.5% at March 31, 2018 and the term loan has a rate of 5.6% at March 31, 2018, which was based on LIBOR plus a 4.25% spread. This rate becomes an effective fixed rate of 5.8% after giving effect to the interest rate swap agreement. There is also a commitment fee ranging from 0.15% to 0.375% to be incurred on the unused balance.

The Company entered into its First Amendment Agreement ("First Amendment") to the Credit Facility on February 16, 2017. The First Amendment assigned its Lender as Administrative Agent and assigned a portion of its Credit Facility to a participating Lender.

Under the Company's Credit Facility, the Company is subject to certain customary loan covenants. These include, without limitation, covenants that require maintenance of certain specified financial ratios, including that the Company meet a minimum EBITDA and the maintenance of a minimum fixed charge coverage ratio. In the event of a default, we may not be able to access our revolver, which could impact the ability to fund working capital needs, capital expenditures and invest in new business opportunities.

On August 4, 2017, the Company entered into its Second Amendment Agreement ("Second Amendment") with its Lender to (i) amend certain definitions within its Credit Facility to, among other things, effect the changes described herein and to reset the



Fixed Charge Coverage Ratio (as defined in the Credit Facility) to build to a trailing four quarters in each of the fiscal 2018 quarters, commencing with the quarter ended March 31, 2018; (ii) replace certain of its financial covenants outlined in the description of Credit Facility and amend its financial covenants with a revised minimum EBITDA for the four fiscal quarters ending September 30, 2017 and to maintain a fixed charge coverage ratio commencing on December 31, 2017; (iii) reduce its maximum revolving amount of \$35,000 to \$30,000; and (iv) provide that the Company must use its cash proceeds from the sale of the Irish building discussed in Note 10, Assets Held for Sale and Disposal to reduce the Term Facility by \$700 and use the remaining proceeds to reduce the revolver. On November 28, 2017, the Company obtained a consent letter from its Lender which extended to December 31, 2017 the date to consummate such sale of the Irish property.

On February 8, 2018, the Company entered into the Third Amendment Agreement (the “Third Amendment”) to its Credit Facility with the Agent and Lenders under the Credit Facility, in which the Company and the Agent and the Lenders agreed to, among other things, (i) amend the interest rate pricing spreads, (ii) add an owned real property location as part of the collateral and sell certain identified assets at our closed location in Alliance, (iii) adjust the calculation of EBITDA and certain financial covenants, and (iv) revise the financial covenants by adding a new minimum EBITDA test for a specific location and changing the timing of the tests and some of the covenant levels. The Company is in compliance with its loan covenants as of March 31, 2018.

#### Foreign subsidiary borrowings

As of March 31, 2018 and September 30, 2017, the total foreign debt borrowings (excluding capital leases) were \$8,394 and \$8,346, respectively, of which \$6,381 and \$5,805, respectively is the current portion. Current debt as of March 31, 2018 and September 30, 2017, consist of \$3,488 and \$2,618 of short-term borrowings, \$1,255 and \$1,340 is the current portion of long-term debt, and \$1,638 and \$1,847 of factoring, respectively. 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 sheet. The carrying value of the receivables pledged as collateral were \$3,889 and \$3,548 at March 31, 2018 and September 30, 2017, respectively.

#### Debt issuance costs

The Company incurred debt issuance costs related to the prior Credit Agreement in the amount of \$724. However, due to the previous Credit Agreement being modified in November 2016, the Company wrote off \$241 of debt issuance costs and incurred an additional \$497 in debt issuance costs. After considering amortization, the amount of debt issuance costs related to the Credit Facility was \$785. Due to the amendments outlined above, the Company incurred additional debt issuance costs during fiscal 2017 in the amount of \$64 and wrote off an additional \$81 of debt issuance costs. In fiscal 2018, in connection with the Third Amendment, the Company incurred an additional \$100 of deferred debt issuance costs. The amortized costs are included in interest expense in the accompanying consolidated condensed financial statements. Total debt issuance cost in the amount of \$868 is split between the Term Facility and the revolving credit facility. The portion noted above within the debt table relates to the Term Facility in the amount of \$75, net of amortization of \$23 at March 31, 2018. The remaining \$793 of debt issuance cost relates to the revolving credit facility. This portion is shown in the consolidated condensed balance sheet as a deferred charge in other current assets, net of amortization of \$269 at March 31, 2018.

#### 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 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 six months of fiscal 2018 was 7%, compared

with (6)% for the same period of fiscal 2017. This increase is primarily driven by discrete tax benefits of \$718 primarily related to tax legislation enacted during the first quarter of fiscal 2018 and tax impacts related to the sale of the Cork, Ireland building discussed further in Note 10, Assets Held for Sale and Disposal, partially offset by an increase in year-to-date non-U.S. income in the first quarter of fiscal 2018 compared with the first quarter of fiscal 2017. The effective tax rate differs from the U.S. federal statutory rate due primarily to the valuation allowance against the Company's U.S. deferred tax assets and income in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate.

In the second quarter of fiscal 2018, the Company's estimate with respect to the one-time transition tax remains provisional as final transition impacts may differ from the initial provisional estimate due to changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. As a result of the valuation allowance in the U.S. on tax attribute carryforwards, as of the second quarter of fiscal 2018, no charge to tax expense was recorded related to the one-time transition tax.

Additionally, as of the second quarter of fiscal 2018, the Company's estimate with respect to the impact of the Act upon its assessment of the realization of deferred taxes remains provisional as the Company continues to analyze the necessary information and evaluate assumptions made. During the first six months of fiscal 2018, the Company has released \$305 of valuation allowance on a portion of its U.S. deferred tax assets as a result of deferred tax liabilities for indefinite lived intangible assets now available as a source of income as a result of the Act.

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 March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Service cost	\$63	\$78	\$126	\$157
Interest cost	239	220	479	440
Expected return on plan assets	(401)	(404)	(803)	(809)
Amortization of net loss	161	214	323	429
Net periodic cost	\$62	\$108	\$125	\$217

During the six months ended March 31, 2018 and 2017, the Company made no contributions to its defined benefit pension plans. The Company anticipates making \$45 of additional cash contributions to fund its defined benefit pension plans during the balance of fiscal 2018 and will use carryover balances from previous periods that have been available for use as a credit to reduce the amount of cash contributions that the Company is required to make to certain defined benefit plans in fiscal 2018. The Company's ability to elect to use such carryover balance will be determined based on the actual funded status of each defined benefit pension plan relative to the plan's minimum regulatory funding requirements. The Company does not anticipate making cash contributions above the minimum funding requirement to fund its defined benefit pension plans during the balance of fiscal 2018.

#### 7. Stock-Based Compensation

The Company has awarded performance and restricted shares under its shareholder-approved amended and restated 2007 Long-Term Incentive Plan ("2007 Plan"), which was further amended and restated under the 2016 Long-Term Incentive Plan ("2016 Plan"). The aggregate number of shares that may be awarded by the Company was increased pursuant to 646 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 2016 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 both plans 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 200% 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 based on the probability of meeting the performance target. 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 six months of fiscal 2018, the Company granted 119 shares under the 2016 Plan to certain key employees. The award was split into two tranches, 68 performance shares and 51 shares of time-based restricted shares, with a grant date fair value of \$6.70. The award vests over three years. During the first half of the fiscal year, 5 performance shares and 3 time-based restricted shares were forfeited.

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 six months of fiscal 2018, the company granted its non-employee directors 47 restricted shares under the 2016 Plan, with a grant date fair value of \$6.55, which vests over one year. One award for 33 restricted shares vested.

If all outstanding share awards are ultimately earned and vest at the target number of shares, there are approximately 255 shares that remain available for award at March 31, 2018. 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 200% of such target, then a fewer number of shares would be available for award.

Stock-based compensation under the 2016 Plan was \$242 and \$345 during the first six months of fiscal 2018 and 2017, respectively and expense of \$47 for the three months ended in the second quarter of fiscal 2018 and \$187 for the three months ended in the second quarter of fiscal 2017. As of March 31, 2018, there was \$1,120 of total unrecognized compensation cost related to the performance shares and restricted shares awarded under the 2016 Plan. The Company expects to recognize this cost over the next 1.6 years.

#### 8. Commitments and Contingencies

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; however, it 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.

The Company was a defendant in a class action lawsuit filed in the Superior Court of California, County of Orange, arising from employee wage-and-hour claims under California law for alleged meal period, rest break, hourly and overtime wage calculation, timely wage payment and necessary expenditure indemnification violations; and unfair competition. Although the Company records reserves for legal disputes and other matters in accordance with generally accepted accounting principles in the United States of America ("GAAP"), the ultimate outcomes of these types of matters are inherently uncertain. Actual results may differ significantly from current estimates. Given the current status of this matter, the Company recorded an estimated loss of \$385 as of September 30, 2017 of which \$5 was paid as of September 30, 2017. An additional amount of \$11 was incurred in fiscal 2018 and \$391 was paid during the second quarter of fiscal 2018.

#### 9. Restructuring Costs

The Company completed the closure of the Alliance, Ohio ("Alliance") location in October 2017. Orders after September 30, 2017 are processed and manufactured by the Cleveland, Ohio location. As a result of the closure, Alliance incurred non-cash charges as of September 30, 2017. The remaining estimated exit costs were expensed as incurred, which included workforce reduction costs. Workforce reduction costs incurred at September 30, 2017 were approximately \$215, of which a \$15 was paid by September 30, 2017 and the remainder was paid in the first quarter of fiscal 2018.

#### 10. Assets Held for Sale and Disposal

The Company had assets held for sale as it related to the Cork, Ireland building and the Alliance building and certain machinery and equipment. In the first quarter of fiscal 2018, the Company signed a purchase agreement with a buyer for the sale of the building located in Cork, Ireland. The sale transaction was finalized on December 15, 2017 for cash proceeds of approximately \$3,078, resulting in an approximate gain of \$1,545. The net cash proceeds were received in January 2018. A portion of the net cash proceeds in the amount of \$2,447 was used to pay down the Term Facility and revolving credit facility as further discussed in Note 4, Debt.

The Alliance building and machinery and equipment are recorded as assets held for sale in the consolidated condensed balance sheets. The assets held for sale balance at March 31, 2018 and September 30, 2017 were \$1,027 and \$2,524, respectively. The balance at March 31, 2018 represents the Alliance building and certain machinery and equipment that continues to meet the asset held for sale classification due to the circumstances of the closure of Alliance and expected plan to sell. The Alliance assets fair value are stated at its orderly liquidation value. The Company expects to sell these assets during fiscal 2018.



## 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 products 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 turbine 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 provided by the Company include forging, heat-treating, machining, subassembly, and test. 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

#### 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 finalized the closure of its Alliance, Ohio ("Alliance") location in October 2017. Orders after September 30, 2017 are being processed and manufactured by its Cleveland, Ohio ("Cleveland") location. As a result of the closure of Alliance, impairment costs and restructuring costs were recorded in fiscal 2017. The remaining estimated exit costs were expensed as incurred, which include workforce reduction costs of \$0.2 million, which were paid in the first quarter of fiscal 2018. Certain machinery and equipment and the building remain classified as assets held for sale as of March 31, 2018.

The Company completed the sale of the Cork, Ireland building on December 15, 2017, see Note 10, Asset Held for Sale and Disposal.





Six Months Ended March 31, 2018 compared with Six Months Ended March 31, 2017

# Net Sales

Net sales for the first six months of fiscal 2018 decreased 17.1% to \$52.0 million, compared with \$62.8 million in the comparable period of fiscal 2017. Net sales comparative information for the first six months of fiscal 2018 and 2017 is as follows:

(Dollars in millions)	Six Months Ended March 31,		Increase/(Decrease)	
	2018	2017		
Net Sales				
Aerospace components for:				
Fixed wing aircraft	\$ 27.6	\$ 31.5	\$ (3.9	)
Rotorcraft	10.8	10.5	0.3	
Energy components for power generation units	12.2	15.5	(3.3	)
Commercial product and other revenue	1.4	5.3	(3.9	)
Total	\$ 52.0	\$ 62.8	\$ (10.8	)

The decrease in commercial product and other revenue sales is largely driven by a decrease in the Hellfire II missile program due to timing of orders. The decrease in fixed wing aircraft sales is primarily due to changes in build demand of Rolls Royce AE Engines due to a buffering plan for a customer plant closure which increased sales in fiscal 2017 and changes in build demand of certain legacy programs such as the Boeing 737NG, Boeing 777 and Airbus A320CEO, partially offset by improved pricing on certain programs. Energy components for power generation units decreased by \$3.3 million compared with the same period last year, of which \$2.6 million related to the closure of the Alliance location due to decreased demand from a major customer, and \$0.5 million due to planned refurbishment of a hammer at the Maniago, Italy ("Maniago") location that was completed in the first quarter of fiscal 2018.

Commercial net sales were 55.9% of total net sales and military net sales were 44.1% of total net sales in the first six months of fiscal 2018, compared with 56.6% and 43.4%, respectively, in the comparable period in fiscal 2017.

Military net sales decreased by \$4.3 million to \$23.0 million in the first six months of fiscal 2018, compared with \$27.3 million in the comparable period of fiscal 2017, primarily due to the timing of the Hellfire II missile program. Commercial net sales decreased \$6.5 million to \$29.0 million in the first six months of fiscal 2018, compared with \$35.6 million in the comparable period of fiscal 2017 primarily due to changes in legacy program build rates and closure of the Alliance location mentioned above.

# Cost of Goods Sold

Cost of goods sold decreased by \$7.4 million, or 13.6%, to \$47.5 million, or 91.2% of net sales, during the first six months of fiscal 2018, compared with \$54.9 million or 87.5% of net sales, in the comparable period of fiscal 2017. The decrease was due primarily to lower volumes as previously mentioned. The Company leveraged its lower volume by reducing labor costs by \$2.6 million and utility expense by \$0.7 million as well as a lower scrap expense of \$0.4 million partially offset by a \$0.6 million charge in excess and obsolete inventory for related inventory of its Alliance location.

# Gross Profit

Gross profit decreased \$3.3 million to \$4.6 million during the first six months of fiscal 2018, compared with \$7.8 million in the comparable period of fiscal 2017. Gross margin percent of sales was 8.8% during the first six months of fiscal 2018, compared with 12.5% in the comparable period in fiscal 2017. The decrease in gross profit was primarily due to lower sales volume and mix and the inventory write-down of its Alliance location.

# Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$7.9 million, or 15.2% of net sales during the first six months of fiscal 2018, compared with \$9.7 million, or 15.5% of net sales in the comparable period of fiscal 2017. The decrease in selling, general and administrative expenses is primarily due to \$1.9 million in lower expansion costs related to one of the Company's plant locations.

# Amortization of Intangibles and Asset Impairment of Long-lived Assets

Amortization of intangibles decreased \$0.3 million to \$0.9 million during the first six months of fiscal 2018, compared with \$1.2 million in the comparable period of fiscal 2017. The decrease was due to the impairment of certain definite-lived intangible assets related to the Alliance location in the third quarter of fiscal 2017.

Other/General

Interest expense decreased \$0.3 million to \$0.9 million in the first six months of fiscal 2018, compared with \$1.2 million in the same period in fiscal 2017. The decrease is primarily due to a \$0.2 million prior period write-off of deferred financing costs

associated with the Company's Amended and Restated Credit and Security Agreement ("Credit Facility") with its lender in fiscal 2017 and lower borrowing in the current period. See Note 4, Debt for further information.

The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's debt agreement in the first six months of both fiscal 2018 and 2017. The Company entered into an interest rate swap in the prior year as discussed in Note 1, Summary of Significant Accounting Policies - Derivatives Financial Instruments of the notes to the unaudited consolidated condensed statements:

	Weighted Average Interest Rate Six Months Ended March 31,		Weighted Average Outstanding Balance Six Months Ended March 31,	
	2018	2017	2018	2017
Revolving credit agreement	5.5%	4.6%	\$ 18.1 million	\$ 22.7 million
Term note	5.8%	5.0%	\$ 3.5 million	\$ 7.2 million
Foreign term debt	3.1%	3.0%	\$ 8.1 million	\$ 9.8 million

Other income, net, consists principally of \$0.4 million of rental income earned from the lease of the Company's Cork, Ireland ("Irish building") facility and grant income realized due to the sale of the Irish building in the first six months of fiscal 2018 compared with \$0.2 million in the first six months of fiscal 2017. No further rental income is expected to be received since the sale of the building was finalized in the first quarter of fiscal 2018. The Company also had a gain of \$1.4 million in the first six months of fiscal 2018 compared with a nominal amount in the first six months of fiscal 2017. The majority of the gain recognized was due to the sale of the Irish building. See Note 10, Assets Held for Sale and Disposal for further discussion on the sale of the Irish building in fiscal 2018.

#### Income Taxes

The Company's effective tax rate through the first six months of fiscal 2018 was 7%, compared with (6)% for the same period of fiscal 2017. This increase is primarily driven by discrete tax benefits of \$0.7 million primarily related to tax legislation enacted during the first quarter of fiscal 2018 and tax impacts related to the sale of the Cork, Ireland building discussed further in Note 10, Assets Held for Sale and Disposal, partially offset by an increase in year-to-date non-U.S. income in fiscal 2018 compared with fiscal 2017. The effective tax rate differs from the U.S. federal statutory rate due primarily to the valuation allowance against the Company's U.S. deferred tax assets and income in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate.

As of the second quarter of fiscal 2018, the Company's estimate with respect to the one-time transition tax remains provisional as final transition impacts may differ from the initial provisional estimate due to changes in interpretations of the Tax Cut and Jobs Act (the "Act"), any legislative action to address questions that arise because of the Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. As a result of the valuation allowance in the U.S. on tax attribute carryforwards, as of the second quarter of fiscal 2018, no charge to tax expense was recorded related to the one-time transition tax.

Additionally, as of the second quarter of fiscal 2018, the Company's estimate with respect to the impact of the Act upon its assessment of the realization of deferred taxes remains provisional as the Company continues to analyze the necessary information and evaluate assumptions made. As of the second quarter of fiscal 2018, the Company has released \$0.3 million of valuation allowance on a portion of its U.S. deferred tax assets as a result of deferred tax liabilities for indefinite lived intangible assets now available as a source of income as a result of the Act.

#### Net Loss

Net loss was \$2.9 million during the first six months of fiscal 2018, compared with a net loss of \$4.3 million in the comparable period of fiscal 2017. Net loss decreased primarily due to the decrease in selling, general and administrative costs, the gain on the sale of the Irish building and the tax benefits realized as noted above, partially

offset by lower gross profit on sales.

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Three Months Ended March 31, 2018 compared with Three Months Ended March 31, 2017

#### Net Sales

Net sales for the second quarter of fiscal 2018 decreased 11.2% to \$27.8 million, compared with \$31.3 million in the comparable period of fiscal 2017. Net sales comparative information for the second quarter of fiscal 2018 and 2017 is as follows:

(Dollars in millions)	Three Months Ended		Increase (Decrease)
	March 31, 2018	2017	
Net Sales			
Aerospace components for:			
Fixed wing aircraft	\$ 15.1	\$ 16.8	\$ (1.7 )
Rotorcraft	5.3	5.6	(0.3 )
Energy components for power generation units	6.1	7.8	(1.7 )
Commercial product and other revenue	1.3	1.1	0.2
Total	\$ 27.8	\$ 31.3	\$ (3.5 )

Total net sales for the Company decreased \$3.5 million in the second quarter of fiscal 2018 compared with the comparable period of fiscal 2017. The decrease in fixed wing aircraft sales is primarily due to timing or decline in demand of the Boeing 737NG, Boeing 777, and Airbus A320CEO legacy programs, partially offset by improved pricing on certain programs. Energy components for power generation units decreased by \$1.7 million compared to the same period last year, primarily due to \$1.5 million related to the closure of the Alliance location.

Commercial net sales were 55.4% of total net sales and military net sales were 44.6% of total net sales in the second quarter of fiscal 2018, compared with 59.5% and 40.5%, respectively, in the comparable period of fiscal 2017.

Military net sales decreased by \$0.3 million to \$12.4 million in the second quarter of fiscal 2018, compared with \$12.7 million in the comparable period of fiscal 2017, primarily due to timing of orders with the Hellfire II. Commercial net sales decreased \$3.2 million to \$15.4 million in the second quarter of fiscal 2018, compared with \$18.6 million in the comparable period of fiscal 2017 primarily due to the changes in build rates to the programs mentioned above.

#### Cost of Goods Sold

Cost of goods sold decreased by \$2.4 million, or 8.6% to \$25.3 million, or 90.9% of net sales, during the second quarter of fiscal 2018, compared with \$27.6 million or 88.3% of net sales, in the comparable period of fiscal 2017.

The decrease was due primarily to lower volumes as previously mentioned. The Company leveraged lower volume by reducing labor costs by \$1.0 million and utility expense of \$0.3 million, partially offset by \$0.6 million charge in excess and obsolete inventory for related inventory from its Alliance location.

#### Gross Profit

Gross profit decreased \$1.1 million to \$2.5 million during the second quarter of fiscal 2018, compared with \$3.7 million in the comparable period of fiscal 2017. Gross margin was 9.1% during the second quarter of fiscal 2018, compared with 11.7% in the comparable period in fiscal 2017. The decrease in gross profit was primarily due to the lost margin on the sales related to Alliance due to its closure in October 2017 and product mix partially offset by certain price increases in effect in the second quarter as noted above.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$3.9 million, or 13.9% of net sales, during the second quarter of fiscal 2018, compared with \$4.4 million, or 14.0% of net sales, in the comparable period of fiscal 2017. The decrease in selling, general and administrative expenses is primarily due to \$0.9 million in lower expansion costs related to one of the Company's plant locations partially offset by a \$0.2 million charge due to an uncollectible note receivable from a customer.

#### Amortization of Intangibles and Asset Impairment of Long-lived Assets

Amortization of intangibles was \$0.4 million during the second quarter of fiscal 2018 compared with \$0.6 million in the comparable period in fiscal 2017. The decrease in amortization was due to impairment of certain intangibles in fiscal 2017.

#### Other/General

Interest expense was \$0.4 million in the second quarter of fiscal 2018 compared with \$0.5 million in the same period of fiscal 2017. The decrease in interest expense was due to lower borrowings.

The following table sets forth the weighted average interest rates and weighted average outstanding balances under the Company's debt agreement in the second quarter of both fiscal 2018 and 2017:

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	Weighted Average Interest Rate Three Months Ended March 31, 2018	Weighted Average Outstanding Balance Three Months Ended March 31, 2017	2018	2017
Revolving credit agreement	5.7%	4.8%	\$ 16.6 million	\$ 25.0 million
Term note	5.8%	5.8%	\$ 3.1 million	\$ 4.6 million
Foreign term debt	3.4%	3.7%	\$ 8.1 million	\$ 9.3 million

Other income, net, was \$0.1 million for a grant earned at one of our locations in the second quarter of fiscal 2018 compared to the \$0.1 million in the second quarter of fiscal 2017, which was principally rental income earned from the lease of the Company's Cork, Ireland facility. No further rental income is expected to be received since the sale of the building was finalized in the first quarter of fiscal 2018. See Note 10, Assets Held for Sale and Disposal for further discussion on the sale of the Irish building in fiscal 2018.

#### Income Taxes

The Company's effective tax rate in the second quarter of fiscal 2018 was less than (1%), compared with 5% in the comparable period in fiscal 2017. The effective tax rate was higher in the second quarter of fiscal 2017 in comparison to the second quarter of fiscal 2018, primarily related to the impact of a discrete tax benefit recorded during the second quarter of fiscal 2017. The effective tax rate differs from the U.S. federal statutory rate due primarily to the valuation allowance against the Company's U.S. deferred tax assets and income in foreign jurisdictions that are taxed at different rates than the U.S. statutory tax rate.

#### Net Loss

Net loss was \$2.0 million during the second quarter of fiscal 2018, compared with net loss of \$1.7 million in the comparable period of fiscal 2017. Net loss increased primarily due to the items noted above.

#### 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		Six Months Ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Net loss	\$ (2,038 )		\$ (1,657 )	
Adjustments:				
Depreciation and amortization expense	2,128	2,424	4,319	4,939
Interest expense, net	422	525	857	1,189
Income tax expense (benefit)	3	(83 )	(237 )	244
EBITDA	515	1,209	1,990	2,106
Adjustments:				
Foreign currency exchange (gain) loss, net (1)	(43 )	12	(80 )	17
Other income, net (2)	(80 )	(107 )	(396 )	(214 )
Gain on disposal of operating assets (3)	(29 )	—	(1,429 )	(6 )
Equity compensation (4)	47	187	242	345
LIFO impact (5)	63	118	115	225
Orange expansion (6)	—	931	—	1,883
Adjusted EBITDA	\$ 473	\$ 2,350	\$ 442	\$ 4,356

(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 and in the three and six months ended March 31, 2018, grant income was realized as it relates to the Company's Irish subsidiary.

(3) Represents the difference between the proceeds from the sale of operating equipment and sale of the Ireland building and the carrying value shown on the Company's books.

(4) Represents the equity-based compensation benefit and expense recognized by the Company under its 2016 Long-Term Incentive Plan due to granting of awards, awards not vesting and/or forfeitures.

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

(6) Represents costs related to expansion of one of the plant locations that are required to be expensed as incurred.

#### B. Liquidity and Capital Resources

Cash and cash equivalents were \$0.9 million at March 31, 2018 compared with \$1.4 million at September 30, 2017.

At March 31, 2018, approximately \$0.8 million of the Company's cash and cash equivalents was in the possession of its non-U.S. subsidiaries.

#### Operating Activities

The Company's operating activities provided \$1.4 million of cash in the first six months of fiscal 2018, compared with \$5.3 million of cash provided by operating activities in the first six months of fiscal 2017. The cash provided by operating activities in the first six months of fiscal 2018 was primarily due a net source of working capital of \$2.1 million, depreciation and amortization of \$4.3 million, offset by a gain on sale of Irish building and other assets of \$1.4 million and other non-cash items, such as equity based compensation, deferred income taxes and LIFO effect, partially offset by a net loss of \$2.9 million. The cash provided for working capital was primarily due to a \$1.6 million of further reductions in inventory.

The Company's operating activities provided \$5.3 million of cash in the first six months of fiscal 2017. The cash provided by operating activities in the first six months of fiscal 2017 was primarily due to depreciation and amortization of \$4.9 million, a net source of working capital of \$3.5 million, and \$1.1 million of other non-cash items, such as equity based compensation and LIFO effect, partially offset by net loss of \$4.3 million. The cash provided for working capital was primarily due to a \$2.6 million decrease in inventory as a result of management's focus on inventory management.

#### Investing Activities

Cash provided by investing activities was \$1.5 million in the first six months of fiscal 2018, compared with cash used for investing activities of \$0.9 million in the first six months of fiscal 2017. In addition to the \$1.6 million expended during the first six months of fiscal 2018, \$1.1 million was committed for future capital expenditures as of March 31, 2018. The Company anticipates that

total fiscal 2018 capital expenditures will be within the range of \$3.5 million to \$4.0 million and will relate principally to the further enhancement of production and product offering capabilities and operating cost reductions.

#### Financing Activities

Cash used by financing activities was \$3.4 million in the first six months of fiscal 2018, compared with cash used by financing activities of \$3.5 million in the first six months of fiscal 2017.

The Company had repayments of \$1.9 million of long-term debt, of which \$1.2 million is a repayment under its term loan and repayments of \$0.7 million under its foreign long-term loan, compared to \$12.9 million in repayments in the comparable prior period of which \$11.9 million of repayments related to the term loan after entering into the November 9, 2016 Credit Facility (as described further below) and \$1.0 million under its foreign long-term loan in fiscal 2017. The principal reason for the term loan repayment in the prior period was due to the modification of the debt structure, as discussed herein.

The Company had net repayments from the revolver under the Credit Facility of \$1.8 million in the first six months of fiscal 2018, compared with \$8.8 million of net borrowings in the first six months of fiscal 2017. The net borrowings in the first six months in fiscal 2017 were used to repay long-term debt.

On November 9, 2016, the Company entered into a Credit Facility with its Lender. The new Credit Facility matures on June 25, 2020 and consisted of senior secured loans in the aggregate principal amount of up to \$39.9 million. The Credit Facility was comprised of (i) a senior secured revolving credit facility of a maximum borrowing amount of \$35.0 million, including swing line loans and letters of credit provided by the Lender and (ii) senior secured term loan facility in the amount of \$4.9 million (the "Term Facility"). The new Term Facility is repayable in monthly installments of \$0.1 million which began December 1, 2016. The terms of the Credit Facility contain both a lock-box arrangement and a subjective acceleration clause. As a result, the amounts outstanding on the revolving credit facility are classified as a short-term liability. The amounts borrowed under the Credit Facility were used to repay the amounts previously outstanding under the Company's previous Credit Agreement and for working capital, general corporate purposes and to pay fees and expenses associated with this transaction. In connection with entering into the Credit Facility, the Company terminated its interest rate swap agreement with the Lender. See Note 1, Summary of Significant Accounting Policies - Derivative Financial Instruments for further discussion.

Borrowings bears 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 Facility. The revolver has a rate based on LIBOR plus a 3.75% spread and a prime rate which resulted in a weighted average rate of 5.5% at March 31, 2018 and the term loan has a rate of 5.6% at December 31, 2017, which was based on LIBOR plus a 4.25% spread. This rate becomes an effective fixed rate of 5.8% after giving effect to the interest rate swap agreement. There is also a commitment fee ranging from 0.15% to 0.375% to be incurred on the unused balance. The Company entered into its First Amendment Agreement ("First Amendment") to the Credit Facility on February 16, 2017. The First Amendment assigned its Lender as Administrative Agent and assigned portion of its Credit Facility to another participating Lender.

Under the Company's Credit Facility, the Company is subject to certain customary loan covenants. These include, without limitation, covenants that require maintenance of certain specified financial ratios, including that the Company meet a minimum EBITDA and the maintenance of a minimum fixed charge coverage ratio to commence on September 30, 2017. In the event of a default, we may not be able to access our revolver, which could impact the ability to fund working capital needs, capital expenditures and invest in new business opportunities.

On August 4, 2017, the Company entered into its Second Amendment Agreement ("Second Amendment") with its lender to (i) amend certain definitions within its Credit Facility to, among other things, effect the changes described herein and to reset the Fixed Charge Coverage Ratio (as defined in the Credit Facility) to build to a trailing four quarters in each of the fiscal 2018 quarters, commencing with the quarter ended December 31, 2017; (ii) replace certain of its financial covenants outlined in the description of Credit Facility and amend its financial covenants with a revised minimum EBITDA for the four fiscal quarters ending September 30, 2017 and to maintain a fixed charge coverage ratio commencing on December 31, 2017; (iii) reduce its maximum revolving amount of \$35,000 to \$30,000; and (iv) the Company must use its cash proceeds from the sale of the Irish building discussed in Note 10, Assets Held for Sale and Disposal to reduce the Term Facility by \$700 and use the remaining proceeds to reduce the

revolver. On November 28, 2017, the Company obtained a consent letter from its Lender which extended to December 31, 2017 the date to consummate such sale of the Irish property.

On February 8, 2018, the Company entered into the Third Amendment Agreement (the “Third Amendment”) to its Credit Facility with the Agent and Lenders under the Credit Facility, in which the Company and the Agent and the Lenders agreed to, among other things, (i) amend the interest rate pricing spreads, (ii) add an owned real property location as part of the collateral and sell certain identified assets at our closed location in Alliance, (iii) adjust the calculation of EBITDA and certain financial covenants,

and (iv) revise the financial covenants by adding a new minimum EBITDA test for a specific location and changing the timing of the tests and some of the covenant levels. The Company is in compliance with its loan covenants as of March 31, 2018.

The Company incurred debt issuance costs related to the above amendments in fiscal 2018 and 2017 and certain costs were written off during the first quarter of fiscal 2017. See Note 4, Debt for further discussion.

Future cash flows from the Company's operations will be used to pay down amounts outstanding under the Credit Facility. The cash proceeds from the sale of the Irish building approximate \$3.1 million, of which \$2.4 million, net proceeds after taxes and fees, was used to pay down the Credit Facility, \$0.7 million reduced the Term Facility and the remaining balance reduced the revolving credit facility. 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 Facility.

#### C. Critical Accounting Policies and Estimates

The Company's disclosures of critical accounting policies in its Annual Report on Form 10-K for the year ended September 30, 2017 have not materially changed since that report was filed, except for the following:

##### Income taxes

On December 22, 2017, the U.S. enacted the Tax Cut and Jobs Act (the "Act") which, among other items, reduces the U.S. corporate tax rate effective January 1, 2018 from 35% to 21%, creates a participation exemption regime for future distributions of foreign earnings, imposes a one-time transition tax on a taxpayer's foreign subsidiaries' earnings not previously subject to U.S. taxation and creates new taxes on certain foreign-sourced earnings. On the same date the Act was enacted, the Securities and Exchange Commission (the "SEC") issued Staff Bulletin 118 ("SAB 118"). SAB 118 expresses views of the SEC regarding ASC Topic 740, Income taxes ("ASC 740") in the reporting period that includes the enactment date of the Act. The SEC staff, in issuing SAB 118 recognized that a Company's review of certain income tax effects of the Act may be incomplete at the time the financial statements are issued for the reporting period that includes the enactment date, including interim periods therein. If a company does not have the necessary information available, prepared or analyzed for certain income tax effects of the Act, SAB 118 allows a company to report provisional numbers and adjust those amounts during the measurement period not to extend beyond one year from the day of enactment.

The Act also includes provisions for Global Intangible Low-Taxed Income ("GILTI") wherein taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. This income will effectively be taxed at a 10.5% tax rate in general. Because of the complexity of the new provisions, the Company is continuing to evaluate how the provisions will be accounted for under the U.S. generally accepted accounting principles wherein companies are allowed to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the Company is subject to the rules (the "period cost method"), or (ii) account for GILTI in the Company's measurement of deferred taxes (the "deferred method"). Currently, the Company has not elected a method and will only do so after its completion of the analysis of the GILTI provisions and its election method will depend, in part, on analyzing its global income to determine whether the Company expects to have future material U.S. inclusions in its taxable income related to GILTI and, if so, the impact that is expected.

##### D. Impact of Recently Issued Accounting Standards

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows an optional reclassification from accumulated other comprehensive income to retained earnings for standard tax effects resulting from the Act. ASU 2018-02 must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. This ASU is effective for fiscal years, including interim periods within, beginning after December 15, 2018 with early adoption permitted in any interim period. Due to the valuation allowance in the U.S., the Company has elected not to

adopt this optional reclassification.

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 standard requires a modified retrospective transition for capital and operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial adoption. 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 will adopt the new guidance on October 1, 2019 and is currently evaluating the requirements of ASU 2016-02 and anticipates that the adoption will impact the consolidated condensed balance sheets due to the recognition of the right-to-use asset and lease liability related to its current operating leases.

In May 2014, the FASB issued 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. The Company will adopt the new guidance on October 1, 2018. The Company is executing a bottom up approach to analyze the standard's impact on its revenues by looking at historical policies and practices and identifying the differences from applying the new standard to its revenue streams. It has developed a project plan and is currently reviewing its contracts and evaluating the impact of the guidance on its revenue. The Company has determined that many of its long-term agreements contain variable consideration clauses and is in the process of quantifying the impact to its consolidated financial statements. In addition, some of the Company's agreements have clauses which may require the Company to recognize revenue over time. The majority of the Company's current revenue is recognized at a point-in-time. As such, SIFCO continues to evaluate the impact of the standard on its financial reporting, disclosures and related systems and internal controls. The Company has engaged a third party to assist with its efforts.

#### E. Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. ASU 2016-09 was adopted by the Company effective October 1, 2017.

This guidance requires all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement and also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company changed its policy to recognize the impact of forfeitures when they actually occur. There was no impact to the consolidated condensed financial statements as of October 1, 2017. Also, this guidance requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the consolidated condensed statement of cash flows as a financing activity, which differs from the Company's previous method of classification of such cash payments as an operating activity. The Company applied this provision retrospectively, and for the first quarter of fiscal 2017, impact between operating activities to financing activities was nominal. This guidance also requires the tax effects of exercised or vested awards to be treated as discrete items in the reporting period in which they occur, which was applied prospectively, beginning October 1, 2017 by the Company. Due to the Company having recorded a domestic valuation allowance, the tax impact upon adoption of this ASU was not material to the consolidated condensed financial statements. Lastly, the guidance requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of excess tax benefits as cash inflows from financing activities. The Company elected to apply this provision using the prospective transition method.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which provides new guidance to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of this ASU in the first quarter ended December 31, 2017 had

no impact on the Company's consolidated condensed financial statements.

Item 4. Controls and Procedures

As defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported on a timely basis, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures include components of the Company's internal control over financial reporting. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management of the Company, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design



and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of March 31, 2018 (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 2017 Annual Report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected and corrected on a timely basis. The following material weaknesses related to our control environment existed as of March 31, 2018.

Key controls within IT general and application controls for domestic operations were not operating effectively.

Key controls within business and IT processes were not designed and operating effectively at Maniago.

Due to a lack of resources in accounting personnel, the Company did not evaluate a complex accounting issue in a timely manner.

The control environment deficiencies described above could have resulted in a failure to prevent or detect a material misstatement in our financial statements due to the omission of information or inappropriate conclusions regarding information required to be recorded, processed, summarized, and reported in the Company's SEC reports.

Notwithstanding the identified material weaknesses, management believes the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

#### 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.

To address the material weaknesses identified in our control environment, management is taking the following actions to remediate the material weaknesses:

Implement robust security and access reviews at a level of precision necessary to ensure they are timely and appropriate, including monitoring activities for users with privileged access. The Company is making progress and will continue to explore other information technology tools with additional detective and monitoring controls to mitigate this risk.

Management is unable to remediate the Company's Maniago IT general controls prior to the end of fiscal year 2018.

However, management will continue to perform a quarterly evaluation of business process control effectiveness, implement periodic monitoring controls over its financial review procedures, and deploy additional resources to enhance its internal controls over financial reporting.

Management will evaluate the structure of the finance organization and consider adding resources to further strengthen its internal controls over financial reporting.

With the oversight of senior management and the Company's Board of Directors, the Company continues to take steps and additional measures to remediate the underlying causes of the identified material weaknesses, including but not limited to (i) evaluating our information technology systems or invest in improvements to our technology sufficient to generate accurate, transparent, and timely financial information, and (ii) continue to strengthen organizational structure by holding individuals accountable for their internal control responsibilities.

Although we expect to make meaningful progress in our remediation plan during fiscal year 2018, we cannot estimate how long it will take to complete the process or the costs of actions required. There is no assurance that the aforementioned plans will be sufficient and that additional steps may not be necessary.

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. For a more complete description of our outstanding material legal proceedings, see Note 8, Commitments and Contingencies.

Item 5. Other Information

On May 4, 2018, the Company entered into a Change in Control Agreement and Separation Agreement (the "Change in Control Agreement") with Thomas R. Kubera, Chief Accounting Officer and Interim Chief Financial Officer effective as of May 1, 2018. Under the terms of the Change in Control Agreement, in the event of a qualifying termination (as such term is defined in the Change in Control Agreement) of Mr. Kubera's employment, the Company will provide certain severance benefits to Mr. Kubera. Such severance benefits principally include (a) a lump-sum payment equal to 1.0 times Mr. Kubera's annual salary at the qualifying termination, and (b) continuation of certain medical and dental benefits for a period of 12 months. The foregoing description of the Change in Control Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Change in Control Agreement attached to this Current Report on Form 10-Q as Exhibit 10.17 and incorporated herein by reference.

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	<u>Stock Purchase Agreement between Riello Investimenti Partners SGR S.p.A., Giorgio Visentini, Giorgio Frassini, Giancarlo Scabi 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</u>
2.2	<u>Amendment to the Stock Purchase Agreement Riello Investimenti Partners SGR S.p.A., Giorgio Visentini, Giorgio Frassini, Giancarlo Scabi 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</u>
3.1	<u>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</u>
3.2	<u>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</u>
9.1	<u>Voting Trust Agreement dated January 31, 2013, filed as Exhibit 9.1 to the Company's Form 10-Q dated February 11, 2013 and incorporated herein by reference</u>
9.2	<u>Voting Trust Extension Agreement dated January 15, 2015, filed as Exhibit 9.2 to the Company's Form 10-Q dated February 3, 2015 and incorporated herein by reference</u>
9.3	<u>Voting Trust Agreement dated January 31, 2017, filed as Exhibit 9.3 to the Company's Form 10-Q dated January 31, 2017 and incorporated herein by reference</u>
10.1	<u>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</u>
10.2	<u>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</u>
10.3	<u>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</u>

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 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
- 10.6 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
- 10.7 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
- 10.8 Amended and Restated Credit and Security Agreement, dated November 9, 2016, by and among SIFCO Industries, Inc., the Lenders named therein and KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender, filed as Exhibit 10.1 to the Company's Form 8-K dated November 15, 2016, and incorporated herein by reference
- 10.9 First Amendment to the Amended and Restated Credit and Security Agreement, dated February 16, 2017, by and among SIFCO Industries, Inc., the Lenders named therein; KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender; and Presidential Financial Corporation, as Assignee, and incorporated herein by reference
- 10.10 Second Amendment to the Amended and Restated Credit and Security Agreement, dated August 4, 2017, by and among SIFCO Industries, Inc., the Lenders named therein; KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender; and Presidential Financial Corporation, as Assignee, and incorporated herein by reference
- 10.11 Third Amendment to the Amended and Restated Credit and Security Agreement, dated February 8, 2018, by and among SIFCO Industries, Inc., the Lenders named therein; KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender; and Presidential Financial Corporation, as Assignee, and incorporated herein by reference
- 10.12 Amendment and Restatement to the SIFCO Industries, Inc. 2007 Long-Term Incentive Plan, filed as Exhibit A of the Company's Proxy and Notice of 2017 Annual Meeting to Shareholders dated December 6, 2016, and incorporated herein by reference
- 10.13 Form of SIFCO Industries, Inc. Long-term incentive plan performance share award, filed as Exhibit 10.14 to the Company's Form 10-Q dated January 31, 2017, and incorporated herein by reference
- 10.14 Form of SIFCO Industries, Inc. Long-term incentive plan restricted share award, filed as Exhibit 10.15 to the Company's Form 10-Q dated January 31, 2017, and incorporated herein by reference
- 10.15 Form of SIFCO Industries, Inc. Long-term incentive plan restricted share award, filed as Exhibit 10.16 to the Company's Form 10-Q dated January 31, 2017, and incorporated herein by reference
- 10.16 Amended and Restated Relocation Agreement, dated February 15, 2018, by and between SIFCO Industries, Inc. and Peter Knapper, filed as Exhibit 10.1 to the Company's Form 8-K dated February 15, 2018, and incorporated herein by reference
- \*10.17 Change in Control Agreement and Separation Agreement between the Company and Thomas R. Kubera, effective May 4, 2018
- 14.1 Code of Ethics, filed as Exhibit 14.1 of the Company's Form 8-K dated February 6, 2018, 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 March 31, 2018 filed with the SEC on May 4, 2018, formatted in XBRL includes:
- (i) Consolidated Condensed Statements of Operations for the fiscal periods ended March 31, 2018 and 2017,
- (ii) Consolidated Condensed Statements of Comprehensive Income for the fiscal periods ended March 31,

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2018 and 2017, (iii) Consolidated Condensed Balance Sheets at March 31, 2018 and September 30, 2017, (iv) Consolidated Condensed Statements of Cash Flow for the fiscal periods ended March 31, 2018 and 2017, 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: May 4, 2018 /s/ Peter W. Knapper  
Peter W. Knapper  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 4, 2018 /s/ Thomas R. Kubera  
Thomas R. Kubera  
Interim Chief Financial Officer & Chief Accounting Officer  
(Principal Financial Officer)