



Sypris Reports Second Quarter Results; Cash Flow Remains Strong

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LOUISVILLE, Ky.--(BUSINESS WIRE)--July 27, 2006--Sypris Solutions, Inc. (Nasdaq/NM: SYPR) today reported revenue increased 5% to a record \$132.2 million for the second quarter compared to \$125.6 million for the prior year period. Net income for the second quarter of 2006 declined from \$2.0 million, or \$0.11 per diluted share in the prior period to a net loss of \$0.4 million, or \$0.02 per diluted share. Free cash flow for second quarter reached a record \$21.4 million.

For the six months ended June 30, 2006, the Company reported revenue increased 5% to a record \$262.2 million compared to \$249.8 million for the prior year period. Net income was \$0.4 million compared to \$2.6 million for the same period in 2005, while earnings per share were \$0.02 per diluted share compared to \$0.14 per diluted share. Earnings per share included the impact of adopting SFAS No. 123R, Share-Based Payment, which approximated \$0.4 million, or \$0.02 per diluted share in the first half of 2006. Free cash flow for the first half of 2006 was \$24.7 million.

"Our Industrial Group experienced unplanned equipment downtime that resulted in significant overtime, labor inefficiencies and increased material consumption during a period in which record demand required the business to be at full operational capacity. All systems have since been returned to service, but the cost of doing so under these conditions had a material impact on margins," said Jeffrey T. Gill, president and chief executive officer.

"In addition to the headwinds experienced by our Industrial Group, our Electronics Group was impacted by a delay in shipments under certain classified programs with the U.S. Government. Unfortunately, these delays are expected to continue through the balance of this year as the various agencies work to complete the required certification processes. Once certified, we expect demand to be robust, with preliminary customer feedback indicating that initial estimates of demand are likely to be exceeded."

"The results for the quarter and the year continue to reflect the strain and expense of working with a major customer that has filed for court protection under bankruptcy law. While we have been fortunate and have successfully collected a substantial amount of our pre-petition accounts receivable, we continue to experience program launch delays, pricing disputes and excessive external costs that are impacting both the top and bottom line. The silver lining remains the Company's strong free cash flow, which has reached a record \$63.5 million over the past four quarters."

The Industrial Group

Revenue for our Industrial Group increased 10% to \$98.5 million in the second quarter from \$89.7 million for the prior year period, and increased 6.4% sequentially from the first quarter of this year. Gross profit for the quarter decreased to \$4.5 million from \$7.5 million for the same period in 2005, as a result of unplanned equipment downtime that resulted in significant overtime, labor inefficiencies and increased material consumption.

The Electronics Group

Revenue for our Electronics Group was \$33.8 million in the second quarter compared to \$35.9 million for the prior year period. Gross profit for the quarter was \$5.9 million compared to \$6.3 million for the same period in 2005, reflecting a decline in product shipments under certain classified programs with the U.S. Government.

Revenue for the Aerospace & Defense segment was \$21.9 million compared to \$24.1 million for the prior year period, as program activity slowed. Revenue from the Test & Measurement segment increased to \$11.9 million compared to \$11.8 million for prior year period, and increased over 3% sequentially from the first quarter of this year. Gross profit for the Aerospace & Defense segment was \$3.3 million, as compared to \$3.4 million for the prior year period. Gross profit for the Test & Measurement segment decreased to \$2.6 million from \$3.0 million for the same period in 2005, due to an unfavorable shift in sales mix from product sales with higher margins to technical services sales.

"Net orders for our Electronics Group approximated \$30.7 million for the quarter, while backlog was \$91.2 million," said Gill. "Despite delays inherent in the certification process for two new classified programs, the outlook remains strong for our A&D segment in 2007."

Outlook

Gill added, "Looking forward, we believe that it is prudent to establish a more conservative outlook for the remainder of 2006. Until we demonstrate that our Industrial Group can operate for sustained periods at capacity, our forecast for operating margins will remain at current levels. The delay in the certification of the classified programs in our Electronics Group is expected to shift as much as \$20 million of shipments from 2006 into 2007, the result of which is forecast to impact revenue and earnings during the second half of 2006."

Gill added, "We are reiterating our prior guidance from July 13, 2006 with expected revenue during the second half of 2006 in the range of \$275 to \$285 million and earnings are forecast to be in the range of \$0.10 to \$0.15 per diluted share during the second half of 2006. For the full year 2006, the revenue outlook is expected to a range of \$537 to \$548 million, while earnings are now forecast to be in the range of \$0.12 to \$0.17 per diluted share. We continue to expect free cash flow to remain strong for 2006 and consistent with the lower end of our prior guidance, which was \$30 to \$40 million for the year."

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.

Each "forward-looking statement" herein is subject to serious risks and should not be relied upon, as detailed in our most recent Form 10-K and Form

10-Q and subsequent SEC filings. Briefly, we currently believe that such risks also include: cost and availability of raw materials such as steel, components, freight, natural gas or utilities; cost and inefficiencies associated with increasing our manufacturing capacity and launching new programs; stability and predictability of our costs and margins or our customers' forecasts, financial conditions, late payments, low-margin product mix, market shares, changing product requirements or scheduling demands; costs associated with breakdowns or repairs of machinery and equipment; growth beyond our productive capacity, cyclical or other downturns, adverse impacts of new technologies or other competitive pressures which erode our margins; cost, efficiency and yield of our operations including capital investments, working capital, scrap rates, cycle times, injuries, self-insured risks, wages, freight, production schedules, overtime costs, expediting costs or scrap rates; failure to make strategic acquisitions or to integrate and improve results of acquired businesses or to identify and adequately insure environmental or other risks in due diligence; inventory valuation risks due to obsolescence, shrinkage, theft, price, overstocking or underbilling; changes in government funded or other customer programs; reliance on major customers or suppliers, especially in the automotive sector where bankruptcies (such as Dana Corporation's recent filing) could result in the rejection or modification of our contracts; revised contract prices or estimates of major contract costs; dependence on, recruitment or retention of management or other key employees; union negotiations; pension valuation, health care or other benefit costs; labor relations; strikes; risks of foreign operations; currency exchange rates; costs and supply of debt, equity capital, or insurance due to poor operating or financial results, new business risks, credit ratings, debt covenant violations, contract claims, insurance conditions or regulatory developments; impairments or write-offs of goodwill or fixed assets; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; weaknesses in internal controls; costs of compliance with auditing, regulatory or contractual obligations; regulatory actions or sanctions; disputes or litigation, involving customer, supplier, creditor, stockholder, product liability or environmental claims; war, terrorism or political uncertainty; unanticipated or uninsured disasters, losses or business risks; inaccurate data about markets, customers or business conditions; or unknown risks and uncertainties.

SYPRIS SOLUTIONS, INC.

Financial Highlights

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2006	2005

	(Unaudited)	
Revenue	\$ 132,233	\$ 125,602
Net (loss) income	\$ (444)	\$ 1,981
(Loss) earnings per common share:		
Basic	\$ (0.02)	\$ 0.11
Diluted	\$ (0.02)	\$ 0.11
Weighted average shares outstanding:		
Basic	18,065	18,028
Diluted	18,065	18,261

	Six Months Ended June 30,	
	2006	2005

	(Unaudited)	
Revenue	\$ 262,228	\$ 249,843
Net income	\$ 412	\$ 2,571
Earnings per common share:		
Basic	\$ 0.02	\$ 0.14
Diluted	\$ 0.02	\$ 0.14
Weighted average shares outstanding:		
Basic	18,055	17,996
Diluted	18,237	18,279

Sypris Solutions, Inc.

Consolidated Income Statements

(in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005

	(Unaudited)		(Unaudited)	
Net revenue:				
Industrial Group	\$ 98,454	\$ 89,673	\$190,952	\$178,363
Aerospace & Defense	21,917	24,095	47,927	48,091
Test & Measurement	11,862	11,834	23,349	23,389
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Electronics Group	33,779	35,929	71,276	71,480
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Total net revenue	132,233	125,602	262,228	249,843
Cost of sales:				
Industrial Group	93,963	82,132	180,513	164,425
Aerospace & Defense	18,570	20,726	40,626	42,331
Test & Measurement	9,266	8,856	18,038	17,840
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Electronics Group	27,836	29,582	58,664	60,171
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Total cost of sales	121,799	111,714	239,177	224,596
Gross profit:				
Industrial Group	4,491	7,541	10,439	13,938
Aerospace & Defense	3,347	3,369	7,301	5,760
Test & Measurement	2,596	2,978	5,311	5,549
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Electronics Group	5,943	6,347	12,612	11,309
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Total gross profit	10,434	13,888	23,051	25,247
Selling, general and administrative	9,632	9,113	19,551	17,666
Research and development	371	944	704	1,617
Amortization of intangible assets	158	175	317	313
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Operating income	273	3,656	2,479	5,651
Interest expense, net	1,083	1,508	2,242	2,769
Other income, net	(8)	(586)	(258)	(767)
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(Loss) income before income taxes	(802)	2,734	495	3,649
Income tax (benefit) expense	(358)	753	83	1,078
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Net (loss) income	\$ (444)	\$ 1,981	\$ 412	\$ 2,571
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(Loss) earnings per common share:				
Basic	\$ (0.02)	\$ 0.11	\$ 0.02	\$ 0.14
Diluted	\$ (0.02)	\$ 0.11	\$ 0.02	\$ 0.14
Dividends declared per common share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06
Weighted average shares outstanding:				
Basic	18,065	18,028	18,055	17,996
Diluted	18,065	18,261	18,237	18,279

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

June 30, December 31,
2006 2005

(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 26,348	\$ 12,060
Accounts receivable, net	97,168	95,432
Inventory, net	73,460	79,724
Other current assets	29,468	26,020
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Total current assets	226,444	213,236
Property, plant and equipment, net	168,349	176,719
Goodwill	14,277	14,277
Other assets	12,015	13,392
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Total assets	\$ 421,085	\$ 417,624
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 92,283	\$ 76,567
Accrued liabilities	24,624	24,904
Current portion of long-term debt	15,000	--
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Total current liabilities	131,907	101,471
Long-term debt	55,000	80,000
Other liabilities	22,248	22,419
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Total liabilities	209,156	203,890
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; 18,317,524 and 18,165,658 shares issued and outstanding in 2006 and 2005, respectively	183	182
Additional paid-in capital	142,761	142,111
Retained earnings	72,688	73,375
Accumulated other comprehensive loss	(3,702)	(1,934)
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Total stockholders' equity	211,930	213,734
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Total liabilities and stockholders' equity	\$ 421,085	\$ 417,624
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Sypris Solutions, Inc.
Consolidated Cash Flow Statements
(in thousands)

Six Months Ended June 30,

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	2006	2005
	-----	-----
	(Unaudited)	

Cash flows from operating activities:		
Net income	\$ 412	\$ 2,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,678	11,900
Other noncash items	(1,072)	1,068
Changes in operating assets and liabilities:		

Accounts receivable	(1,814)	(6,517)
Inventory	6,161	(22,490)
Other current assets	(3,448)	(565)
Accounts payable	15,827	35,993
Accrued liabilities	(156)	1,230
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Net cash provided by operating activities	29,588	23,190
Cash flows from investing activities:		
Capital expenditures	(4,903)	(26,090)
Proceeds from sale of assets	57	29
Changes in nonoperating assets and liabilities	431	(797)
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Net cash used in investing activities	(4,415)	(26,858)
Cash flows from financing activities:		
Net change in debt under revolving credit agreements	(10,000)	7,500
Cash dividends paid	(1,094)	(1,078)
Proceeds from issuance of common stock	209	1,030
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Net cash used in financing activities	(10,885)	7,452
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Net increase in cash and cash equivalents	14,288	3,784
Cash and cash equivalents at beginning of period	12,060	14,060
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Cash and cash equivalents at end of period	\$ 26,348	\$ 17,844
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CONTACT: Sypris Solutions, Inc.
T. Scott Hatton, 502-329-2000

SOURCE: Sypris Solutions, Inc.