SYPRIS SOLUTIONS INC
Form 10-K
March 30, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the fiscal year ended December 31, 2015.
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

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1321992**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 Bullitt Lane, Suite 450 Louisville, Kentucky 40222	**(502) 329-2000**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	**(Name of each exchange on which registered)**
Common Stock, $.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (July 5, 2015) was $15,839,081.

There were 21,058,544 shares of the registrant's common stock outstanding as of March 10, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 10, 2016 are incorporated by reference into Part III to the extent described therein.

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In this Annual Report on Form 10-K, “Sypris,” “the Company,” “we,” “us” and “our” refer to Sypris Solutions, Inc. and its subsidiaries and predecessors, collectively. “Sypris Solutions” and “Sypris” are our trademarks. All other trademarks, servicemarks or trade names referred to in this Annual Report on Form 10-K are the property of their respective owners.

PART I

Item 1. Business

General

We were formed as a Delaware corporation in 1997. 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 segments, Sypris Technologies and Sypris Electronics. Sypris Technologies, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of goods and 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.

We focus on those markets where we believe we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry participants 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 created opportunities 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 the competition when it comes to cost, quality, reliability and customer service.

Sypris Technologies. Through Sypris Technologies, we are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We have the capacity to produce drive train components including axle shafts, gear sets, differential cases, steer axle forgings, and other components for ultimate use by the leading truck manufacturers, including Chrysler Group LLC (Chrysler), Ford Motor Company (Ford), Freightliner LLC (Freightliner), Mack Trucks, Inc. (Mack), Navistar International Corporation (Navistar), PACCAR, Inc. (PACCAR) and Volvo Truck Corporation (Volvo). We support our customers' strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies.

In 2015, we implemented cost saving initiatives to adjust our overhead and infrastructure to be more in line with projected levels of customer demand and market requirements in an effort to meet the new challenges from the loss of Dana Holding Corporation (Dana) as a customer in 2015. As previously disclosed, Dana, our largest customer historically, repudiated our supply relationship and stopped placing orders with us as of the end of 2014. In 2014 Dana represented approximately 59% of our net revenue. Our shipments to Dana have been minimal since December 31, 2014. Due to the loss of this customer, we have developed recovery plans to cut costs and rebuild our revenues over time in order to become profitable again. While we hope to take advantage of our excess capacity through our ongoing efforts, there can be no assurances that such conditions will continue or that our efforts to cut costs and rebuild our revenues through new customers will be successful. See "Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship" in Part I, Item 1A of this Annual Report on Form 10-K.

Our sales of engineered products such as pressurized closures, insulated joints and other specialty products, primarily to oil and gas pipelines and related energy markets have remained an independent source of diversified revenues and are becoming an area of greater focus for the Company going forward. We are committed to exploring new product developments and potential new markets, which will be an increasing area of focus for the Company going forward.

Our net revenues from Sypris Technology decreased $214.1 million from 2014 to $108.1 million in 2015. Despite this decline, Sypris Technologies still represented approximately 74% of our net revenues in 2015.

Sypris Electronics. Sypris Electronics is organized around three primary business lines: Information Security Solutions (ISS), Electronic Manufacturing Services (EMS) and Cyber Security and Analytics (Cyber).

Information Security Solutions (ISS). Our ISS business provides solutions in secure communications, global electronic key management, Sypris Data Systems branded products, and product design and development to the U.S. Government, both defense and civilian agencies, international government agencies, as well as worldwide aerospace and defense prime contractors. This group has several contracts with the Department of Defense to design and build information assurance products, including link encryptors, data recording products and electronic key fill devices. Our patented SiOMetrics technology and related solutions are designed to authenticate the identity of hardware without requiring the expense or risk of traditional key-based encryption solutions.

Electronic Manufacturing Services (EMS). Our EMS business is focused on circuit card and full box build manufacturing, dedicated space and high reliability manufacturing, integrated design and engineering services, systems assembly and integration, design for manufacturability, and design to specification work. Our customers include large aerospace and defense companies such as Lockheed Martin Corporation (Lockheed Martin), Northrop Grumman Corporation (Northrop Grumman) and Exelis Inc. (Exelis).

Cyber Security and Analytics (Cyber). Our Cyber business includes a variety of software, hardware and service solutions, including Cyber Ranges, designed to help our customers better train and equip their security personnel to protect their operations and sensitive information from theft, disruption or other harm in an increasing hostile and volatile, global cyber environment.

The industry and business environment of Sypris Electronics continues to be impacted by policy and budget decisions of the U.S. Government, as well as economic conditions. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the U.S. Government's authorization and appropriations process could result in reductions, cancellations and/or delays of Sypris Electronics' existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows. Net revenue from Sypris Electronics increased $4.7 million to $37.2 million in 2015 compared to the prior year. Sypris Electronics accounted for approximately 26% of net revenue in 2015, up from 9% of our net revenue in 2014 primarily due to the decline in revenues in Sypris Technologies.

Our Markets

Sypris Technologies. The industrial manufacturing markets include truck components and assemblies and specialty closures. The truck components and assemblies market consists of the original equipment manufacturers, or OEMs, including Chrysler, Ford, Freightliner, General Motors Company, Mack, Navistar, PACCAR and Volvo, and an extensive supply chain of companies of all types and sizes that are classified into different levels or tiers. Tier I companies represent the primary suppliers to the OEMs and include Meritor, Dana, Detroit Diesel Corporation (Detroit Diesel), Delphi Automotive LLP, Eaton Corporation (Eaton) and Visteon Corporation, among others. Below this group of companies reside numerous suppliers that either supply the OEMs directly or supply the Tier I companies. In all segments of the truck components and assemblies, however, suppliers are under intense competitive pressure to improve product quality and to reduce capital expenditures, production costs and inventory levels. The specialty closures market consists primarily of oil and gas pipelines, which are also facing significant pressures to improve quality, reduce costs and defer capital expenditures.

Sypris Electronics. Our aerospace and defense business faces an aging portfolio of legacy products and services which must be replenished with new technologies if we are to successfully maintain or expand our market share. Our failure to address any of these factors, particularly in our secured electronic communications or space engineering programs, could impair our business model.

As noted above, the U.S. Government's budget process and the ongoing spending reductions to defense programs has adversely impacted our portfolio of traditional business in this segment, which is dependent upon discretionary appropriations for defense programs. Although we believe that our products and programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense and intelligence priorities, the affordability of our products and services, changes in or preferences for new or different technologies, general economic conditions and other factors may affect the level of funding for existing or proposed programs. Uncertainty over budget plans and national security spending may prove challenging for our customers, as well as the defense industry as a whole.

Market conditions for our ISS and Cyber businesses are expected to be favorable over the long term, given the growing cyber security and intelligence markets. However, market conditions for our EMS business, dedicated to the aerospace and defense market, are characterized by a number of obstacles. The nature of providing outsourced manufacturing services to the aerospace and defense electronics industry differs substantially from the commercial electronics manufacturing industry. The cost of failure can be extremely high, the manufacturing requirements are typically complex and products are produced in relatively small quantities. Companies that provide these manufacturing services are required to maintain and adhere to a number of strict and comprehensive certifications, security clearances and traceability standards. As mentioned above, U.S. Government and private customer spending levels remain uncertain.

Our Business Strategy

Our objective is to improve our position in each of our core markets by increasing our number of multi-year contracts with customers and investing in highly innovative and efficient production capacity to remain competitive on a global scale. We intend to serve our customers and achieve this objective by continuing to:

Concentrate on our Core Markets. We are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We have been an established supplier of manufacturing and technical services to major aerospace and defense companies and agencies of the U.S. Government for over 40 years, and our experience in cryptography has attracted significant interest in the emerging needs of the Internet of Things (IoT) marketplace. We will continue to focus on those markets where we have the expertise and qualifications to achieve a competitive advantage.

Dedicate our Resources to Support Strategic Partnerships. We will continue to prioritize our resources to support the needs of industry leaders that embrace multi-year contractual relationships as a strategic component of their supply chain management and have the potential for long-term growth. We prefer contracts that are sole-source by part number so we can work closely with the customer to the mutual benefit of both parties.

Pursue the Strategic Acquisition of Assets. Over the long term, we may consider the strategic acquisition of assets to consolidate our position in our core markets, expand our presence outside the U.S., create or strengthen our relationships with leading companies and expand our range of value-added services in return for multi-year supply agreements. We target assets that can be integrated with our core businesses and that can be used to support other customers, thereby improving asset utilization and achieving greater productivity, flexibility and economies of scale.

Grow Through the Addition of New Value-Added Services. We hope to grow through the addition of new value-added manufacturing capabilities and the introduction of additional components in the supply chain that enable us to provide a more complete solution by improving quality and reducing product cost, inventory levels and cycle times for our customers. In many instances, we offer a variety of state-of-the-art machining capabilities to our customers in the industrial manufacturing markets that enable us to reduce labor and shipping costs and minimize cycle times for our customers over the long-term, providing us with additional growth opportunities in the future. Successfully migrating from design and manufacturing of complex circuit card assemblies to box builds would increase product content with our customers and would allow us to be a more significant outsourced manufacturer in the aerospace and defense supply chain.

We believe that the number and duration of our strategic relationships should enable us to invest in our business with greater certainty and with less risk than others that do not benefit from the type of longer term contractual commitments we have historically received from certain key customers. The investments we make in support of these contracts are targeted to provide us with the productivity, flexibility, technological edge and economies of scale that we believe will help to differentiate us from the competition in the future when it comes to cost, quality, reliability and customer service.

Our Services and Products

We are a diversified provider of outsourced services and specialty products. Our services consist of manufacturing, technical and other services and products that are delivered as part of our customers' overall supply chain management. The information below is representative of the types of products we manufacture, services we provide and the customers and industries for which we provide such products or services.

Sypris Technologies:

Meritor	Axle shafts and drive train components for medium and heavy-duty trucks.
Detroit Diesel	Axle shafts and drive train components for medium and heavy-duty trucks.
Eaton	Transmission shafts for heavy-duty trucks.
Jamison Products	Specialty closures for oil and gas pipelines.

Sypris Electronics:

Northrop Grumman	Circuit card assembly and sub-assembly design and build for electronic sensors and systems ranging from radar and targeting systems to tactical ground stations, navigation systems and integrated avionics.
U.S. Government	Secure communications equipment, global key management solutions and data recording systems used by the Department of Defense and Intelligence Agencies.
Lockheed Martin	Complex circuit cards for use in some of the nation's high priority space programs.
Exelis	Complex circuit cards and subassemblies for use in weapons systems, targeting and warning systems.
NEC	Cyber Range hardware and software for modeling, simulation and training.

Manufacturing Services

Our manufacturing services typically involve the fabrication or assembly of a product or subassembly according to specifications provided by our customers. We purchase raw materials or components from our customers and independent suppliers in connection with performing our manufacturing services. We strive to enhance our manufacturing capabilities by advanced quality and manufacturing techniques, lean manufacturing, just-in-time procurement and continuous flow manufacturing, six sigma, total quality management, stringent and real-time engineering change control routines and total cycle time reduction techniques.

Industrial Manufacturing Services. We offer our customers a wide range of capabilities, including automated forging, extruding, machining, induction hardening, heat-treating and testing services to meet the exacting requirements. We also design and fabricate production tooling, manufacture prototype products and provide other value-added services for our customers. Our manufacturing services contracts for the truck components and assemblies markets are often sole-source by part number. Part numbers may be specified for inclusion in a single model or a range of models. Where we are the sole-source provider by part number, we are generally the exclusive provider to our customer of those specific parts and for the duration of the manufacturing contract.

Electronics Manufacturing Services. We provide our customers with a broad variety of value added solutions, from low-volume prototype assembly to high-volume turnkey manufacturing. We employ a multi-disciplined engineering team that provides comprehensive manufacturing and design support to customers. The manufacturing solutions we offer include design conversion and enhancement, process and tooling development, materials procurement, system assembly, testing and final system configuration. Our manufacturing services contracts for the aerospace and defense electronics market are generally sole-source by part number.

Products

In addition to our outsourced contract manufacturing services, we offer specialized products including light weight axle components, digital and analog data systems and encryption devices used in military applications, a variety of cyber security training and identity authentication solutions, and specialty closures and joints used in pipeline and chemical systems. As we look to grow our products business and seek to replace the revenues lost from the Dana relationship, greater emphasis will be placed on the commercialization of new products to broaden our portfolio and meet the needs of our customers.

Our Customers

Our customers include large, established companies and agencies of the federal government. We provide some customers with a combination of outsourced services and products, while other customers may be in a single category of our service or product offerings. Our five largest customers in 2015 were Meritor, Sistemas, Corporation (Sistemas), Detroit Diesel Corporation, Northrup Grumman and Eaton, which in the aggregate accounted for 62% of net revenue. Our five largest customers in 2014 were Dana, Meritor, Sistemas, Detroit Diesel and Northrop Grumman, which in the aggregate accounted for 85% of net revenue. In 2015, Meritor, Sistemas and Detroit Diesel represented approximately 30% 11% and 10% of our net revenue, respectively. No other customer accounted for more than 10% of our net revenue in 2015. In 2014, Dana and Meritor represented approximately 59% and 16% of our net revenue, respectively. No other customer accounted for more than 10% of our revenue in 2014. In addition, U.S. governmental agencies accounted for 5% and 2% of net revenue in 2015 and 2014, respectively.

Geographic Areas and Currency Fluctuations

We are located in the U.S., Mexico, Denmark and the U.K. Our Mexican subsidiaries and affiliates are a part of Sypris Technologies and manufacture and sell a number of products similar to those Sypris Technologies produces in the U.S. Our Denmark subsidiary is a sales office and is part of Sypris Electronics. Our U.K subsidiary is a sales office and is part of Sypris Technologies. In addition to normal business risks, operations outside the U.S. may be subject to a greater risk of changing political, economic and social environments, changing governmental laws and regulations, currency revaluations and market fluctuations. Fluctuations in foreign currency exchange rates have primarily impacted our earnings only to the extent of remeasurement gains or losses related to U.S. dollar denominated accounts of our foreign subsidiaries, because the vast majority of our transactions are denominated in U.S. dollars. For the years ended December 31, 2015 and 2014, other income, net, included foreign currency transaction gains of $0.3 million and $0.7 million, respectively.

Net revenues from Mexican operations, were $8.9 million, or 6%, and $111.2 million, or 31%, of our consolidated net revenues in 2015 and 2014, respectively. Our Mexico operations, conducted through our Toluca, Mexico facility, were primarily used to support Dana. The loss of Dana as a customer created significant challenges for the Company, including in our Mexico operations, especially in the near-term as we seek to control our costs while rebuilding and diversifying our customer base. In 2015, the net loss from our Mexican operations was $8.6 million, as compared to our consolidated net loss of $27.2 million. In 2014, net income from our Mexican operations was $10.8 million, as compared to our consolidated net loss of $1.2 million. You can find more information about our regional operating results, including our export sales, in "Note 22 Segment Information" to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Sales and Business Development

Our principal sources of new business originate from the expansion of existing relationships, referrals and direct sales through senior management, direct sales personnel, domestic and international sales representatives, distributors and market specialists. We supplement these selling efforts with a variety of sales literature, advertising in numerous trade media and participating in trade shows. We also utilize engineering specialists extensively to facilitate the sales process by working with potential customers to reduce the cost of the service they need. Our specialists achieve this objective by working with the customer to improve their product's design for ease of manufacturing or by reducing the amount of set-up time or material that may be required to produce the product. The award of contracts or programs can be a lengthy process, which in some circumstances can extend well beyond 12 months. Upon occasion, we commit resources to potential contracts or programs that we ultimately do not win.

Our objective is to increase the value of the services we provide to the customer on an annual basis beyond the contractual terms that may be contained in a supply agreement. To achieve this objective, we commit to the customer that we will continuously look for ways to reduce the cost, improve the quality, reduce the cycle time and improve the life span of the products and/or services we supply the customer. Our ability to deliver on this commitment over time is expected to have a significant impact on customer satisfaction, loyalty and follow-on business.

Since the beginning of 2015, we have signed long term supply agreements with Detroit Axle and Volvo. We have also been awarded purchase orders for various services and components from American Axle, Meritor, Sisamex, and Dana. We are launching the Ultra™ axle shaft with Detroit Axle and have strong interest from others within the customer base who are interested in this patented product. We are continuing to explore other opportunities as they arise and have significant list of outstanding quotations in progress, but there can be no assurances that our efforts to develop new sources of revenues will adequately replace the loss of the Dana business.

Competition

The markets that we serve are highly competitive, and we compete against numerous domestic companies in addition to the internal capabilities of some of our customers. In the truck components and assemblies market, we compete primarily against other component suppliers such as Ramkrishna Forgings Limited, Mid-West Forge, Inc., GNA Axles Limited, US Manufacturing Corporation, Spencer Forge and Machine, Inc. and Traxle, which serve as suppliers to many Tier I and smaller companies. In the aerospace and defense electronics market, we compete primarily against companies such as Celestica Inc., Jabil Circuit, Inc. and Safenet, Inc. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours. In addition, we will face new competitors as we attempt to increase and expand our business.

We believe that the principal competitive factors in our markets include the availability of capacity, currency exchange rates (especially in low-cost countries), technological capability, flexibility, financial strength and timeliness in responding to design and schedule changes, price, quality and delivery. Although we believe that we generally compete favorably with respect to each of these factors, some of our competitors, as compared to us, are larger and have greater financial and operating resources, greater geographic breadth and range of services, customer bases and brand recognition than we do. We also face competition from manufacturing operations of our current and potential customers that continually evaluate the relative benefits of internal manufacturing compared to outsourcing.

Suppliers

For significant portions of our business, we purchase raw materials and component parts from our customers or from suppliers chosen by our customers, at prices negotiated by our customers. When these suppliers increase their prices, cause delays in production schedules or fail to meet our customers' quality standards, our customers have contractually agreed to reimburse us for the costs associated with such price increases and not to charge us for costs caused by such delays or quality issues. Accordingly, our risks are largely limited to accurate inspections of such materials, timely communications and the collection of such reimbursements or charges, along with any additional costs incurred by us due to delays in, interruptions of, or non-optimal scheduling of production schedules. However, for a growing part of our business, we arrange our own suppliers and assume the additional risks of price increases, quality concerns and production delays.

Raw steel and fabricated steel parts are a major component of our cost of sales and net revenue for the truck components and assemblies business. We purchase a significant portion of our steel for use in this business at the direction of our customers, with any periodic changes in the price of steel being reflected in the prices we are paid for our services. Increases in the costs of steel or other supplies can increase our working capital requirements, scrap expenses and borrowing costs.

There can be no assurance that supply interruptions or price increases will not slow production, delay shipments to our customers or increase costs in the future, any of which could adversely affect our financial results. Delays, interruptions or non-optimal scheduling of production related to interruptions in raw materials supplies can be expected to increase our costs.

Research and Development

Our research and development expenditures are mainly related to our product lines that serve the aerospace and defense electronics market. Process improvement expenditures related to our outsourced services are not reflected in research and development expense. Accordingly, our research and development expense represents a relatively small percentage of our net revenue. Company-sponsored research and development costs are expensed as incurred. We invested $0.8 million and $0.6 million in research and development in 2015 and 2014, respectively. Customer-sponsored research and development costs are incurred under U.S. Government-sponsored contracts and require us to provide a product or service meeting certain defined performance or other specifications (such as designs). Customer-sponsored research and development is accounted for under the milestone method and included in our net revenue and cost of sales (see Critical Accounting Policies and Estimates in Item 7 of this Annual Report on Form 10-K).

Patents, Trademarks and Licenses

We own or license a number of patents and trademarks, but our business as a whole is not materially dependent upon any one patent, trademark, license or technologically related group of patents or licenses.

We regard our manufacturing processes and certain designs as proprietary trade secrets and confidential information. We rely largely upon a combination of trade secret laws, non-disclosure agreements with customers, suppliers and consultants, and our internal security systems, confidentiality procedures and employee confidentiality agreements to maintain the trade secrecy of our designs and manufacturing processes.

Government Regulation

Our operations are subject to compliance with regulatory requirements of federal, state and local authorities, in the U.S., the U.K., Denmark and Mexico, including regulations concerning financial reporting and controls, labor relations, minimum pension funding levels, export and import matters, health and safety matters and protection of the environment. While compliance with applicable regulations has not adversely affected our operations in the past, there can be no assurance that we will continue to be in compliance in the future or that these regulations will not change or that the costs of compliance will not be material to us.

We must comply with detailed government procurement and contracting regulations and with U.S. Government security regulations, certain of which carry substantial penalty provisions for nonperformance or misrepresentation in the course of negotiations. Our failure to comply with our government procurement, contracting or security obligations could result in penalties or our suspension or debarment from government contracting, which would have a material adverse effect on our consolidated results of operations.

We are required to maintain U.S. Government security clearances in connection with certain activities of Sypris Electronics. These clearances could be suspended or revoked if we were found not to be in compliance with applicable security regulations. Any such revocation or suspension would delay our delivery of products to customers. Although we have adopted policies designed to ensure compliance with applicable regulations, there can be no assurance that the approved status of our facilities or personnel will continue without interruption.

We are also subject to comprehensive and changing federal, state and local environmental requirements, both in the U.S. and in Mexico, including those governing discharges to air and water, the handling and disposal of solid and hazardous wastes and the remediation of contamination associated with releases of hazardous substances. We use hazardous substances in our operations and, as is the case with manufacturers in general, if a release of hazardous substances occurs on or from any properties that we may own or operate, we may be held liable and may be required to pay the cost of remedying the condition. The amount of any resulting liability could be material.

Employees

As of December 31, 2015, we had a total of 735 employees, of which 567 were engaged in manufacturing and providing our technical services, 25 were engaged in sales and marketing, 70 were engaged in engineering and 73 were engaged in administration. Approximately 374 of our employees were covered by collective bargaining agreements with various unions that expire on various dates through 2017. Excluding certain Mexico employees covered under an annually ratified agreement, collective bargaining agreements covering 35 employees expire within the next 12 months. In response to the loss of significant revenues in 2015, we have engaged in layoffs during the year, and our ability to maintain our workforce depends on our ability to attract and retain new and existing customers. Although we believe overall that relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably, that negotiations will be successful or that we will not experience a work stoppage, which could adversely affect our consolidated results of operations.

Internet Access

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website (www.sypris.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

Item 1A. Risk Factors

Risks Related to Our Business and Forward-Looking Statements

This annual report and our other oral or written communications may contain "forward-looking" statements. These statements include our expectations or projections about the future of our industries, business strategies, the markets in which we operate, potential acquisitions, contracts with customers, new business opportunities, controlling or cutting our costs, finding new customers, replacing the lost revenue from losing Dana as a customer, becoming profitable, our compliance with covenants in our debt agreements, the expectations for Management's Recovery Plan, and our financial results, financial condition and our views about developments beyond our control including government spending, domestic or global economic conditions, trends and market forces. These statements are based on management's views and assumptions at the time originally made, and we undertake no obligation to update these statements, except as may be required by law. There can be no assurance that our expectations, projections or views will come to pass, and you should not place undue reliance on these forward-looking statements.

A number of significant risk factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements, including those described below. Many of these risk factors are also identified in connection with the more specific descriptions contained throughout this report.

Customers

We have experienced recent operating losses, and anticipate further operating losses in the near term, as we seek to generate new business revenues to replace the loss of our largest customer during the implementation of our recovery plans.

Our businesses generally will require a higher level of new business revenues in order to operate profitably prior to the full implementation of our cost-cutting recovery plans. We have recently experienced operating losses and may not become profitable if we are unable to execute on management’s plans. The loss of revenues from Dana in early 2015 also accelerated our need to launch new programs with existing customers and to diversify our business by adding new customers. While we expect to generate further operating losses in the near term, we are trying to increase our revenues over this time with new or existing customers by utilizing our excess manufacturing capacity. Unless we can develop and offer new products and services to existing customers or obtain new customers, at the levels anticipated in management’s recovery plans, we may be unable to maintain the critical mass of capital investments or talented employees that are needed to succeed in our chosen markets or to maintain our existing facilities, which could result in additional restructuring or exit costs. There can be no assurance that we will be able to generate the additional revenue projected in our recovery plans or to succeed in the execution of the cost-cutting initiatives in those plans.

Customer contracts may not be renewed on acceptable terms or at all. Our largest customer, Dana, has repudiated our supply relationship.

The Company has alleged in litigation and arbitration proceedings that a renewal of our supply agreement with Dana through 2019 was executed in good faith and should be enforceable. However, our litigation efforts to enforce this contract renewal with Dana have so far been unsuccessful (see "Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K"). The renewal of supply contracts with our biggest remaining customers on acceptable terms is a central part of management's recovery plans. Our inability to effectively execute those recovery plans would materially adversely affect our business, results of operations and financial condition, and any unexpected issues or costs that arise during this transitional period could have a disproportionate impact on us compared to prior years due to our financial condition.

Customer contracts could be less profitable than expected.

We generally bear the risk that our contracts could be unprofitable or less profitable than planned, despite our estimates of revenues and future costs to complete such contracts.

A material portion of our business, historically, has been conducted under multi-year contracts, which generally include fixed prices or periodic price reductions without minimum purchase requirements. Over time, our revenues may not cover any increases in our operating costs which could adversely impact our results. Our financial results are at greater risk when we accept contractual responsibility for raw material or component prices, when we cannot offset price reductions and cost increases with operating efficiencies or other savings, when we must submit contract bid prices before all key design elements are finalized or when we are subjected to other competitive pressures which erode our margins. The profitability of our contracts also can be adversely affected by unexpected start-up costs on new programs, operating inefficiencies, ineffective capital investments, inflationary pressures or inaccurate forecasts of future unit costs.

In the past, we have signed long-term supply agreements with Dana and Meritor and acquired their facilities in Morganton, North Carolina and Toluca, Mexico, among other manufacturing assets. Although most of these acquired facilities have had well-established product markets, the Company does not currently expect a significant volume of business with Dana and in July of 2015 we sold the Morganton plant and our trailer beam business to Meritor. In addition, our remaining products for Meritor may not continue to be competitive, product enhancements may not be made in a timely fashion, and any long-term pricing agreements could generate lower margins than anticipated.

Unexpected changes in our customers' demand levels have harmed our operating results in the past and could do so in the future. Many of our customers will not commit to firm production or delivery schedules. Disagreements over pricing, quality, delivery, capacity, exclusivity or trade credit terms could disrupt order schedules. Orders may also fluctuate due to changing global capacity and demand, new products, changes in market share, reorganizations or bankruptcies, material shortages, labor disputes or other factors that discourage outsourcing. These forces could increase, decrease, accelerate, delay or cancel our delivery schedules.

Inaccurate forecasting of our customers' requirements can disrupt the efficient utilization of our manufacturing capacity, inventories or workforce. If we lose anticipated revenues, we might not succeed in redeploying our substantial capital investment and other fixed costs, potentially forcing additional plant closures, impairments of long-lived and other assets or increased losses. If we receive unanticipated orders or rapid increases in demand, these incremental volumes could be unprofitable due to the higher costs of operating above our optimal capacity.

We depend on a few key customers in challenging industries for most of our revenues. We continue to have substantial customer concentration.

Our five largest customers in 2015 were Meritor, Sistemas, Detroit Diesel, Northrup Grumman and Eaton, collectively accounting for 62% of net revenue. Our five largest customers in 2014 were Dana, Meritor, Sistemas, Detroit Diesel and Northrop Grumman, collectively accounting for 85% of net revenue. While we have initiated efforts to replace the loss of Dana business, our inability to retain or increase our revenues while effectively controlling our costs would materially adversely affect our business, results of operations and financial condition. In 2016 and beyond, we will need to attract new clients and attempt to diversify our customer base from a limited number of potential customers and with longer lead times often being required for new programs.

The truck components and assemblies industry has experienced credit risk, highly cyclical market demand, labor unrest, rising steel costs, bankruptcy and other obstacles, while the aerospace and defense electronics industry has experienced consolidation, increased competition, disruptive new technologies and uncertain funding. We depend on the continued growth and financial stability of these customers and our core markets, as well as general economic conditions. Adverse changes affecting these customers, markets or economic conditions could harm our operating results. The truck components and assemblies market is highly cyclical, due in part to regulatory deadlines, the availability or scarcity of credit, fluctuations in oil prices and pent-up demand for replacement vehicles.

Rising costs of steel or component parts could increase our inventory and working capital levels and present challenges to our customers who seek to pass those costs on to their customers. Many of our customers' labor disputes, financial difficulties and restructuring needs have created rising uncertainty and risk, which could increase our costs or impair our business model.

The aerospace and defense industry is pressured by cyclicality, rapid technological change, shortening product life cycles, decreasing margins, unpredictable funding levels and government procurement and certification processes. Our aerospace and defense business faces an aging portfolio of legacy products and services which must be replenished with new technologies if we are to successfully maintain or expand our market share. Our failure to address any of these factors, particularly in our secured electronic communications or space engineering programs, could impair our business model.

There can be no assurance that any of our customers will not default on, delay or dispute payment of, or seek to reject our outstanding invoices in bankruptcy or otherwise. In addition, the existence of these factors may result in fewer customers in our target markets due to consolidation, bankruptcy, competitive or other market reasons, making it more difficult to obtain new clients and diversify our customer base in the near future.

Congressional budgetary constraints or reallocations could reduce our government sales.

Sypris Electronics sells manufacturing services and products to a number of U.S. government agencies, which in the aggregate represented approximately 5% and 2% of our net revenue in 2015 and 2014, respectively. We also serve as a contractor for large aerospace and defense companies such as Northrop Grumman, Exelis, Tyco, and Lockheed Martin typically under federally funded programs, which represented approximately 12% and 4% of net revenue in 2015 and 2014, respectively.

Sypris Electronics already has been significantly adversely affected by declines in the overall government defense market due to the effects of sequestration, and may be further affected if funding for programs in which we participate, either by selling services and products directly to U.S. government agencies or as a subcontractor to prime contractors such as Northrup Grumman, Exelis, Tyco and Lockheed Martin, is reduced, delayed or cancelled. Our ability to obtain new contract awards also could be negatively affected.

Reductions in U.S. military spending also could materially adversely affect the results of our Sypris Electronics, and we expect that certain military and defense programs will experience delays while the receipt of government approvals remain pending.

Future levels of governmental spending, including delays, declines or reallocations in the funding of certain programs could adversely affect our financial results, if we are unable to offset these changes with new business or cost reductions.

Suppliers

Interruptions in the supply of key components could disrupt production.

Some of our manufacturing services or products require one or more components that are available from a limited number of providers or from sole-source providers. In the past, some of the materials we use, including steel, certain forgings or castings, capacitors and memory and logic devices, have been subject to industry-wide shortages or capacity allocations. As a result, suppliers have been forced to allocate available quantities among their customers, and we have not been able to obtain all of the materials desired. Some of our suppliers have struggled to implement reliable quality control systems which can negatively impact our operating efficiency and financial results. In downward business cycles, the tightening of credit markets has threatened the financial viability of an increasing number of suppliers of key components and raw materials and forced unanticipated shutdowns. Our inability to reliably obtain these or any other materials when and as needed could slow production or assembly, delay shipments to our customers, impair the recovery of our fixed costs and increase the costs of recovering to customers' schedules, including overtime, expedited freight, equipment maintenance, operating inefficiencies, higher working capital and the obsolescence risks associated with larger buffer inventories. Each of these factors could adversely affect operating results.

Shortages or increased costs of utilities could harm our business and our customers.

We and our customers depend on a constant supply of electricity and natural gas from utility providers for the operation of our respective businesses and facilities. In the past, we have experienced power outages which reduced our ability to deliver products and meet our customers' demand for those products. If we or our customers experience future interruptions in service from these providers, our production and/or delivery of products could be negatively affected. Additionally, due to the heavy consumption of energy in our production process and the businesses of our customers, if the cost of energy significantly increases, our results of operations and those of our customers could be negatively impacted.

Execution

Contract terminations or delays could harm our business.

We often provide manufacturing services and products under contracts that contain detailed specifications, quality standards and other terms. If we are unable to perform in accordance with such terms, our customers might seek to terminate such contracts, demand price concessions or other financial consideration or downgrade our past performance rating, an increasingly critical factor in federal procurement competitions. Moreover, many of our contracts are subject to termination for convenience or upon default. These provisions could provide only limited recoveries of certain incurred costs or profits on completed work and could impose liability for our customers' costs in procuring undelivered items from another source. If any of our significant contracts were to be repudiated, terminated or not renewed, we would lose substantial revenues, and our operating results as well as prospects for future business opportunities could be adversely affected.

We are subject to various audits, reviews and investigations, including private party "whistleblower" lawsuits, relating to our compliance with federal and state laws. Should our business be charged with wrongdoing, or determined not to be a "presently responsible contractor," we could be temporarily suspended or debarred for up to three or more years from receiving new government contracts or government-approved subcontracts.

We must operate more efficiently than usual due to lower revenues.

If we are unable to improve the cost, efficiency and yield of our operations, and if we are not able to control costs, our financial results could suffer and we could be forced to sell additional assets, refinance our debt at higher costs or take other measures to restructure our operations or capital structure. A number of major obstacles could include:

- the loss of substantial revenues due to a sluggish economic recovery;
- difficulties arising from our present financial condition, including difficulties in maintaining customer and supplier relationships and difficulties acquiring new business due to lingering concerns over our financial condition;
- inflationary pressures;
- increased borrowing due to declines in sales;
- changes in anticipated product mix and the associated variances in our profit margins;

efforts to increase our manufacturing capacity and launch new programs; efforts to migrate, restructure or move business operations from one location to another;

the breakdown of critical machinery or equipment;

the need to identify and eliminate our root causes of scrap;

our ability to achieve expected annual savings or other synergies from past and future business combinations;

inventory risks due to shifts in market demand;

obsolescence; price erosion of raw material or component parts;

shrinkage, or other factors affecting our inventory valuations;

and an inability to successfully manage growth, contraction or competitive pressures in our primary markets.

Our management or systems could be inadequate to support our existing or future operations, especially as we downsize our operating staff to reduce expenses while we work to increase revenues and address softening market conditions. New customers or new contracts, particularly with new product offerings, could require us to invest in additional equipment or other capital expenditures. We may have limited experience or expertise in installing or operating such equipment, which could negatively impact our ability to deliver products on time or with acceptable costs. In addition, a material portion of our manufacturing equipment requires significant maintenance to operate effectively, and we may experience maintenance and repair issues. Our efforts to restructure, relocate and consolidate a significant number of the operations, especially in our truck component manufacturing plants, could cause certain of these facilities to operate at underutilized levels, which could materially adversely affect our business, results of operations and financial condition. In Sypris Electronics, the risk of technical failures, nonconformance with customer specifications, an inability to deliver next generation products or other quality concerns could materially impair our operating results.

Our growth strategies could be ineffective due to the risks associated with further acquisitions.

Our growth strategy has included acquiring complementary businesses. We could fail to identify, obtain financing or complete suitable acquisitions on acceptable terms and prices. Acquisition efforts entail a number of risks, including: diversion of management's attention; difficulties in integrating systems, operations and cultures; potential loss of key employees and customers of the acquired companies; lack of experience operating in the geographic market of the acquired business; an increase in our expenses and working capital requirements; risks of entering into markets or producing products where we have limited or no experience; difficulties in integrating purchased technologies and products with our technologies and products; our ability to improve productivity and implement cost reductions; our ability to secure collective bargaining agreements with employees; and exposure to unanticipated liabilities.

Our discovery of, or failure to discover, material issues during due diligence investigations of acquisition targets, either before closing with regard to potential risks of the acquired operations, or after closing with regard to the timely discovery of breaches of representations or warranties, or of certain indemnified environmental conditions, could seriously harm our business.

Cyber security risks could negatively affect operations and result in increased costs.

Sypris Electronics, as a U.S. defense contractor, and our Company overall, face cyber security threats, threats to the physical security of our facilities and employees and terrorist acts, as well as the potential for business disruptions associated with information technology failures and natural disasters.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our sensitive information, as do our customers, suppliers and subcontractors. Prior cyber attacks directed at us have not had a material impact on our financial results. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers and our suppliers, subcontractors, and other partners to seek to minimize the impacts of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by those entities, and those safeguards might not be effective.

The costs related to cyber security or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to customers, loss of competitive advantages derived from our research and development efforts, early obsolescence of our products and services, our future financial results, our reputation or our stock price.

Competition

Increasing competition could limit or reduce our market share.

As an outsourced manufacturer, we operate in highly competitive environments that include our customers' internal capabilities. We believe that the principal competitive factors in our markets include the availability of manufacturing capacity, increasingly unfavorable currency exchange rates (especially in low-cost countries), technological strength, speed and flexibility in responding to design or schedule changes, price, quality, delivery, cost management and financial strength. Our earnings could decline if our competitors or customers can provide comparable speed and quality at a lower cost, or if we fail to adequately invest in the range and quality of manufacturing services and products our customers require.

Many of our competitors, as compared to us, are larger and have greater financial and organizational resources, geographic breadth and range of services, customer bases and brand recognition than we do. As a result, our competitors may respond more quickly to technological changes or customer needs, consume lower fixed and variable unit costs, negotiate reduced component prices, and obtain better terms for financing growth. If we fail to compete in any of these areas, we may lose market share and our business could be seriously harmed. There can be no assurance that we will not experience increased competition or that we will be able to maintain our profitability if our competitive environment changes.

Our technologies could become obsolete, reducing our revenues and profitability.

The markets for our products and services are characterized by changing technology and continuing process development. The future of our business will depend in large part upon the continuing relevance of our technological capabilities. We could fail to make required capital investments, develop or successfully market services and products that meet changing customer needs and anticipate or respond to technological changes in a cost-effective and timely manner. Our inability to successfully launch or sustain new or next generation programs or product features, especially in accordance with budgets or committed delivery schedules, could materially adversely affect our financial results. We could encounter competition from new or developing technologies that render our technologies and equipment less profitable or obsolete in our chosen markets and our operating results may suffer. In particular, the Company is currently developing new products and pursuing new programs in an attempt to increase Sypris Electronics' revenue stream. However, commercializing the new products and programs is costly and has been slower than anticipated. The launch of any new products or programs within Sypris Electronics may not be successful.

Access to Capital

We could fail to fully implement our business recovery plans.

While Management's recovery plans have been partially executed during 2015, we could fail to adequately overcome new obstacles such as slowing markets, the loss of key employees, unexpected increases in costs, or new competitors or technologies in our key markets, among other risks. The failure to fully implement our recovery plans could materially adversely affect our revenues, operating results and financial condition.

Our ability to finance expansion or new business opportunities may be limited.

Our future liquidity and capital requirements depend on numerous factors other than bank borrowings or debt financing, including the pace at which we can effectively cut costs, increase revenues or successfully launch new products and services. One method we have historically used to increase our revenues and obtain multi-year supply agreements is to buy a customer's non-core manufacturing assets and produce products for them. We have also pursued strategies that rely on research and development efforts to develop and commercialize our new products and services. We may not have the financial resources or be able to raise funds necessary to pursue these strategies under our existing and future debt agreements which could further limit our ability to replace the loss of revenues.

We may be unable to comply with the covenants in our New Credit Facility and Term Loan.

The financial covenants in our New Credit Facility and Term Loan require us to achieve certain financial and other business results. In February 2016, certain covenants were amended to allow for current and future compliance. A failure to comply with these or other covenants could, if we were unable to obtain a waiver or another amendment of the covenant terms, cause an event of default that would cause our debt under the New Credit Facility and Term Loan to become immediately due and payable. In the event that our outstanding debt under the Credit Facility was declared immediately due and payable, which could materially adversely affect our revenues, operating results and financial condition. See Note 14 "Debt" and Note 23 "Subsequent Events" to the consolidated financial statement in this Form 10-K.

Labor Relations

We must attract and retain qualified employees while successfully managing related costs.

Our future success in a changing business environment, including during rapid changes in the size, complexity or skills required of our workforce, as we experienced in 2015, will depend to a large extent upon the efforts and abilities of our executive, managerial and technical employees. The loss of key employees, especially in a recovering economic environment, could have a material adverse effect on our operations. Our future success will also require an ability to attract and retain qualified employees, especially those with engineering or production expertise in our core business lines. Labor disputes or changes in the cost of providing pension and other employee benefits, including changes in health care costs, investment returns on plan assets and discount rates used to calculate pension and related liabilities or other requirements to accelerate the level of our pension fund contributions to reduce or eliminate underfunded liabilities, could lead to increased costs or disruptions of operations in any of our business units.

Disputes with labor unions could disrupt our business plans.

As of December 31, 2015, we had collective bargaining agreements covering approximately 374 employees (all of which were in Sypris Technologies), or 51% of total employees. Excluding certain Mexico employees covered under an annually ratified agreement, collective bargaining agreements covering 35 employees expire within the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement. These employees in Mexico represented approximately 26% of the Company's workforce, or 191 employees at December 31, 2015. Our ability to maintain our workforce depends on our ability to attract and retain new and existing customers. We could experience a work stoppage or other disputes which could disrupt our operations or the operations of our customers and could harm our operating results.

Regulatory

Environmental, health and safety risks could expose us to potential liability.

We are subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals and substances used in our operations. If we fail to comply with present or future regulations, we could be forced to alter, suspend or discontinue our manufacturing processes and pay substantial fines or penalties.

Groundwater and other contamination has occurred at certain of our current and former facilities during the operation of those facilities by their former owners, and this contamination may occur at future facilities we operate or acquire. There is no assurance that environmental indemnification agreements we have secured from former owners of these properties will be adequate to protect us from liability.

The Marion, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the state voluntary action program standards applicable to the site. The property was sold in March 2013 to Whirlpool Corporation (Whirlpool). Whirlpool has indemnified the Company against the legacy environmental risks on the property.

We previously acquired certain business assets formerly located at a leased facility in Littleton, Colorado, where chlorinated solvents had been disposed of on site by a prior owner of the business at the site, contaminating the groundwater at and around the site. The seller of the assets to us is operating a remediation system on the site approved by the State of Colorado and has entered into a consent order with the EPA providing for additional investigation at the site. In addition, Sypris has been contractually indemnified by the prior owners of the facility.

Our Morganton, North Carolina facility, which was sold to Meritor during the third quarter of 2015, is subject to soil and groundwater contamination involving petroleum compounds, certain metals and other contaminants, some of which may exceed the State of North Carolina standards applicable to the site. The Company is aware of no current litigation, material remediation claims or other proceedings with respect to this facility.

Our formerly owned Toluca, Mexico property is subject to soil and groundwater contamination involving petroleum compounds and volatile organic compounds, among other concerns. We continue to test and assess this site to determine the extent of any contamination by the prior owners of the facility. Under our original purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to June 30, 2006, subject to certain other conditions involving Dana’s release of, or continuing right to seek indemnity from, Eaton, from which Dana acquired the property. In connection with our recent sale of the Toluca property in March 2016, we have agreed to remediate certain soil contamination and approximately $230,000 of the property sales proceeds have been withheld in escrow, pending certain Mexican regulatory approvals of such remediation. Dana has agreed to reimburse our costs in connection with such remediation.

The Kenton, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, volatile organic compounds, certain metals, PCBs and other contaminants. Under our purchase agreement for this property, Meritor agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Meritor prior to May 2, 2006. The building and real property were sold in January 2012.

Our business is also subject to potential liabilities with respect to health and safety matters. We are required to comply with federal, state, local and foreign laws and regulations governing the health and safety of our workforce, and we could be held liable for damages arising out of human exposure to hazardous substances or other dangerous working conditions. Health and safety laws and regulations are complex and change frequently. As a result, our future costs to comply with such laws or the liabilities incurred in the event of any violations may increase significantly.

Adverse regulatory developments or litigation could harm our business.

Our businesses operate in heavily regulated environments. We must successfully manage the risk of changes in or adverse actions under applicable law or in our regulatory authorizations, licenses and permits, governmental security clearances or other legal rights to operate our businesses, to manage our work force or to import and export goods and services as needed. Our business activities expose us to the risks of litigation with respect to our customers, suppliers, creditors, stockholders or from product liability, environmental or asbestos-related matters. We also face the risk of other adverse regulatory actions, compliance costs or governmental sanctions, as well as the costs and risks related to our ongoing efforts to design and implement effective internal controls.

Other Risks

We face other factors which could seriously disrupt our operations.

Many other risk factors beyond our control could seriously disrupt our operations, including: risks relating to war, future terrorist activities, computer hacking or other cyber attacks, or political uncertainties; risks relating to natural disasters or other casualties which could shut down our domestic or foreign facilities, disrupt transportation of products or supplies, increase the costs under our self insurance program or change the timing and availability of funding in our aerospace and defense electronics markets; risks inherent in operating abroad, including foreign currency exchange rates, adverse regulatory developments, and miscommunications or errors due to inaccurate foreign language translations or currency exchange rates; or our failure to anticipate or to adequately insure against other risks and uncertainties present in our businesses including unknown or unidentified risks.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal manufacturing services operations are engaged in electronics manufacturing services for our aerospace and defense customers and industrial manufacturing services for our truck components and assemblies customers. The following chart indicates the significant facilities that we own or lease, the location and size of each such facility and the manufacturing certifications that each facility possesses. The facilities listed below (other than the corporate office) are used principally as manufacturing facilities.

Location	**Segment (Market Served)**	**Own or Lease (Expiration)**	**Approximate Square Feet**	**Certifications**
Corporate Office:				
Louisville, Kentucky		Lease (2024)	21,600	
Manufacturing and Service Facilities:				
Louisville, Kentucky	Sypris Technologies (Truck and Off-Highway Components & Assemblies)	Own	450,000	TS 16949
Louisville, Kentucky	Sypris Technologies (Specialty Closures)	Own	57,000	ISO 9001
Tampa, Florida	Sypris Electronics (Aerospace & Defense Electronics)	Lease (2016)	318,000	ISO 9001 ISO 14001 AS 9100 NASA-STD-8739 IPC-A-610, Rev D, Class 3 J-STD-001, Rev D, Class 3 CMMI Level 3
Toluca, Mexico*	Sypris Technologies (Automotive and Truck Components & Assemblies)	Lease (2026)	217,000	TS 16949

*Location sold and leased back in March 2016.

In addition, we lease space in one other facility in Copenhagen, Denmark, which is utilized as a sales office for Sypris Electronics.

Below is a listing and description of the various manufacturing certifications or specifications that we utilize at various of our facilities.

Certification/Specification	**Description**
AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
IPC-A-610	A certification process for electronics assembly manufacturing which describes materials, methods and verification criteria for producing high quality electronic products. Class 3 specifically includes high performance or performance-on-demand products where equipment downtime cannot be tolerated, end-use environment may be uncommonly harsh, and the equipment must function when required.

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Certification/Specification	Description
J-STD-001	A family of voluntary standards of industry-accepted workmanship criteria for electronic assemblies.
CMMI Level-3	An internationally recognized measure of an organization's engineering process maturity.
ISO 9001	A certification process comprised of quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 14001	A family of voluntary standards and guidance documents defining specific requirements for an Environmental Management System.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
TS 16949	A quality certification system developed within the automotive sector. Using ISO 9001:2000 as its foundation, ISO/TS 16949:2002 specifies the quality management system (QMS) requirements for the design, development, production, installation and servicing of automotive related products.

Item 3. Legal Proceedings

We are involved from time to time in litigation and other legal or environmental proceedings incidental to our business. On November 25, 2013, Sypris Technologies, Inc. initiated an arbitration proceeding against Dana Limited under the Non-Administered Arbitration Rules of the International Institute for Conflict Prevention & Resolution alleging that Dana Limited had entered and then repudiated a five year extension of the parties' long term supply agreement, to run through 2019 or in the alternative had acted in bad faith by refusing to formalize that agreement. On December 30, 2013, Sypris filed a Notice of Supplemental Claims in the same arbitration proceeding, seeking damages for Dana's alleged breach of the parties' original 2007 supply agreement; and Dana filed a counterclaim for certain unpaid price rebates. The arbitrator awarded $505,000 to Sypris Technologies and dismissed Dana's claims. On January 17, 2014, Dana initiated a declaratory judgment action in the Court of Common Pleas for Lucas County, Ohio challenging the arbitrability of the existence and enforceability of the extended supply agreement and seeking a ruling that the extended agreement was unenforceable. On February 28, 2015, the Lucas County Court granted Dana's motion, which was subsequently upheld by the Sixth District Court of Appeals for Ohio. Our claim of bad faith remains currently unresolved. There are currently no other material pending legal proceedings to which we are a party.

Ongoing environmental matters include the following:

The Marion, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the State of Ohio voluntary action program standards applicable to the site. The property was sold in March 2013 to Whirlpool. Whirlpool has indemnified the Company against the legacy environmental risks on the property.

In December 1992, we acquired certain business assets formerly located at a leased facility in Littleton, Colorado. Certain chlorinated solvents disposed of on the site by Honeywell, a previous owner of the business, have contaminated the groundwater at and around the site. Alliant Techsystems, from which we acquired the business assets, operates a remediation system approved by the State of Colorado and has also entered into a consent order with the EPA providing for additional investigation at the site. Alliant Techsystems has agreed to indemnify us with respect to these matters.

The Morganton, North Carolina property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, certain metals and other contaminants, some of which exceed the State of North Carolina notification standards applicable to the site. No litigation or other proceedings are underway with respect to this site.

The Toluca, Mexico facility formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds and volatile organic compounds, among other concerns. Under our original purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to June 30, 2006, to the extent of any indemnification owed to Dana by Eaton or any other matters for which Dana has released Eaton. In connection with our recent sale of the Toluca property, we have agreed to remediate certain soil contamination and approximately $230,000 of the property sales proceeds have been withheld in escrow, pending certain Mexican regulatory approvals of such remediation. Dana has agreed to reimburse our costs in connection with such remediation.

The Kenton, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, volatile organic compounds, certain metals, PCBs and other contaminants. Under our purchase agreement for this facility, Meritor has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Meritor prior to May 2, 2006. The building and real property were sold in January 2012, and the building was subsequently razed by the buyer. Under the terms of the sale agreement, no warranties relating to the property were made including existing environmental conditions and we believe that all liability has been passed to the buyer.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to provide the performance graph required in paragraph (e) of Item 201 of Regulation S-K.

Our common stock is traded on the NASDAQ Global Market under the symbol "SYPR." The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported by the NASDAQ Global Market.

	High	Low
Year ended December 31, 2015:		
First Quarter	$2.84	$2.05
Second Quarter	2.05	1.18
Third Quarter	1.89	0.96
Fourth Quarter	2.74	0.64
Year ended December 31, 2014:		
First Quarter	$3.14	$2.76
Second Quarter	6.10	2.76
Third Quarter	5.66	3.47
Fourth Quarter	3.69	2.36

As of March 3, 2016, there were 703 holders of record of our common stock. The amount of cash dividends declared per share for each fiscal quarter in 2015 and 2014 is presented in the table below.

	Dividends per Common Share
Year ended December 31, 2015:	
First Quarter	$ —
Second Quarter	—
Third Quarter	—
Fourth Quarter	—

Year ended December 31, 2014:	
First Quarter	$ 0.02
Second Quarter	0.02
Third Quarter	0.02
Fourth Quarter	0.02

Dividends may be paid on common stock only when, as and if declared by our Board of Directors in its sole discretion. The Company's New Credit Facility and Term Loan prohibits dividend payments, as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources" below. As a result, we do not anticipate paying dividends in 2016.

There were no shares of common stock repurchased during the three months ended December 31, 2015.

Item 6. Selected Financial Data

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to report the selected financial data in Item 301 of Regulation S-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our consolidated results of operations and financial condition should be read together with the other financial information and consolidated financial statements included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in the forward-looking statements as a result of a variety of factors, including those discussed in "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K.

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 segments, 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.

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 in 2016. 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.

Despite modest growth in production levels for the commercial vehicle market during 2015, Sypris Technologies' production levels declined significantly in 2015. Our largest customer historically, Dana, repudiated our supply relationship and stopped placing orders with us as of the end of 2014. In 2014, Dana represented approximately 59% of our net revenue. Our shipments to Dana have been minimal since December 31, 2014.

The loss of Dana's revenues created significant challenges for the Company, especially in the near-term as we have worked to control our costs while taking actions to rebuild and diversify our customer base. See the discussion in Note 2 "Management's Recovery Plans" to the consolidated financial statements in this Form 10-K which discussion is incorporated in this Item by reference.

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.

Sypris Electronics' revenue had declined from 2009 through 2014 primarily due to our inability to replace the declining demand for certain legacy products and services with competitive new offerings. While revenues increased in 2015 and we have begun to generate revenue from the ramp-up of new electronic manufacturing services and other technical service programs, the process of fully replacing our legacy programs will continue through 2016. The Company is continuing to develop new products and pursue new programs to attempt to replenish its revenue stream within Sypris Electronics.

The U.S. Government's continued focus on addressing federal budget deficits and the growing national debt exacerbates this challenging environment for Sypris Electronics. It is likely that U.S. government discretionary spending levels for Fiscal Year 2016 and beyond will continue to be subject to significant pressure, including risk of future budget cuts. Significant uncertainty also continues with respect to program-level appropriations for the U.S. Department of Defense (U.S. DoD) and other government agencies within the overall budgetary framework described above. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could result in reductions, cancellations and/or delays of existing contracts or programs. Congress and the Administration continue to debate these long and short-term funding issues, but reductions in U.S. DoD spending could materially and adversely affect the results of Sypris Electronics, and we expect that certain military and defense programs will experience delays while the receipt of government approvals remain pending.

As a result, the Company expects ongoing uncertainty within this segment in the near term. For the longer term, we are continuing to evaluate all of our strategic alternatives, including new investments in products and programs to further improve the attractiveness of our business portfolio, with a specific emphasis on trusted solutions for identity management, cryptographic key distribution and cyber analytics, among other strategies. There can be no assurance that the Company's investment in and efforts to introduce any new products and services will result in new business or revenue. In addition, while the Company continues to evaluate and implement cost reduction measures in this segment, the Company may not be able to reduce its cost structure to offset the impact of lower revenues. The Company is considering all of its strategic alternatives, including potential divestitures and further cost reductions or other downsizing measures, which could be costly and adversely impact our financial performance.

Management's Recovery Plans

Given the loss of the Dana business and unfavorable growth trends and softness in commercial vehicle manufacturing and the oil and gas markets served by Sypris Technologies, 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 to provide recommendations for cost reductions and actions that can be taken to improve profitability. Management prepared a revised forecast during March 2016 with plans to control costs, manage cash flow and remain in compliance with debt covenant requirements throughout 2016. In addition, Management has embarked on a project to evaluate various strategic alternatives to optimize asset values. The Company completed a number of its initial profit recovery and protection actions in 2015, including: (i) the sale of certain assets used in the Company's manufacturing facility in Morganton, North Carolina within the Sypris Technologies segment (ii) reduction 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’s debt was restructured and the prior Credit Facility was paid in full, while the Company has received the benefit of three cash infusions from Gill Family Capital Management, Inc. (“GFCM”), in the form of subordinated promissory note obligations totaling $6.5 million in principal through the first quarter of 2016.

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 provide higher 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 orders which enables 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 volume 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 $12.1 million. Of this total, $6.0 million was deposited into a cash collateral account to be held for up to one year as additional collateral for the Term Loan (see Note 14 “Debt” to the consolidated financial statement in this Form 10-K). Management will continue to operate in Toluca but given the 2015 reduction in the Dana business and the overall downturn in the commercial vehicle markets, management determined that the underutilized Toluca real estate value could be best 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 the 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 during March of 2016. Nevertheless, the Company has identified certain cost reduction and cash flow enhancements in the Sypris Electronics segment that can be implemented during the second and third quarters that are not expected to impact the future growth in the 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) markets. New commercial opportunities in the 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 whereby 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 expense.

Our failure or inability to realize our key financial objectives could materially and adversely impair the Company’s ability to operate, its cash flows, financial condition and ongoing results. See “Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship.” in Part I, Item 1A of this Annual Report on Form 10-K. See also Note 2 “Management’s Recovery Plans” to the consolidated financial statements in this Form 10-K.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition for Sypris Technologies, including cost of sales; however, these policies do not meet the definition of critical accounting policies because they do not generally require us to make estimates or judgments that are difficult or subjective.

Allowance for Doubtful Accounts. We establish reserves for uncollectible accounts receivable based on overall receivable aging levels, a specific evaluation of accounts for customers with known financial difficulties and evaluation of customer chargebacks, if any. These reserves and corresponding write-offs could significantly increase if our customers experience deteriorating financial results or in the event we receive a significant chargeback, which is deemed uncollectible.

Net Revenue and Cost of Sales. Net revenue of products and services under commercial terms and conditions are recorded upon delivery and passage of title, or when services are rendered. Related shipping and handling costs, if any, are included in costs of sales.

Net revenue on fixed-price contracts is recognized as services are performed. Revenue is deferred until all of the following have occurred: (1) there is a contract in place, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Contract profits are taken into earnings based on actual cost of sales for units shipped. Amounts representing contract change orders or claims are included in revenue when such costs are invoiced to the customer.

The Company periodically enters into research and development contracts with customers related primarily to key encryption products. When the contracts provide for milestone or other interim payments, the Company will recognize revenue under the milestone method in accordance with Accounting Standards Codification (“ASC”) 605-28, *Revenue Recognition – Milestone Method*. The milestone method requires the Company to deem all milestone payments within each contract as either substantive or non-substantive. That conclusion is determined based upon a thorough review of each contract and the deliverables to which the Company has committed to in each contract. For substantive milestones, the Company concludes that upon achievement of each milestone, the amount of the corresponding defined payment is commensurate with the effort required to achieve such milestone or the value of the delivered item. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of the deliverables and the payment terms within the contract. Milestones may include, for example, the successful completion of design review or technical review, the submission and acceptance of technical drawings, delivery of hardware, software or regulatory agency certifications. The Company had no such contracts in process as of December 31, 2015 and one such milestone contract in process as of December 31, 2014. All milestones under the contract in process as of December 31, 2014 were deemed substantive. Revenue recognized through the achievement of multiple milestones during 2015 and 2014 amounted to $0.3 million and $3.1 million, respectively. There are no performance, cancellation, termination or refund provisions in the arrangement that contain material financial consequences to the Company.

Long-lived asset impairment. We perform periodic impairment analysis on our long-lived amortizable assets whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. When indicators are present, we compare the estimated future undiscounted net cash flows of the operations to which the assets relate to their carrying amount. If the operations are unable to recover the carrying amount of their assets, the long-lived assets are written down to their estimated fair value. Fair value is determined based on discounted cash flows, third party appraisals or other methods that provide appropriate estimates of value. A considerable amount of management judgment and assumptions are required in performing the impairment test, principally in determining whether an adverse event or circumstance has triggered the need for an impairment review.

Pension Plan Funded Status. Our U.S. defined benefit pension plans are closed to new entrants and only $14 thousand of service-related costs was recorded in 2015 related to a small number of participants who are still accruing benefits in the Louisville Hourly and Salaried Plans. Changes in our net obligations are principally attributable to changing discount rates and the performance of plan assets. Pension obligations are valued using discount rates established annually in consultation with our outside actuarial advisers using a theoretical bond portfolio, adjusted according to the timing of expected cash flows for our future obligations. Plan liabilities at December 31, 2015 are based upon a discount rate of 4.35% which reflects the Above Mean Mercer Yield Curve rate as of December 31, 2015 rounded to the nearest 5th basis point. Declining discount rates increase the present value of future pension obligations – a 25 basis point decrease in the discount rate would increase our U.S. pension liability by about $1.025 million. As indicated above, when establishing the expected long-term rate of return on our U.S. pension plan assets, we consider historical performance and forward looking return estimates reflective of our portfolio mix and investment strategy. Based on the most recent analysis of projected portfolio returns, we concluded that the use of 5.75% for the Louisville Hourly Plan, 6.25% for the Marion Plan and 6.75% for the Louisville Salaried Plan as the expected return on our U.S. pension plan assets for 2015 was appropriate. A change in the assumed rate of return on plan assets of 100 basis points would result in a $0.3 million change in the estimated 2016 pension expense.

During the fourth quarter of 2015, the Society of Actuaries (SOA) issued new mortality improvement scales (MP-2015). The mortality table for healthy participants was updated to the RP-2014 employee and retiree tables backed off to 2006, no collar, with generational projection based upon scale MP-2015 and the mortality table for disabled participants was updated to the RP-2014 disabled table with generational projection based upon scale MP-2015 for accounting purposes as of December 31, 2015.

At December 31, 2015, we have $16.2 million of unrecognized losses relating to our U.S. pension plans. Actuarial gains and losses, which are primarily the result of changes in the discount rate and other assumptions and differences between actual and expected asset returns, are deferred in Accumulated Other Comprehensive Income and amortized to expense following the corridor approach. We use the average remaining service period of active participants unless almost all of the plan’s participants are inactive, in which case we use the average remaining life expectancy for all active and inactive participants.

Reserve for Excess, Obsolete and Scrap Inventory. We record inventory at the lower of cost, determined under the first-in, first-out method, or market, and we reserve for excess, obsolete or scrap inventory. These reserves are primarily based upon management’s assessment of the salability of the inventory, historical usage of raw materials, historical demand for finished goods and estimated future usage and demand. An improper assessment of salability or improper estimate of future usage or demand, or significant changes in usage or demand could result in significant changes in the reserves and a positive or a negative impact on our consolidated results of operations in the period the change occurs.

Stock-based Compensation. We account for stock-based compensation in accordance with the fair value recognition provisions using the Black-Scholes option-pricing method, which requires the input of several subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (forfeitures). Changes in the subjective assumptions can materially affect the fair value estimate of stock-based compensation and consequently, the related expense recognized in the consolidated statements of operations.

Income Taxes. We account for income taxes as required by the provisions of ASC 740, *Income Taxes*, under which deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using enacted tax rates.

Management judgment is required in determining income tax expense and the related balance sheet amounts. In addition, under ASC 740-10, *Accounting for Uncertainty in Income Taxes,* judgments are required concerning the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. We believe that our recorded income tax liabilities adequately provide for the probable outcome of these assessments.

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, ASC 740 requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment is largely dependent upon projected near-term profitability including the effects of tax planning. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. We have recorded valuation allowances against deferred tax assets in the U.S. and Mexico where realization has been determined to be uncertain.

As a result of the increased uncertainty surrounding the Company's forecast of taxable income in Mexico, it was determined that the Company no longer met the "more likely than not" threshold required under ASC 740-10 in order to maintain the Mexico deferred tax asset. Accordingly, the Company recorded a valuation allowance on its net deferred tax asset related to certain non-U.S. tax benefits, resulting in deferred tax expense of $2.2 million during year ended December 31, 2015. 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.

Results of Operations

We operate in two segments, Sypris Technologies and Sypris Electronics. The table presented below compares our segment and consolidated results of operations from 2015 to 2014. The table presents the results for each year, the change in those results from one year to another in both dollars and percentage change and the results for each year as a percentage of net revenue.

The first two columns in each table show the absolute results for each period presented.

The columns entitled "Year-Over-Year Change" and "Year-Over-Year Percentage Change" show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when our net revenue increases from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative number in both columns.

The last two columns in each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of each segment's net revenue. These amounts are shown in italics.

In addition, as used in the table, "NM" means "not meaningful."

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

	Year Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Year Ended December 31,	
	2015	2014	Favorable (Unfavorable)	Favorable (Unfavorable)	2015	2014
	(in thousands, except percentage data)					
Net revenue:						
Sypris Technologies	$108,134	$322,262	$ (214,128)	(66.4)%	74.4 %	90.8 %

Sypris Electronics	37,189	32,514	4,675	14.4	25.6	9.2
Total net revenue	145,323	354,776	(209,453)	(59.0)	100.0	100.0
Cost of sales:						
Sypris Technologies	108,924	280,241	171,317	61.1	*100.7*	*87.0*
Sypris Electronics	36,081	35,705	(376)	(1.1)	*97.0*	*109.8*
Total cost of sales	145,005	315,946	170,941	54.1	99.8	89.1
Gross profit (loss):						
Sypris Technologies	(790)	42,021	(42,811)	(101.9)	*(0.7)*	*13.0*
Sypris Electronics	1,108	(3,191)	4,299	134.7	*3.0*	*(9.8)*
Total gross profit						