

Edgar Filing: SYPRIS SOLUTIONS INC - Form 10-Q/A

SYPRIS SOLUTIONS INC  
Form 10-Q/A  
September 23, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q/A

(Mark One)

X  
-----  
Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934. For the quarterly period ended  
March 31, 2002.

or

-----  
Transition report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934. For the transition period from  
to .  
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Commission file number: 0-24020

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

101 Bullitt Lane, Suite 450  
Louisville, Kentucky 40222

(Address of principal executive offices, including zip code)

(502) 329-2000

(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 X No\_\_\_\_.

As of April 24, 2002 the registrant had 14,060,126 shares of common stock

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outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYPRIS SOLUTIONS, INC.

CONSOLIDATED INCOME STATEMENTS  
(in thousands, except for per share data)

	Three Months Ended	
	March 31, 2002	April 1, 2001
	(Unaudited)	
Net revenue:		
Outsourced services .....	\$ 52,661	\$ 46,018
Products .....	9,872	12,017
	-----	-----
Total net revenue .....	62,533	58,035
Cost of sales:		
Outsourced services .....	44,813	39,991
Products .....	6,591	7,880

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	-----	-----
Total cost of sales .....	51,404	47,871
	-----	-----
Gross profit .....	11,129	10,164
Selling, general and administrative .....	6,514	6,575
Research and development .....	831	677
Amortization of intangible assets .....	51	335
	-----	-----
Operating income .....	3,733	2,577
Interest expense, net .....	1,082	1,129
Other income, net .....	(29)	(152)
	-----	-----
Income before income taxes .....	2,680	1,600
Income tax expense .....	855	581
	-----	-----
Net income .....	\$ 1,825	\$ 1,019
	=====	=====
Earnings per share:		
Basic .....	\$ 0.18	\$ 0.10
Diluted .....	\$ 0.17	\$ 0.10
Weighted average shares outstanding:		
Basic .....	10,169	9,723
Diluted .....	10,742	9,900

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)

		March 31, 2002
		-----
		(Unaudited)
	Assets	
Current assets:		
Cash and cash equivalents .....		\$ 27,200
Accounts receivable, net .....		42,900
Inventory, net .....		63,000
Other current assets .....		8,400

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Total current assets .....	141,6
Property, plant and equipment, net .....	73,4
Intangible assets, net .....	15,8
Other assets .....	4,0
	-----
	\$ 235,0
	=====
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable .....	\$ 26,1
Accrued liabilities .....	18,1
Current portion of long-term debt .....	
	-----
Total current liabilities .....	44,3
Long-term debt .....	62,5
Other liabilities .....	6,8
	-----
Total liabilities .....	113,6
Stockholders' equity:	
Preferred stock, par value \$.01 per share, 989,000 shares authorized; no shares issued .....	
Series A preferred stock, par value \$.01 per share, 11,000 shares authorized; no shares issued .....	
Common stock, non-voting, par value \$.01 per share, 10,000,000 shares authorized; no shares issued .....	
Common stock, par value \$.01 per share, 20,000,000 shares authorized; 13,547,853 and 9,898,675 shares issued and outstanding in 2002 and 2001, respectively .....	1
Additional paid-in capital .....	74,6
Retained earnings .....	48,2
Accumulated other comprehensive income (loss) .....	(1,7
	-----
Total stockholders' equity .....	121,3
	-----
	\$ 235,0
	=====

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

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(in thousands)

	Three
	March 31
	2002
	-----
Cash flows from operating activities:	
Net income .....	\$ 1,8
Adjustments to reconcile net income to net cash (used in) provided by operating activities:	
Depreciation and amortization .....	2,6
Other noncash charges .....	2
Changes in operating assets and liabilities:	
Accounts receivable .....	(3,2)
Inventory .....	(2,4)
Other assets .....	(4)
Accounts payable .....	1,0
Accrued liabilities .....	(1,6)
	-----
Net cash (used in) provided by operating activities .....	(2,1)
Cash flows from investing activities:	
Capital expenditures .....	(7,6)
Proceeds from sale of assets .....	(4)
Changes in nonoperating assets and liabilities .....	(4)
	-----
Net cash used in investing activities .....	(8,0)
Cash flows from financing activities:	
Net (decrease) increase in debt under revolving credit agreements .....	(25,0)
Proceeds from issuance of common stock .....	49,1
	-----
Net cash provided by financing activities .....	24,1
	-----
Net increase (decrease) in cash and cash equivalents .....	14,0
Cash and cash equivalents at beginning of period .....	13,2
	-----
Cash and cash equivalents at end of period .....	\$ 27,2
	=====

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

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## 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 major companies and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and for users of 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"), Sypris Electronics, LLC, Sypris Test & Measurement, Inc., Sypris Data Systems, Inc., and Sypris Technologies, Inc., and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission (the "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 months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2001 as presented in the Company's annual report on Form 10-K.

(3) Earnings Per Share

There were no adjustments required to be made to net income for purposes of computing basic and diluted earnings per share. A reconciliation of the weighted average shares outstanding used in the calculation of basic and diluted earnings per share is as follows (in thousands):

	Three March 31 2002
Shares used to compute basic earnings per share .....	10,155
Dilutive effect of stock options .....	(10)
Shares used to compute diluted earnings per share .....	10,145

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(4) Inventory

Inventory consists of the following (in thousands):

	March 31, 2002
	----- (Unaudited)
Raw materials .....	\$ 16,0
Work in process .....	14,3
Finished goods .....	3,6
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date .....	38,2
Progress payments related to long-term contracts and programs .....	(3,9)
LIFO reserve .....	(1,1)
Reserve for excess and obsolete inventory .....	(4,1)
	-----
	\$ 63,0
	=====

(5) Segment Data

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial Group. There was no intersegment net revenue recognized in either of the periods presented. The following table presents financial information for the reportable segments of the Company for the three months ended March 31, 2002 and April 1, 2001 (in thousands):

	Three months ended March 31, 2002
	----- (Unaudited)
Net revenue from unaffiliated customers:	
Electronics Group .....	\$ 44,0
Industrial Group .....	18,4
	-----
	\$ 62,5
	=====
Gross profit:	
Electronics Group .....	\$ 8,6
Industrial Group .....	2,4
	-----
	\$ 11,1
	=====
Operating income:	
Electronics Group .....	\$ 3,1
Industrial Group .....	1,4
General, corporate and other .....	(8)
	-----

## (6) Commitments and Contingencies

The Company's Sypris Technologies subsidiary is a co-defendant in two lawsuits arising out of an explosion at a coker plant owned by Exxon Mobil Corporation located in Baton Rouge, Louisiana. In each of these lawsuits, it is alleged that a carbon steel pipe elbow that Sypris Technologies manufactured was improperly installed and the failure of which caused the explosion. One of the actions was brought by Exxon Mobil in 1994 in state district court in Louisiana and claims damages for destruction of the plant, which Exxon Mobil estimates exceed one hundred million dollars. Sypris Technologies is a co-defendant in this action with the fabricator who built the pipeline into which the elbow was incorporated and with the general contractor for the plant. The second action is a class action suit also filed in 1994 in federal

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court in Louisiana on behalf of the residents living around the plant and claims unspecified damages. Sypris Technologies is a co-defendant in this action with Exxon Mobil, the contractor and the fabricator. In both actions, the Company maintains that the carbon steel pipe elbow at issue was appropriately marked as carbon steel and was improperly installed, without Sypris Technologies' knowledge, by the fabricator and general contractor in circumstances that required the use of a chromium steel elbow. Although the Company believes these defenses to be meritorious, there can be no assurance that the Company will not be found liable for some or all of the alleged damages. If the Company was to be found liable and the damages exceeded available insurance coverage, the impact could materially and adversely affect the Company's financial condition and results of operations.

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.

## (7) Adoption of Recently Issued Accounting Standard

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company completed the first of the required impairment tests of goodwill and indefinite lived intangible assets during the three months ended March 31, 2002 and no adjustment to the carrying value of goodwill was required.

The nonamortization of goodwill has increased the Company's net income and earnings per share. Following are pro forma results assuming goodwill had not been amortized prior to January 1, 2002 (in thousands, except for per share data):

Three



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	----- March 31 2002 -----
	(
Reported net income .....	\$ 1,8
Adjustment for amortization of goodwill .....	-----
Adjusted net income .....	\$ 1,8 =====
Basic earnings per share as reported .....	\$ 0.
Adjustment for amortization of goodwill .....	-----
Adjusted basic earnings per share .....	\$ 0. =====
Diluted earnings per share as reported .....	\$ 0.
Adjustment for amortization of goodwill .....	-----
Adjusted diluted earnings per share .....	\$ 0. =====

There has been no change to the carrying value of the Company's goodwill since January 1, 2002. Goodwill at March 31, 2002 for the Electronics Group and the Industrial Group was \$13,818,000 and \$440,000, respectively. The Company's intangible assets subject to amortization and the related amortization expense are not material to the Company's consolidated financial position or results of operations, respectively.

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(8) Issuance of Common Stock

On March 26, 2002, the Company completed a public stock offering of 3,600,000 shares of its common stock at \$14.50 per share and generated proceeds, after underwriting discounts and estimated expenses, of approximately \$48,844,000. On April 19, 2002, an over-allotment option was exercised for 500,000 shares at \$14.50 per share and generated proceeds, after underwriting discounts and estimated expenses, of approximately \$6,785,000. The proceeds of the offering were used to repay debt of \$30,000,000 during March 2002 and \$22,500,000 during April 2002.

(9) Income Taxes

The Company's effective tax rate for the three months ended March 31, 2002 was 31.9%. Reconciling items between the federal statutory income tax rate and the effective tax rate include management's estimate for 2002 of research and development tax credits, state income tax benefits and certain other permanent differences.

(10) Accumulated Other Comprehensive Income

The aggregate fair market value of all interest rate swap agreements decreased from \$728,000 at December 31, 2001 to \$461,000 at March 31, 2002 and

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was included in other liabilities on the consolidated balance sheet. The change in fair market value, net of tax of \$100,000, was recorded as other comprehensive income during the three months ended March 31, 2002.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Note	Description
3.2	(1)	Bylaws of the Company.
10.20	(1)	Underwriting Agreement dated March 20, 2002 among Sypris Solutions, Inc., Needham & Company, Inc. and A.G. Edwards & Sons, Inc.
10.21	(1)	Sypris Solutions, Inc. Executive Bonus Plan, effective as of January 2, 2002, executed on or after April 1, 2002.
99.1		Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

(1) Incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 31, 2002 filed on April 29, 2002.

(b) Reports on Form 8-K:

The Company filed no reports on Form 8-K during the three months ended March 31, 2002.

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.

SYPRIS SOLUTIONS, INC.  
(Registrant)

Date: September 23, 2002 By: /s/ David D. Johnson  
-----  
David D. Johnson  
Vice President & Chief Financial Officer

Date: September 23, 2002 By: /s/ Anthony C. Allen  
-----  
Anthony C. Allen  
Vice President, Controller & Chief Accounting

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Officer

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CERTIFICATIONS

I, Jeffrey T. Gill, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Sypris Solutions, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 23, 2002

By: /s/ Jeffrey T. Gill

-----  
Jeffrey T. Gill

President & Chief Executive Officer

I, David D. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Sypris Solutions, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 23, 2002

By: /s/ David D. Johnson

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David D. Johnson

Vice President & Chief Financial Officer

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