

101 Bullitt Lane, Suite 450

Louisville, Kentucky 40222

(502) 329-2000

(Address of principal executive offices) (Zip code)

(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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such reports). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of May 9, 2016, the Registrant had 21,310,044 shares of common stock outstanding.

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Part I. Financial Information**Item 1. Financial Statements****Sypris Solutions, Inc.****Consolidated Statements of Operations****(in thousands, except for per share data)**

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Net revenue:		
Outsourced services	\$19,757	\$31,872
Products	7,181	5,137
Total net revenue	26,938	37,009
Cost of sales:		
Outsourced services	20,977	35,786
Products	5,234	4,380
Total cost of sales	26,211	40,166
Gross profit (loss)	727	(3,157)
Selling, general and administrative	6,503	9,118
Research and development	124	333
Severance	484	285
Operating loss	(6,384)	(12,893)
Interest expense, net	876	334
Other (income), net	(2,162)	(179)
Loss before taxes	(5,098)	(13,048)
Income tax expense (benefit), net	1	(15)
Net loss	\$(5,099)	\$(13,033)
Loss per share:		
Basic	\$(0.26)	\$(0.66)
Diluted	\$(0.26)	\$(0.66)
Weighted average shares outstanding:		
Basic	19,702	19,650
Diluted	19,702	19,650
Dividends declared per common share	\$0.00	\$0.00

The accompanying notes are an integral part of the consolidated financial statements.

Sypris Solutions, Inc.

Consolidated Statements of Comprehensive (Loss) Income

(in thousands)

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Net loss	\$(5,099)	\$(13,033)
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	(30)	(658)
Comprehensive loss	\$(5,129)	\$(13,691)

The accompanying notes are an integral part of the consolidated financial statements.

Sypris Solutions, Inc.**Consolidated Balance Sheets****(in thousands, except for share data)**

	April 3, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,306	\$ 1,349
Restricted cash – current	6,000	0
Accounts receivable, net	13,470	12,394
Inventory, net	20,795	20,192
Other current assets	3,410	4,459
Assets held for sale	0	3,230
Total current assets	45,981	41,624
Property, plant and equipment, net	24,158	22,178
Other assets	3,242	3,090
Total assets	\$ 73,381	\$ 66,892
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,276	\$ 11,311
Accrued liabilities	14,750	11,661
Revolving credit facility	2,581	2,132
Current portion of long-term debt and capital lease obligations	1,906	1,714
Total current liabilities	29,513	26,818
Long-term debt and capital lease obligations	11,208	8,780
Note payable – related party	6,500	5,500
Other liabilities	11,214	6,082
Total liabilities	58,435	47,180
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	0	0
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	0	0
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	0	0
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 21,311,736 shares issued and 21,265,044 outstanding in 2016 and 20,826,236 shares issued and 20,776,544 outstanding in 2015	213	208
Additional paid-in capital	152,435	152,077
Retained deficit	(111,911)	(106,812)
Accumulated other comprehensive loss	(25,790)	(25,760)
Treasury stock, 46,692 and 49,692 shares in 2016 and 2015, respectively	(1)	(1)

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Total stockholders' equity	14,946	19,712
Total liabilities and stockholders' equity	\$ 73,381	\$66,892

The accompanying notes are an integral part of the consolidated financial statements.

Sypris Solutions, Inc.**Consolidated Cash Flow Statements****(in thousands)**

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Cash flows from operating activities:		
Net loss	\$(5,099)	\$(13,033)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,953	2,180
Stock-based compensation expense	363	206
Deferred revenue recognized	0	(2,170)
Deferred loan costs recognized	205	77
Gain on the sale of assets	(2,370)	0
Provision for excess and obsolete inventory	25	82
Other noncash items	137	(183)
Contributions to pension plans	0	(77)
Changes in operating assets and liabilities:		
Accounts receivable	(1,066)	17,303
Inventory	(630)	(1,047)
Other current assets	423	(691)
Accounts payable	(1,048)	(7,046)
Accrued and other liabilities	2,397	(916)
Net cash used in operating activities	(4,710)	(5,315)
Cash flows from investing activities:		
Capital expenditures, net	(40)	(295)
Proceeds from sale of assets	11,066	0
Change in restricted cash	(6,000)	0
Net cash provided by (used in) investing activities	5,026	(295)
Cash flows from financing activities:		
Principal payments on Term Loan	(429)	0
Proceeds from related party note payable	1,000	4,000
Net change in debt under New Revolving Credit Agreement	449	0
Net change in debt under Credit Facility	0	(1,051)
Debt issuance and modification costs	(379)	(440)

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Indirect repurchase of shares of minimum statutory tax withholdings	0	(77)
Cash dividends paid	0	(410)
Net cash provided by financing activities	641	2,022
Net increase (decrease) in cash and cash equivalents	957	(3,588)
Cash and cash equivalents at beginning of period	1,349	7,003
Cash and cash equivalents at end of period	\$2,306	\$3,415

The accompanying notes are an integral part of the consolidated financial statements.

Sypris Solutions, Inc.

Notes to Consolidated Financial Statements

(1) Nature of Business

All references to “Sypris,” the “Company,” “we” or “our” include Sypris Solutions, Inc. and its wholly-owned subsidiaries. Sypris is a diversified provider of outsourced services and specialty products. The Company performs a wide range of manufacturing, engineering, design, and other technical services, often under multi-year, sole-source contracts with corporations and government agencies in the markets for truck components and assemblies and aerospace and defense electronics. The Company provides such services through its two segments, Sypris Technologies, Inc. (Sypris Technologies) and Sypris Electronics, LLC (Sypris Electronics). See Note 11, “Segment Data,” to the consolidated financial statements.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries, and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The Company’s operations are domiciled in the United States (U.S.), Mexico and the United Kingdom (U.K.) and serve a wide variety of domestic and international customers. All intercompany transactions and accounts have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three months ended April 3, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2015 as presented in the Company’s Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation.

(3) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers.” This ASU supersedes the revenue recognition requirements in “Accounting Standard Codification 605 - Revenue Recognition” and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The new guidance will also require new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was originally effective for us on January 1, 2017; however, in July 2015 the FASB decided to defer the effective date by one year. Early application is not permitted, but reporting entities may choose to adopt the standard as of the original effective date. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its results of operations, financial position and cash flows. The Company does not intend to early adopt this standard.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU 2015-03. In August 2015 the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. ASU 2015-15 was issued to address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements that were not found in ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These standards are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and should be applied retrospectively. Early adoption is permitted. The Company adopted this guidance January 1, 2016. As a result of adoption, debt issuance costs of \$1,220,000 were reclassified from assets to reduce long-term-debt as of December 31, 2015.

In July 2015, the FASB issued ASU No. 2015-11, which simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with a lower of cost or net realizable value test. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The new guidance must be applied prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this update supersedes FASB ASC 840, Leases. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this ASU on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09) requiring an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. ASU 2016-09 becomes effective for the Company during the first quarter 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

(4) Management's Recovery Plans

Given the Company's loss of market share in commercial vehicle manufacturing in early 2015 due to the nonrenewal of a supply agreement with Dana Holding Corporation ("Dana"), and the recent unfavorable growth trends and softness in commercial vehicle manufacturing and the oil and gas markets served by the Company, management has developed various profit recovery and protection plans and is evaluating strategic alternatives to optimize asset values in each of the Company's segments. Management has engaged advisors during various periods to provide recommendations for cost reductions and other actions that can be taken to improve profitability. Management prepared a revised forecast during March 2016 with plans to further reduce costs, optimize cash flow and remain in compliance with its debt covenant requirements throughout 2016. The Company completed a number of its profit recovery and protection actions during 2015 and the first quarter of 2016, including: (i) the sale of certain assets used in the Company's manufacturing facility in Morganton, North Carolina within the Sypris Technologies segment, (ii) reductions in workforce at all locations, and (iii) other reductions in employment costs through reduced work schedules, senior management pay reductions, deferral of merit increases and certain benefit payments. The Company restructured its debt and has received the benefit of cash infusions from Gill Family Capital Management, Inc. ("GFCM") in the form of subordinated promissory note obligations totaling \$6,500,000 in principal through the first quarter of 2016.

Demand in the commercial vehicle industry has softened beginning in the fourth quarter of 2015 along with other durable and non-durable goods sectors in the North America economy. Management has identified additional cost reduction actions in the Sypris Technologies segment. Reductions in selling, general and administrative expense and labor expense were implemented during the first quarter of 2016, and additional cost reductions are planned during the second and third quarters. Although the expected benefits of the cost reductions will be partially offset by the impact of minor investments and severance required to enable the cost reductions, the actions are expected to contribute to improved liquidity during 2016.

Management has identified a number of new customer opportunities that are expected to provide higher gross margin opportunities, even at lower volumes. Management is implementing operational efficiencies that are expected to enable reductions in the machinery set-up time for new commercial vehicle orders which should enable the Company to quote on customer requirements that are higher margin but with somewhat shorter run lengths. These new business activities are anticipated to enable the Company to diversify its revenue sources over a larger and more profitable customer base.

One of the additional actions implemented by management during the first quarter of 2016 was to consummate the sale and partial lease back of its facility located in Toluca Mexico, which generated gross proceeds of approximately \$12,182,000. Of these proceeds, \$6,000,000 was deposited into a cash collateral account, to be held for up to one year as additional collateral for the Term Loan (see Note 10 “Debt”). Management will continue to operate in Toluca, but given the reduction in Sypris Technologies’ revenues in 2015 and the overall downturn in the commercial vehicle markets beginning in the fourth quarter of 2015, management determined that the underutilized Toluca real estate value could be better optimized with a sale and lease back arrangement where some but not all of the facility would continue to be occupied and managed by Sypris Technologies.

The oil and gas industry has experienced significant price erosion, and as a result the Company’s customers are delaying capital expenditures that support their growth and maintenance projects. The Company has identified some capacity reallocation opportunities between plants in the United States and Mexico. The Company has initiated the process of qualifying production for certain components in Mexico that are currently produced in the United States and completed the qualification for the first group of these components. The Company expects this capacity reallocation will accelerate during 2016 as the capital necessary to fund the reallocation becomes available and the qualification process for the production is complete.

Sypris Electronics has continued to invest in a number of product development projects. The Company was awarded a significant engineering services contract in the defense sector in March 2016. Nevertheless, the Company has identified certain cost reduction and cash flow enhancements in the Sypris Electronics segment that are targeted to be implemented during the second and third quarters of 2016, which are not expected to adversely impact the future growth in the Sypris Electronics segment.

Sypris Electronics has filed a number of patent applications for technology related to its new SiOMetrics™ hardware authentication solutions, which may enable the Company to address commercial markets for infrastructure and the Internet of Things (IoT). New commercial opportunities in automotive, industrial controls, communications, infrastructure, utilities, automation, aviation, retail, and personal communication devices could benefit from the technology that Sypris Electronics has patented or for which it has patents pending. Sypris Electronics now provides a platform of layered security protocols that will enable customers in a number of industries to tailor the security solutions to their individual requirements. Management has taken steps to diversify its product and service offerings in the Sypris Electronics segment. The Company intends to be less dependent upon the Defense markets and better positioned to take advantage of the rapidly growing commercial security and encryption markets going forward.

Management has identified certain cost reductions at the corporate headquarters that are expected to improve profitability and cash flow throughout 2016. Salary reductions and other SG&A cost reductions were implemented during the first quarter of 2016 that management believes will continue to benefit the Company throughout future periods. Additional cost reductions have been identified in the area of professional services, administration and lease expenses.

(5) Morganton Sale

On July 9, 2015, the Company entered into an asset purchase agreement (the “Agreement”) to sell certain assets used in the Company’s manufacturing facility in Morganton, North Carolina, to its largest customer, Meritor, Inc. (“Meritor”). The Company retained the Morganton plant’s axle shaft manufacturing lines and certain related assets, intellectual property and inventories, which were transitioned to the Company’s Louisville, Kentucky plant in October 2015. All other Morganton equipment, related assets and intellectual property were sold to Meritor (the “Morganton Sale”) for \$10,500,000 in cash paid at the closing and other consideration. Meritor purchased related inventories and accounts receivable and assumed or released certain accounts payable and other accrued liabilities, for \$2,000,000 (subject to customary post-closing adjustments to actual). Meritor also purchased the Morganton building and real estate for \$3,200,000. The total proceeds received of \$15,700,000, primarily in consideration for the Morganton sale, were used to pay down the Company’s prior senior secured debt. As a result of the Morganton sale, the Company recognized a gain of \$7,744,000.

At closing, the parties also entered into an amendment to a secured promissory note with Meritor in an original principal amount of \$3,047,000 (the “Meritor Note”) to increase the principal balance by \$412,000, effective July 9, 2015. The parties also agreed to increase the Meritor Note by an additional \$321,000 in September 2015 to reflect certain roof repairs required at the Morganton facility. The Company repaid the Meritor Note on October 30, 2015.

(6) Toluca Sale-Leaseback

On October 30, 2015, the Company entered into a non-binding letter of intent to sell and lease-back its property and buildings in Toluca, Mexico, which is part of the Sypris Technologies Group. As such, the Company concluded that the assets qualified for Assets Held for Sale accounting in accordance with ASC 205 as of December 31, 2015. The assets had a net book value of \$3,230,000 as of December 31, 2015.

On March 9, 2016, Sypris Technologies Mexico, S. de R.L. de C.V. (“Seller”), a subsidiary of the Company, concluded its sale of the 24-acre Toluca property pursuant to an agreement with Promotora y Desarrolladora Pulso Inmobiliario, S.C. (together with its affiliates and assignees, “Buyer”) for 215,000,000 Mexican Pesos, or approximately \$12,182,000 in U.S. currency. Simultaneously, the Seller and the Buyer entered a long-term lease of the 9 acres and buildings currently occupied by Seller and needed for its ongoing business in Toluca (collectively, the “Toluca Sale-Leaseback”). The Company incurred transaction related expenses of \$1,116,000. The Company deposited \$6,000,000 of the proceeds from the sale-leaseback into a Cash Collateral Account, to be held for up to one year as additional collateral for the Term Loan (see Note 10 “Debt” for further discussion on the Term Loan). This amount has been classified as restricted cash on the consolidated balance sheets as of April 3, 2016.

As a result of the Toluca Sale-Leaseback, the Company initially recorded a capital lease of \$3,315,000, which is included in property plant and equipment. The Company recorded a gain on the sale of \$2,370,000 during the three months ended April 3, 2016, which is included in other income, net in the consolidated income statement, and recorded a deferred gain of \$5,537,000, which will be recognized over the ten year lease term. The Company’s base rent, which is denominated in U.S. currency, is \$936,000 annually, adjusted based on U.S. CPI with certain cap conditions.

The following assets have been segregated and included in assets held for sale in the consolidated balance sheet as of December 31, 2015 (in thousands):

	December 31, 2015
Land and land improvements	\$ 1,568
Buildings and building improvements	3,658
Accumulated depreciation	(1,996)
Property, plant and equipment, net	\$ 3,230

(7) Loss Per Common Share

The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Restricted stock granted by the Company is considered a participating security since it contains a non-forfeitable right to dividends.

Our potentially dilutive securities include potential common shares related to our stock options and restricted stock. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted earnings per share excludes the impact of common shares related to our stock options in periods in which the option exercise price is greater than the average market price of our common stock for the period. For the three months ended April 3, 2016 and April 5, 2015, diluted weighted average common shares do not include the impact of any outstanding stock options and unvested compensation-related shares because the effect of these items on diluted net loss would be anti-dilutive.

A reconciliation of the weighted average shares outstanding used in the calculation of basic and diluted loss per common share is as follows (in thousands):

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Loss attributable to stockholders:		
Net loss as reported	\$(5,099)	\$(13,033)
Less distributed and undistributed earnings allocable to restricted awarded holders	0	0
Less dividends declared attributed to restricted awarded holders	0	0
Net loss allocable to common stockholders	\$(5,099)	\$(13,033)
Loss per common share attributable to stockholders:		
Basic	\$(0.26)	\$(0.66)
Diluted	\$(0.26)	\$(0.66)
Weighted average shares outstanding – basic	19,702	19,650
Weighted average additional shares assuming conversion of potential common shares	0	0
Weighted average shares outstanding – diluted	19,702	19,650

(8) Inventory

Inventory consists of the following (in thousands):

	April 3, 2016	December 31, 2015
	(Unaudited)	
Raw materials	\$ 12,638	\$ 12,388
Work in process	10,718	10,366
Finished goods	3,060	3,167
Reserve for excess and obsolete inventory	(5,621)	(5,729)
	\$ 20,795	\$ 20,192

(9) Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	April 3, 2016 (Unaudited)	December 31, 2015
Land and land improvements	\$219	\$219
Buildings and building improvements	18,305	18,305
Machinery, equipment, furniture and fixtures	127,135	123,935
Construction in progress	717	759
	146,376	143,218
Accumulated depreciation	(122,218)	(121,040)
	\$24,158	\$22,178

(10) Debt

Debt outstanding consists of the following (in thousands):

	April 3, 2016 (Unaudited)	December 31, 2015
Current:		
Revolving Credit facility	\$ 2,581	\$ 2,132
Current portion of long term debt	1,714	1,714
Current portion of capital lease obligation	192	0
Current debt	\$ 4,487	\$ 3,846
Long Term:		
Term loan	\$ 9,571	\$ 10,000
Note payable – related party	6,500	5,500
Capital lease obligation	3,123	0
Less unamortized debt issuance and modification costs	(1,486)	(1,220)
Long term debt net of unamortized debt costs	\$ 17,708	\$ 14,280

The Company adopted new accounting guidance effective January 1, 2016 which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct reduction of the carrying amount of the related debt. Upon adoption, the Company reclassified \$1,220,000 from other assets to long-term debt to reflect this guidance in the comparable balance as of December 31, 2015.

Note Payable – Related Party

During 2015, the Company received the proceeds of subordinated indebtedness from GFCM in an amount of \$5,500,000. On February 26, 2016, the Company further amended the GFCM note to increase the amount by \$1,000,000 to \$6,500,000. GFCM is an entity controlled by the Company's president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. The promissory note bears interest at a rate of 8.00% per year. All principal and interest on the promissory note, as amended, will be due and payable on January 30, 2019.

Revolving Credit Facility and Term Loan

On October 30, 2015, the Company secured debt financing consisting of a \$12,000,000 term loan (“Term Loan”) and a \$15,000,000 revolving credit facility (“Revolving Credit Facility”). Proceeds from the two new financing arrangements (collectively the “Loan Agreements”) were used in part to repay the senior secured debt with a prior lender and the Meritor Note. Borrowing availability under the Revolving Credit Facility is determined by a weekly borrowing base collateral calculation that includes specified percentages of the value of eligible accounts receivable and inventory, less certain reserves and subject to certain other adjustments. Borrowing availability under the Term Loan is also evaluated using a separate borrowing base collateral calculation that includes designated percentages of real estate, machinery and equipment appraisals, in each case less certain reserves and subject to certain other adjustments. If the appraised value of such collateral causes the Term Loan borrowing base to fall below the then current Term Loan balance, the Company is required to make a partial prepayment of such difference and related fees.

On February 25, 2016, the Company entered into an amendment (the “Term Loan Amendment”) to the Term Loan and an amendment (the “Revolving Credit Amendment”) to the Revolving Credit Facility (together, the “Amendments”). The Amendments increased the Company’s borrowing capability under its Revolving Credit Facility and provided for an agreement on use of proceeds from the sale of its Toluca, Mexico property and buildings, as described below.

As a result of the Term Loan Amendment, the Company deposited \$6,000,000 of the proceeds of the sale-leaseback of its Toluca, Mexico property and buildings (the “Toluca Sale-Leaseback”) into a Cash Collateral Account, to be held for up to one year as additional collateral for the Term Loan. Amounts deposited in the Cash Collateral Account that are subsequently used to pay down the principal of the Term Loan must be accompanied by an additional amount equal to the present value of the avoided interest associated with that principal payment. If the Company meets certain milestones as determined by the lender after its review of the Company’s revised business plan, up to \$1,000,000 may be released from the Cash Collateral Account to the Company. The Term Loan Amendment also permitted the Company to retain the remaining balance of the proceeds from Toluca Sale-Leaseback, and increased the interest rate of the Term Loan by 1.0%.

In addition, under the Amendments, the Company's minimum excess availability provision was reduced from \$4,000,000 to \$3,000,000. The lender further agreed to remove certain reserves which had been established against the Company's "borrowing base." These changes are estimated to provide the Company with \$1,655,000 in additional borrowing capacity under the Revolving Credit Facility.

Based on the above mentioned calculation, at April 3, 2016, the Company had actual total borrowing base availability under the Revolving Credit Facility of \$5,897,000 of which it had drawn \$2,581,000, leaving \$3,316,000 still available for borrowing, \$3,000,000 of which was reserved for compliance with the minimum excess availability provisions of the Revolving Credit Facility. Along with an unrestricted cash balance of \$2,306,000, the Company had total cash and available borrowing capacity of \$2,622,000 as of April 3, 2016. Approximately \$2,192,000 of this unrestricted cash balance related to the Company's Mexican subsidiaries.

The Company's obligations under each of the Revolving Credit Facility and the Term Loan, as amended, continue to be guaranteed by the Company's U.S. subsidiaries and are secured by a first priority lien on substantially all assets of the Company and the guarantors.

The Loan Agreements, as amended, contain a number of customary representations and warranties, affirmative, negative and financial maintenance covenants, events of default and remedies upon default, including acceleration and rights to foreclose on the collateral securing each lender. If the Company's borrowing availability under the Revolving Credit Facility falls below \$3,000,000, the Company must maintain a fixed charge coverage ratio of at least 1 to 1, as measured on a trailing twelve months' basis.

Non-compliance with the Company's debt covenants would provide the debt holders with certain contractual rights, including the right to demand immediate repayment of all outstanding borrowings. Since the nonrenewal of Sypris Technologies' supply agreement with Dana (see Note 4 "Management's Recovery Plans"), the Company has also experienced negative cash flows from consolidated operations, which could hamper or materially increase the costs of the Company's ability to comply with such covenants. The Company's consolidated financial statements have been prepared assuming the ongoing realization of assets, satisfaction of liabilities and continuity of operations as a going concern in the ordinary course of business, but there can be no assurances that the Company's current initiatives, forecasts and plans will ultimately succeed, which could materially and adversely impair the Company's ability to operate, its cash flows, financial condition and ongoing results.

The classification of debt as of April 3, 2016 and December 31, 2015 considers debt outstanding under the Loan Agreements on a long-term basis. However, the Revolving Credit Facility allows the lender to establish certain reserves against the borrowing base which could, under certain circumstances, cause a potential event of default. Because such an event is not objectively measureable in advance and because the Company is required to maintain a lock-box arrangement, ASC 470-10-45 requires the otherwise long-term revolving advances to be classified as a current liability. As a result, all borrowings under the Revolving Credit Facility have been classified in the

accompanying consolidated balance sheets as a current liability.

Capital Lease Obligation

On March 9, 2016, the Company completed the sale of its 24-acre Toluca property pursuant to an agreement with Promotora y Desarrolladora Pulso Inmobiliario, S.C. (together with its affiliates and assignees, "Buyer") for 215,000,000 Mexican Pesos, or approximately \$12,182,000 in U.S. currency. Simultaneously, the Company entered a long-term lease of the 9 acres and buildings currently occupied by the Company and needed for its ongoing business in Toluca (see Note 6 "Toluca Sale-Leaseback"). The Company incurred transaction related expenses of \$1,116,000.

The Company recorded a gain on the sale of \$2,370,000 during the three months ended April 3, 2016, which is included in other income, net in the consolidated income statement, and recorded a deferred gain of \$5,537,000, which will be recognized over the ten year lease term. The Company's base rent, which is denominated in U.S. currency, is \$936,000 annually, adjusted based on U.S. CPI with certain cap conditions. As a result of the Toluca Sale-Leaseback, the Company initially recorded a capital lease obligation of \$3,315,000 for the building.

The future minimum payments for capital leases as of April 3, 2016 are as follows (in thousands):

	Capital Lease
2016 (remaining 9 months)	\$396
2017	503
2018	549
2019	549
2020	503
Thereafter	2,834
Total future payments	5,334
Less: Amount representing interest	(2,019)
Present value of future minimum payments	3,315
Less: Current portion	(192)
Long term portion	\$3,123

(11) Segment Data

The Company is organized into two business groups, Sypris Technologies and Sypris Electronics. These segments are each managed separately because of the distinctions between the products, services, markets, customers, technologies and workforce skills of the segments. Sypris Technologies provides manufacturing services for a variety of customers that outsource forged and finished steel components and subassemblies. Sypris Technologies also manufactures high-pressure closures and other fabricated products. Sypris Electronics provides manufacturing and technical services as an outsourced service provider and manufactures complex data storage systems, trusted solutions for identity management, cryptographic key distribution and cyber analytics. There was no intersegment net revenue recognized in any of the periods presented.

The following table presents financial information for the reportable segments of the Company (in thousands):

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Net revenue from unaffiliated customers:		
Sypris Technologies	\$17,827	\$28,070
Sypris Electronics	9,111	8,939
	\$26,938	\$37,009
Gross profit (loss):		

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Sypris Technologies	\$(656)	\$(4,104)
Sypris Electronics	1,383	947
	\$727	\$(3,157)
Operating loss:		
Sypris Technologies	\$(2,974)	\$(9,368)
Sypris Electronics	(1,060)	(1,590)
General, corporate and other	(2,350)	(1,935)
	\$(6,384)	\$(12,893)

	April 3, 2016 (Unaudited)	December 31, 2015
Total assets:		
Sypris Technologies	\$ 39,098	\$ 38,968
Sypris Electronics	24,547	23,845
General, corporate and other	9,736	4,079
	\$ 73,381	\$ 66,892

(12) Commitments and Contingencies

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying balance sheets as of April 3, 2016 and December 31, 2015 was \$867,000 and \$830,000, respectively. The Company's warranty expense for the three months ended April 3, 2016 and April 5, 2015 was \$37,000 and \$64,000, respectively.

Additionally, the Company sells three and five-year extended warranties for certain link encryption products. The revenue from the extended warranties is deferred and recognized ratably over the contractual term. As of April 3, 2016 and December 31, 2015, the Company had deferred revenue of \$413,000 and \$495,000, respectively, related to extended warranties.

The Company bears insurance risk as a member of a group captive insurance entity for certain general liability, automobile and workers' compensation insurance programs and a self-insured employee health program. The Company records estimated liabilities for its insurance programs based on information provided by the third-party plan administrators, historical claims experience, expected costs of claims incurred but not paid, and expected costs to settle unpaid claims. The Company monitors its estimated insurance-related liabilities on a quarterly basis. As facts change, it may become necessary to make adjustments that could be material to the Company's consolidated results of operations and financial condition. The Company believes that its present insurance coverage and level of accrued liabilities are adequate.

The Company is involved in certain litigation and contract issues arising in the normal course of business. While the outcome of these matters cannot, at this time, be predicted in light of the uncertainties inherent therein, management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company.

The Company has various current and previously-owned facilities subject to a variety of environmental regulations. The Company has received certain indemnifications either from companies previously owning these facilities or from purchasers of those facilities. As of April 3, 2016 and December 31, 2015, no amounts were accrued for any environmental matters.

As of April 3, 2016, the Company had outstanding purchase commitments of approximately \$8,236,000, primarily for the acquisition of inventory and manufacturing equipment.

The Company accounts for loss contingencies in accordance with U.S. generally accepted accounting principles (GAAP). Estimated loss contingencies are accrued only if the loss is probable and the amount of the loss can be reasonably estimated. With respect to a particular loss contingency, it may be probable that a loss has occurred but the estimate of the loss is within a wide range or undeterminable. If the Company deems an amount within the range to be a better estimate than any other amount within the range, that amount will be accrued. However, if no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued.

During the fourth quarter of 2015, the Company gave notification regarding its intention to not renew the lease for its Tampa, FL facility, which will expire on December 31, 2016. During the first quarter of 2016, the Company entered into lease negotiations to extend the current lease for a smaller portion of the facility, but was unable to reach an agreement on the economics of a lease renewal with its current landlord. On May 3, 2016, the Company entered a lease for an alternative facility, which it expects to occupy upon the expiration of the current lease (see Note 17, "Subsequent Events"). The Company, Sypris Electronics and the landlord of the Tampa facility are currently involved in litigation over certain terms of the lease (see Item 1, "Legal Proceedings"). As such, it is reasonably possible that the Company may be required to make certain repairs to the current facility upon exit. The current estimate of the Company's reasonably possible loss contingency is from no liability to \$4,000,000. While the Company intends to vigorously dispute these claims, the Company accrued \$500,000 during the three months ended April 3, 2016 related to its estimated potential obligation under the lease. This accrual is included in accrued liabilities in the Company's consolidated balance sheet as of April 3, 2016.

(13) Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company provides for income taxes for its domestic operations at a statutory rate of 35% and for its foreign operations at a statutory rate of 30% in 2016 and 2015. Reconciling items between the federal statutory rate and the effective tax rate also include the expected usage of federal net operating loss carryforwards, state income taxes, valuation allowances and certain other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with ASC 740, *Income Taxes*. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets or liabilities are recovered or settled. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company evaluates its deferred tax position on a quarterly basis and valuation allowances are provided as necessary. During this evaluation, the Company reviews its forecast of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. Based on its current forecast, the Company has established a valuation allowance against the domestic net deferred tax asset. Until an appropriate level and characterization of profitability is attained, the Company expects to continue to maintain a valuation allowance on its net deferred tax assets related to future U.S. and non-U.S. tax benefits.

As of April 3, 2016 and December 31, 2015, the Company has no undistributed earnings of foreign subsidiaries that are classified as permanently reinvested. The Company did not repatriate any funds to the U.S. during 2015 and expects the repatriation of any available non-U.S. cash holdings during 2016 will be limited to the amount of undistributed earnings as of December 31, 2015. The loss recognized by the Company's Mexican operations during 2015 and the first quarter of 2016 reduced the undistributed earnings of that entity and the Company has therefore recognized a deferred income tax benefit equal to the reduction in the U.S. deferred tax liability and a corresponding increase in the deferred tax asset valuation allowance. Should the U.S. valuation allowance be released at some future date, the U.S. tax on foreign earnings not permanently reinvested might have a material effect on our effective tax rate.

(14) Employee Benefit Plans

Pension expense (benefit) consisted of the following (in thousands):

	Three Months Ended	
	April 3, 2016	April 5, 2015
	(Unaudited)	
Service cost	\$3	\$4
Interest cost on projected benefit obligation	426	434
Net amortizations of actuarial loss	174	170
Expected return on plan assets	(496)	(564)
	\$107	\$44

(15) Accumulated Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of employee benefit related adjustments and foreign currency translation adjustments.

Accumulated other comprehensive loss consisted of the following (in thousands):

	April 3, 2016	December 31, 2015
	(Unaudited)	
Foreign currency translation adjustments	\$ (9,584)	\$ (9,554)
Employee benefit related adjustments – U.S.	(16,177)	(16,177)
Employee benefit related adjustments – Mexico	(29)	(29)
Accumulated other comprehensive loss	\$ (25,790)	\$ (25,760)

(16) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding at April 3, 2016 under the Revolving Credit Facility and Term Loan approximates fair value, and is based upon a market approach (Level 2).

(17) Subsequent Events

On May 3, 2016, Sypris Electronics entered into an office and light manufacturing facility lease agreement (the “Lease”) to lease approximately 49,386 rentable square feet (the “Premises”) of a building beginning in January 2017. The base rent payments associated with the Lease will be approximately \$7,131,000 over the 11 year term of the Lease, and the Company estimates that operating expenses owed to the landlord over the term of the Lease will be approximately \$1,980,000. So long as Sypris Electronics is not in default of the Lease beyond any applicable notice and cure period, the base rent for months 1-24 will be abated by 50% and operating expenses will be abated 100% for months 1-6, and 50% for months 7-24. Additionally, Sypris Electronics’ obligations under the Lease have been guaranteed by the Company.

The Company has the right to extend the term of the Lease for five years, then the successive right to extend the term for an additional five years. Subject to certain terms and conditions, the Company also has the right to sublease, assign or transfer the Premises.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design and other technical services, often under sole-source contracts with corporations and government agencies principally in the markets for industrial manufacturing and aerospace and defense electronics.

We are organized into two business groups, Sypris Technologies and Sypris Electronics. Sypris Technologies, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of manufacturing services to customers in the market for truck components and assemblies and from the sale of products to the energy and chemical markets. Sypris Electronics, which is comprised of Sypris Electronics, LLC and its subsidiary, generates revenue primarily from the sale of manufacturing services, technical services and products to customers in the market for aerospace and defense electronics, trusted solutions for identity management, cryptographic key distribution and cyber analytics.

We focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry leaders that embrace multi-year contractual relationships as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number, historically, have been renewed for sufficient periods to enable us to invest in leading-edge processes or technologies to help our customers remain competitive. The productivity, flexibility and economies of scale that can result offer an important opportunity for differentiating ourselves from our competitors when it comes to cost, quality, reliability and customer service.

Sypris Technologies Outlook

In North America, production levels for light, medium and heavy duty trucks steadily increased from a low in the depressed economic environment of 2008 and 2009 through 2015, but are anticipated to decrease from 2015 to 2016. Production levels for the remainder of 2016 are expected to remain relatively consistent with the lower levels experienced in the first quarter of 2016 and increase slightly in 2017. Oil and gas markets, served by our engineered products line of Tube Turns® products, have been impacted, as some of our customers' revenues and near term capital expenditures have declined along with oil prices generally. However, the oil and gas outlook appears to be stabilizing as oil prices show signs of recovery and domestic pipeline projects continue to be active.

Sypris Electronics Outlook

We continue to face challenges within Sypris Electronics, such as the uncertainty in the worldwide macroeconomic climate and its impact on aerospace and defense spending patterns globally, the emergence of new competitors to our product and service offerings, as well as federal government spending uncertainties in the U.S. and the allocation of funds by the U.S. Department of Defense.