



Sypris Reports Second Quarter Earnings; Revenue Increases 31%

August 4, 2005

LOUISVILLE, Ky.--(BUSINESS WIRE)--Aug. 4, 2005--Sypris Solutions, Inc. (Nasdaq/NM: SYPR) today reported revenue increased 31% to a record \$125.6 million for the second quarter compared to \$95.9 million for the prior year period. Net income for the second quarter of 2005 was unchanged from the prior period at \$2.0 million, or \$0.11 per diluted share.

For the six months ended June 30, 2005, the Company reported revenue increased 35% to a record \$249.8 million compared to \$185.3 million for the prior year period. Net income was \$2.6 million compared to \$5.3 million for the same period in 2004, while earnings per share were \$0.14 per diluted share compared to \$0.31 per diluted share.

"The results for the second quarter reflected a continued improvement in the Company's operating performance," said Jeffrey T. Gill, president and chief executive officer. "Revenue continued to increase while the costs associated with the investment in manufacturing capacity, launch of new programs and disruption of material deliveries declined during the quarter. The majority of these costs are increasingly behind us and we expect to benefit from an improvement in operating margins going forward."

"The outlook for continued growth remains positive, with backlog of \$253.9 million remaining at near record levels. The prospects for the commercial vehicle market remain positive and we believe that the opportunity for growth in our Electronics Group is improving. Our task remains clear. We must complete the final equipment installations and remaining program launches and translate our success in generating new business into commensurately higher earnings in the future."

The Industrial Group

Revenue for our Industrial Group increased 54% to \$89.7 million in the second quarter from \$58.2 million for the prior year period, and increased 1% sequentially from the first quarter of this year. Gross profit for the quarter increased 36% to \$7.5 million from \$5.5 million for the same period in 2004 and increased 18% sequentially from the first quarter of this year as a result of improved manufacturing efficiencies, and lower costs incurred for the equipment installations and program launches mentioned earlier.

"Net orders were \$85.3 million for the quarter, while backlog increased 23% to \$147.6 million compared to the prior year quarter," said Gill. "Orders and revenue were somewhat below our expectations as a result of inventory rebalancing by certain customers at quarter end. Shipments have recovered to prior levels, though the potential for similar customer-directed actions is certainly possible in the future and has been taken into account in our guidance. We continue to believe that the long-term outlook for this market remains positive and that we are well positioned to benefit from any continued strengthening in this important segment."

The Electronics Group

Revenue for our Electronics Group was \$35.9 million in the second quarter compared to \$37.7 million for the prior year period, but improved 1% sequentially from the first quarter of this year. Gross profit for the quarter was \$6.3 million compared to \$7.5 million for the same period in 2004, reflecting a decline in shipments for data systems products, but increased 28% sequentially from the first quarter of 2005.

Revenue for the Aerospace & Defense segment was \$24.1 compared to \$25.8 million for the prior year period and remained unchanged from the first quarter of 2005. Revenue from the Test & Measurement segment remained consistent with that of the prior year period at \$11.8 million, but increased 2% sequentially from the first quarter of this year. Gross profit for the Aerospace & Defense segment was \$3.4 million compared to \$4.8 million for the prior year period, but increased 41% from the first quarter of 2005. Gross profit for the Test & Measurement segment increased 12% to \$3.0 million from \$2.7 million for the same period in 2004 and improved 16% sequentially from the first quarter of this year.

"Net orders for our Electronics Group approximated \$32.8 million for the quarter, while backlog remained firm at \$106.3 million," said Gill. "The outlook for our data systems business continues to be challenging, while the overall spending for aerospace and defense programs remains solid. With several new programs scheduled for production during the second half of 2005, we expect to benefit from the continued sequential improvement in the operating performance of the Electronics Group."

Outlook

Gill added, "Looking forward, we expect revenue for the second half of 2005 to be in the range of \$275 to \$285 million compared to \$240 million for the prior year period, which represents a 17% increase at the midpoint of our guidance. Earnings for the second half of 2005 are forecast to be in the range of \$0.36 to \$0.46 per diluted share compared to \$0.17 per diluted share for the prior year. The earnings outlook and higher-than-anticipated average working capital balances reflect the costs associated with the completion and final launch of the remaining new programs during the second half of 2005."

"Revenue for 2005 is forecast to be in the range of \$525 to \$535 million compared to \$425 million for 2004, which represents a 25% increase in revenue for 2005 at the midpoint of the range. Earnings for 2005 are forecast to be in the range of \$0.50 to \$0.60 per diluted share compared to \$0.47 per diluted share for 2004. This guidance, which represents a departure from our prior expectations, reflects a more conservative schedule for achieving full production rates on our new programs and the higher level of investment in working capital described earlier."

Gill continued, "The outlook for the balance of the year remains solid. We have conducted a thorough review of the Company's backlog and customer forecasts and believe that our guidance reflects the proper degree of prudence going forward. We expect the top line to continue to benefit from the impact of new component production, while the Company's earnings outlook remains subject to our ability to complete the launch of these new

component programs in a timely and cost-effective manner."

Sypris Solutions is a diversified provider of technology-based outsourced services and specialty products. The Company performs a wide range of manufacturing and technical services, typically under multi-year, sole-source contracts with major corporations and government agencies in the markets for aerospace and defense electronics, truck components and assemblies, and test and measurement services. For more information about Sypris Solutions, visit its Web site at www.sypris.com.

This release, and oral statements referring hereto, contain "forward-looking statements," from which actual results may differ materially due to factors such as: cost and availability of raw materials such as steel, components, freight, or utilities; cost and inefficiencies associated with increasing our manufacturing capacity and launching new programs; stability and predictability of customers' forecasts, backlogs or scheduling demands; costs associated with breakdowns or repairs of machinery and equipment; growth beyond our productive capacity, reductions, cyclical downturns or competitive pressures in our markets; cost, efficiency and yield of our operations including overtime costs, expediting costs or scrap rates; our ability to improve results of acquired businesses and associated costs; inventory valuation risks; product mix; changes in government or other customer programs; reliance on major customers or suppliers; revised contract prices or estimates of major contract costs; dependence on management; labor relations; risks of foreign operations; currency exchange rates; costs and supply of debt, equity capital, or insurance; significant increases in working capital; impairments or write-offs of goodwill or fixed assets; pension valuation risks; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; completion of the internal control assessment process; costs of compliance with regulatory or contractual obligations; regulatory actions or sanctions; litigation, including customer, creditor, stockholder, environmental or asbestos-related claims; war, terrorism or political uncertainty; disasters; unknown risks and uncertainties; or risk factors in our SEC filings.

SYPRIS SOLUTIONS, INC.

FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

	Three Months Ended	
	June 30, 2005	June 30, 2004
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Revenue	\$125,602	Restated (1) \$ 95,896
Net income	\$ 1,981	\$ 1,984
Earnings per common share:		
Basic	\$ 0.11	\$ 0.11
Diluted	\$ 0.11	\$ 0.11
Weighted average shares outstanding:		
Basic	18,028	17,827
Diluted	18,261	18,552

	Six Months Ended	
	June 30, 2005	June 30, 2004
	-----	-----
Revenue	\$249,843	Restated (1) \$185,272
Net income	\$ 2,571	\$ 5,309
Earnings per common share:		
Basic	\$ 0.14	\$ 0.33
Diluted	\$ 0.14	\$ 0.31
Weighted average shares outstanding:		
Basic	17,996	16,326
Diluted	18,279	17,072

(1) On January 1, 2005, the Company changed its accounting policy for inventory and cost of sales at one manufacturing facility. Prior year amounts have been restated as required for comparability. The change decreased previously reported earnings for the first six months of 2004 by \$74,000, or \$0.01 per diluted share.

SYPRIS SOLUTIONS, INC.

CONSOLIDATED INCOME STATEMENTS

(in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004		2004	
	2005	Restated(1)	2005	Restated(1)
	(Unaudited)		(Unaudited)	
Net revenue:				
Industrial Group	\$ 89,673	\$58,222	\$178,363	\$106,673
Aerospace & Defense	24,095	25,793	48,091	55,365
Test & Measurement	11,834	11,881	23,389	23,234
Electronics Group	35,929	37,674	71,480	78,599
Total net revenue	125,602	95,896	249,843	185,272
Cost of sales:				
Industrial Group	82,132	52,686	164,425	94,680
Aerospace & Defense	20,726	21,002	42,331	45,112
Test & Measurement	8,856	9,212	17,840	18,126
Electronics Group	29,582	30,214	60,171	63,238
Total cost of sales	111,714	82,900	224,596	157,918
Gross profit				
Industrial Group	7,541	5,536	13,938	11,993
Aerospace & Defense	3,369	4,791	5,760	10,253
Test & Measurement	2,978	2,669	5,549	5,108
Electronics Group	6,347	7,460	11,309	15,361
Total gross profit	13,888	12,996	25,247	27,354
Selling, general and administrative	9,113	8,628	17,666	16,786
Research and development	944	875	1,617	1,399
Amortization of intangible assets	175	140	313	266
Operating income	3,656	3,353	5,651	8,903
Interest expense, net	1,508	227	2,769	515
Other income, net	(586)	(48)	(767)	(106)
Income before income taxes	2,734	3,174	3,649	8,494
Income tax expense	753	1,190	1,078	3,185
Net income	\$ 1,981	\$ 1,984	\$ 2,571	\$ 5,309
Earnings per common share:				
Basic	\$ 0.11	\$ 0.11	\$ 0.14	\$ 0.33
Diluted	\$ 0.11	\$ 0.11	\$ 0.14	\$ 0.31
Dividends declared per common share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06
Weighted average shares outstanding:				
Basic	18,028	17,827	17,996	16,326
Diluted	18,261	18,552	18,279	17,072

(1) On January 1, 2005, the Company changed its accounting policy for inventory and cost of sales at one manufacturing facility. Prior year amounts have been restated as required for comparability. The change decreased previously reported earnings for the first six months of 2004 by \$74,000, or \$0.01 per diluted share.

(in thousands, except for share data)

	June 30, 2005	December 31, 2004 Restated(1)
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,283	\$ 14,060
Accounts receivable, net	110,813	104,637
Inventory, net	121,908	96,476
Other current assets	17,737	21,566
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Total current assets	268,741	236,739
Property, plant and equipment, net	180,790	166,940
Goodwill	14,277	14,277
Other assets	13,476	13,222
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Total assets	\$477,284	\$431,178
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 97,220	\$ 61,778
Accrued liabilities	20,811	20,378
Current portion of long-term debt	7,000	7,000
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Total current liabilities	125,031	89,156
Long-term debt	117,500	110,000
Other liabilities	22,798	23,083
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Total liabilities	265,329	222,239
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	--	--
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	--	--
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	--	--
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 18,035,358 and 17,920,500 shares issued and outstanding in 2005 and 2004, respectively	180	179
Additional paid-in capital	141,931	140,898
Retained earnings	71,716	70,227
Accumulated other comprehensive loss	(1,872)	(2,365)
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Total stockholders' equity	211,955	208,939
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	\$477,284	\$431,178
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(1) On January 1, 2005, the Company changed its accounting policy for inventory and cost of sales at one manufacturing facility. Prior year amounts have been restated as required for comparability. The change increased previously reported inventory, retained earnings and other liabilities balances at December 31, 2004 by \$2,224,000, \$1,503,000 and \$721,000, respectively.

	Six Months Ended June 30,	

	2004	
	2005	Restated(1)

	(Unaudited)	
Cash flows from operating activities:		
Net income	\$ 2,571	\$ 5,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,900	8,516
Other noncash charges	1,507	693
Changes in operating assets and liabilities, net of acquisitions in 2004:		
Accounts receivable	(6,517)	(26,816)
Inventory	(26,282)	(11,312)
Other current assets	3,227	1,786
Accounts payable	35,993	20,113
Accrued liabilities	1,230	5,017
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Net cash provided by operating activities	23,629	3,306
Cash flows from investing activities:		
Capital expenditures	(26,061)	(19,214)
Purchase of net assets of acquired entities	--	(29,399)
Changes in nonoperating assets and liabilities	(797)	247
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Net cash used in investing activities	(26,858)	(48,366)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements	7,500	(37,700)
Proceeds from long-term debt	--	27,500
Cash dividends paid	(1,078)	(950)
Proceeds from issuance of common stock	1,030	56,730
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Net cash provided by financing activities	7,452	45,580
Net increase in cash and cash equivalents	4,223	520
Cash and cash equivalents at beginning of period	14,060	12,019
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Cash and cash equivalents at end of period	\$ 18,283	\$ 12,539
	=====	=====

(1) On January 1, 2005, the Company changed its accounting policy for inventory and cost of sales at one manufacturing facility. Prior year amounts have been restated as required for comparability. The change decreased previously reported earnings for the first six months of 2004 by \$74,000, or \$0.01 per diluted share, but has no effect on cash flow from operations.

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SOURCE: Sypris Solutions, Inc.