

SYPRIS SOLUTIONS INC  
Form 10-Q  
August 08, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

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**FORM 10-Q**

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(Mark One)

**Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**  
For the quarterly period ended July 1, 2007

OR

**Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-24020

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**SYPRIS SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

101 Bullitt Lane, Suite 450

**61-1321992**  
(I.R.S. Employer  
Identification No.)

(502) 329-2000

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**Louisville, Kentucky 40222**

(Address of principal executive

offices) (Zip code)

(Registrant's telephone number,

including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of July 31, 2007, the Registrant had 19,142,022 shares of common stock outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SYPRIS SOLUTIONS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except for per share data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 1, 2007</b>	<b>June 30, 2006</b>	<b>July 1, 2007</b>	<b>June 30, 2006</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Net revenue:</b>				
Outsourced services	\$ 91,338	\$ 115,419	\$ 186,344	\$ 224,230
Products	24,909	16,814	41,342	37,998
<b>Total net revenue</b>	<b>116,247</b>	<b>132,233</b>	<b>227,686</b>	<b>262,228</b>
<b>Cost of sales:</b>				
Outsourced services	87,156	109,688	173,405	210,831
Products	21,390	12,111	34,573	28,346
<b>Total cost of sales</b>	<b>108,546</b>	<b>121,799</b>	<b>207,978</b>	<b>239,177</b>
<b>Gross profit</b>	<b>7,701</b>	<b>10,434</b>	<b>19,708</b>	<b>23,051</b>
Selling, general and administrative	8,775	9,376	19,371	18,874
Research and development	714	371	1,393	704
Amortization of intangible assets	164	158	328	317
Nonrecurring items	1,248	256	1,554	677
<b>Operating (loss) income</b>	<b>(3,200)</b>	<b>273</b>	<b>(2,938)</b>	<b>2,479</b>
Interest expense, net	914	1,083	1,633	2,242
Other expense (income), net	61	(8)	41	(258)
<b>(Loss) income before income taxes</b>	<b>(4,175)</b>	<b>(802)</b>	<b>(4,612)</b>	<b>495</b>
Income tax (benefit) expense	(1,874)	(358)	(2,066)	83
<b>Net (loss) income</b>	<b>\$ (2,301)</b>	<b>\$ (444)</b>	<b>\$ (2,546)</b>	<b>\$ 412</b>
<b>(Loss) earnings per common share:</b>				
Basic	\$ (0.13)	\$ (0.02)	\$ (0.14)	\$ 0.02
Diluted	\$ (0.13)	\$ (0.02)	\$ (0.14)	\$ 0.02
<b>Dividends declared per common share</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>	<b>\$ 0.06</b>	<b>\$ 0.06</b>
<b>Weighted average shares outstanding:</b>				
Basic	18,169	18,065	18,138	18,055
Diluted	18,169	18,065	18,138	18,237

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



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## SYPRIS SOLUTIONS, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	July 1,	December 31,
	2007 (Unaudited)	2006 (Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,398	\$ 32,400
Restricted cash	883	1,002
Accounts receivable, net	60,974	59,876
Inventory, net	80,570	74,146
Other current assets	32,503	34,014
Total current assets	194,328	201,438
Property, plant and equipment, net	145,309	155,341
Goodwill	14,277	14,277
Other assets	8,344	7,977
Total assets	\$ 362,258	\$ 379,033
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 73,130	\$ 76,291
Accrued liabilities	20,468	19,430
Current portion of long-term debt		5,000
Total current liabilities	93,598	100,721
Long-term debt	48,000	55,000
Other liabilities	13,286	13,426
Total liabilities	154,884	169,147
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued		
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued		
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued		
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 19,179,117 shares issued and 19,136,105 outstanding in 2007 and 18,342,243 shares issued and 18,338,484 outstanding in 2006	191	183
Additional paid-in capital	145,011	143,537
Retained earnings	66,130	69,816
Accumulated other comprehensive loss	(3,762)	(3,634)
Treasury stock, 43,012 and 3,759 shares in 2007 and 2006, respectively	(196)	(16)
Total stockholders' equity	207,374	209,886
Total liabilities and stockholders' equity	\$ 362,258	\$ 379,033

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Note: The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

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

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## SYPRIS SOLUTIONS, INC.

## CONSOLIDATED CASH FLOW STATEMENTS

(in thousands)

	Six Months Ended	
	July 1,	June 30,
	2007	2006
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	\$ (2,546)	\$ 412
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	14,254	13,678
Noncash compensation expense	462	448
Other noncash items	27	(1,520)
Changes in operating assets and liabilities:		
Accounts receivable	(831)	(1,814)
Inventory	(1,843)	6,161
Other current assets	(3,328)	(3,448)
Accounts payable	(3,258)	15,827
Accrued liabilities	1,492	(156)
Net cash provided by operating activities	4,429	29,588
Cash flows from investing activities:		
Capital expenditures, net	(3,612)	(4,903)
Proceeds from sale of assets	22	57
Changes in nonoperating assets and liabilities	(891)	431
Net cash used in investing activities	(4,481)	(4,415)
Cash flows from financing activities:		
Net change in debt under revolving credit agreements	13,000	(10,000)
Payments on Senior Notes	(25,000)	
Cash dividends paid	(1,117)	(1,094)
Proceeds from issuance of common stock	167	209
Net cash used in financing activities	(12,950)	(10,885)
Net (decrease) increase in cash and cash equivalents	(13,002)	14,288
Cash and cash equivalents at beginning of period	32,400	12,060
Cash and cash equivalents at end of period	\$ 19,398	\$ 26,348

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



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**SYPRIS SOLUTIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Nature of Business**

Sypris is a diversified provider of outsourced services and specialty products. The Company performs a wide range of manufacturing, engineering, design, testing, and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for truck components & assemblies, aerospace & defense electronics, and test & measurement equipment.

**(2) Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, Sypris or the Company), and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. All significant 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 and six months ended July 1, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2006 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 September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements . The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material effect on the Company's future reported financial position or results of operations.

**(4) Major Customer Chapter 11 Filing**

On March 3, 2006 (Filing Date), the Company's largest customer, Dana Corporation (Dana), and 40 of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. Dana's European, South American, Asia-Pacific, Canadian and Mexican subsidiaries were excluded from the Chapter 11 filing. On May 10, 2006, the Company reached an agreement (Agreement) with Dana (Debtor-in-Possession) under which both parties agreed, among other things, that Dana (Debtor-in-Possession) owed the Company approximately \$22,100,000, and that the Company owed Dana approximately \$11.8 million or a difference of approximately \$10.3 million subject to final reconciliation. Of this amount, the Agreement also provided the Company with a \$9,200,000 progress payment on May 11, 2006, as well as reduced payment terms on a prospective basis. As of December 31, 2006, Dana and the Company had substantially completed the reconciliation process under the Agreement and the Company expected approximately \$1,100,000 in net additional accounts receivable to be collected from Dana (Debtor in Possession), although Dana had not yet paid such amounts. The Company also had a \$3,300,000 refundable deposit with Dana for a specified business line yet to be transferred to the Company.

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In addition, on December 6, 2006, an independent arbitrator initially held that Dana had breached certain of its agreements with Sypris by failing to transfer certain volumes of business and by failing to pay the appropriate prices for the volumes that were transferred. As a result, the arbitrator awarded payments to Sypris totaling \$1,818,212 plus \$146,258 per month on an ongoing basis. The arbitration ruling was subject to a 30-day clarif