



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

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended June 30, 2019

OR

[] Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the transition period from ____ to ____

Commission file number: 0-24020

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

61-1321992

(I.R.S. Employer
Identification No.)

101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
(Address of principal executive
offices) (Zip code)

(502) 329-2000
(Registrant's telephone number,
including area code)

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

Table with 3 columns: Title of each class, Trading Symbol(s), Name of each exchange on which registered. Row 1: Common Stock, SYPR, NASDAQ

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). [X] Yes [] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

- [] Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X] Smaller reporting company
[] Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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

As of August 9, 2019, the Registrant had 21,326,028 shares of common stock outstanding

Table of Contents

Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2019 and July 1, 2018	2
Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2019 and July 1, 2018	3
Consolidated Balance Sheets at June 30, 2019 and December 31, 2018	4
Consolidated Cash Flow Statements for the Six Months Ended June 30, 2019 and July 1, 2018	5
Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2019 and July 1, 2018	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures about Market Risk	24
Item 4. Controls and Procedures	24
Part II. Other Information	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3. Defaults Upon Senior Securities	27
Item 4. Mine Safety Disclosures	27
Item 5. Other Information	27
Item 6. Exhibits	28
Signatures	29

Part I. Financial Information
Item 1. Financial Statements

Sypris Solutions, Inc.
Consolidated Statements of Operations
(in thousands, except for per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Net revenue	\$ 24,444	\$ 22,971	\$ 44,008	\$ 42,913
Cost of sales	<u>20,455</u>	<u>20,037</u>	<u>39,159</u>	<u>37,948</u>
Gross profit	3,989	2,934	4,849	4,965
Selling, general and administrative	3,604	3,171	7,058	6,319
Severance, relocation and other costs	<u>103</u>	<u>305</u>	<u>201</u>	<u>814</u>
Operating income (loss)	282	(542)	(2,410)	(2,168)
Interest expense, net	232	221	449	434
Other (income), net	<u>(1,493)</u>	<u>(1,623)</u>	<u>(1,442)</u>	<u>(1,707)</u>
Income (loss) before taxes	1,543	860	(1,417)	(895)
Income tax expense	40	46	116	86
Net income (loss)	<u>\$ 1,503</u>	<u>\$ 814</u>	<u>\$ (1,533)</u>	<u>\$ (981)</u>
Income (loss) per share:				
Basic	\$ 0.07	\$ 0.04	\$ (0.07)	\$ (0.05)
Diluted	\$ 0.07	\$ 0.04	\$ (0.07)	\$ (0.05)
Weighted average shares outstanding:				
Basic	20,875	20,541	20,772	20,468
Diluted	20,875	20,855	20,772	20,468
Dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Sypris Solutions, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Net income (loss)	\$ 1,503	\$ 814	\$ (1,533)	\$ (981)
Other comprehensive income (loss)				
Foreign currency translation adjustments	87	(506)	212	(98)
Comprehensive income (loss)	<u>\$ 1,590</u>	<u>308</u>	<u>\$ (1,321)</u>	<u>\$ (1,079)</u>

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

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

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,462	\$ 10,704
Accounts receivable, net	11,108	9,881
Inventory, net	19,919	18,584
Other current assets	6,031	4,755
Assets held for sale	1,212	1,474
Total current assets	42,732	45,398
Property, plant and equipment, net	14,073	14,655
Operating lease right-of-use assets	7,368	0
Other assets	1,606	1,515
Total assets	<u>\$ 65,779</u>	<u>\$ 61,568</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,997	\$ 13,427
Accrued liabilities	14,797	14,965
Operating lease liabilities, current portion	800	0
Finance lease obligations, current portion	649	593
Total current liabilities	27,243	28,985
Note payable – related party	6,456	6,449
Operating lease liabilities, net of current portion	7,353	0
Finance lease obligations, net of current portion	2,715	2,804
Other liabilities	6,907	8,496
Total liabilities	50,674	46,734
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	0	0
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	0	0
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	0	0
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 21,345,900 shares issued and 21,329,708 outstanding in 2019 and 21,414,374 shares issued and 21,398,182 outstanding in 2018	214	214
Additional paid-in capital	154,538	154,388
Accumulated deficit	(115,017)	(114,926)
Accumulated other comprehensive loss	(24,630)	(24,842)
Treasury stock, 16,192 shares in 2019 and 2018	0	0
Total stockholders' equity	15,105	14,834
Total liabilities and stockholders' equity	<u>\$ 65,779</u>	<u>\$ 61,568</u>

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

Sypris Solutions, Inc.
Consolidated Cash Flow Statements
(in thousands)

	Six Months Ended	
	June 30, 2019	July 1, 2018
	(Unaudited)	
Cash flows from operating activities:		
Net loss	\$ (1,533)	\$ (981)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,407	1,310
Stock-based compensation expense	283	348
Deferred loan costs recognized	7	7
Net (gain) loss on the sale of assets	(477)	225
Insurance recovery gain	0	(2,275)
Provision for excess and obsolete inventory	283	(31)
Other noncash items	281	20
Contributions to pension plans	(45)	(11)
Changes in operating assets and liabilities:		
Accounts receivable	(1,248)	(2,807)
Inventory	(1,581)	(969)
Other current assets	(1,179)	(2,053)
Accounts payable	(2,415)	3,368
Accrued and other liabilities	449	1,132
Net cash used in operating activities	<u>(5,768)</u>	<u>(2,717)</u>
Cash flows from investing activities:		
Capital expenditures	(671)	(1,206)
Proceeds from sale of assets	634	1,358
Insurance proceeds for recovery of property damage, net	0	2,275
Net cash (used in) provided by investing activities	<u>(37)</u>	<u>2,427</u>
Cash flows from financing activities:		
Principal payments on finance lease obligations	(304)	(556)
Indirect repurchase of shares of minimum statutory tax withholdings	(133)	(107)
Net cash used in financing activities	<u>(437)</u>	<u>(663)</u>
Net decrease in cash and cash equivalents	(6,242)	(953)
Cash and cash equivalents at beginning of period	10,704	8,144
Cash and cash equivalents at end of period	<u>\$ 4,462</u>	<u>\$ 7,191</u>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for finance lease obligations	\$ 269	\$ 0

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

Sypris Solutions, Inc.
Consolidated Statements of Stockholders' equity
(in thousands)

Three Months Ended June 30, 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
March 31, 2019 balance	21,354,203	\$ 214	\$ 154,450	\$ (116,520)	\$ (24,717)	\$ 0
Net income	0	0	0	1,503	0	0
Foreign currency translation adjustment	0	0	0	0	87	0
Noncash compensation	60,000	0	172	0	0	0
Retire treasury stock	(84,495)	0	(84)	0	0	0
June 30, 2019 balance	<u>21,329,708</u>	<u>\$ 214</u>	<u>\$ 154,538</u>	<u>\$ (115,017)</u>	<u>\$ (24,630)</u>	<u>\$ 0</u>

Three Months Ended July 1, 2018

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
April 1, 2018 balance	21,356,182	\$ 214	\$ 154,001	\$ (113,216)	\$ (25,143)	\$ 0
Net income	0	0	0	814	0	0
Foreign currency translation adjustment	0	0	0	0	(506)	0
Noncash compensation	42,000	0	205	0	0	0
Retire treasury stock	0	0	(107)	0	0	0
July 1, 2018 balance	<u>21,398,182</u>	<u>\$ 214</u>	<u>\$ 154,099</u>	<u>\$ (112,402)</u>	<u>\$ (25,649)</u>	<u>\$ 0</u>

Six Months Ended June 30, 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
January 1, 2019 balance	21,398,182	\$ 214	\$ 154,388	\$ (114,926)	\$ (24,842)	\$ 0
Net loss	0	0	0	(1,533)	0	0
Adoption of new accounting standards	0	0	0	1,442	0	0
Foreign currency translation adjustment	0	0	0	0	212	0
Noncash compensation	60,000	0	283	0	0	0
Retire treasury stock	(128,474)	0	(133)	0	0	0
June 30, 2019 balance	<u>21,329,708</u>	<u>\$ 214</u>	<u>\$ 154,538</u>	<u>\$ (115,017)</u>	<u>\$ (24,630)</u>	<u>\$ 0</u>

Six Months Ended July 1, 2018

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
January 1, 2018 balance	21,422,077	\$ 214	\$ 153,858	\$ (111,591)	\$ (25,551)	\$ 0
Net loss	0	0	0	(981)	0	0
Adoption of new accounting standards	0	0	0	170	0	0
Foreign currency translation adjustment	0	0	0	0	(98)	0
Noncash compensation	42,000	0	348	0	0	0
Retire treasury stock	(65,895)	0	(107)	0	0	0
July 1, 2018 balance	<u>21,398,182</u>	<u>\$ 214</u>	<u>\$ 154,099</u>	<u>\$ (112,402)</u>	<u>\$ (25,649)</u>	<u>\$ 0</u>

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

Sypris Solutions, Inc.
Notes to Condensed Consolidated Financial Statements

(1) Nature of Business

All references to “Sypris,” the “Company,” “we” or “our” include Sypris Solutions, Inc. and its wholly-owned subsidiaries. Sypris is a diversified provider of truck components, oil and gas pipeline components and aerospace and defense electronics. The Company produces a wide range of manufactured products, often under multi-year, sole-source contracts. The Company offers such products through its two business segments, Sypris Technologies, Inc. (“Sypris Technologies”) and Sypris Electronics, LLC (“Sypris Electronics”) (See Note 13).

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, pursuant to such rules and regulations, certain notes and other financial information included in audited financial statements have been condensed or omitted. The December 31, 2018 consolidated balance sheet data was derived from audited statements, but does not include all disclosures required by U.S. GAAP. The Company’s operations are domiciled in the United States (U.S.) and Mexico, and we serve a wide variety of domestic and international customers. All intercompany transactions and accounts have been eliminated.

In accordance with the Disclosure Modernization and Simplification final rule issued by the Securities and Exchange Commission (“SEC”) and effective for the Company beginning in the first quarter of 2019, a reconciliation of the changes of stockholders’ equity is presented for all periods for which the results of operations are presented.

These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2018 as presented in the Company’s Annual Report on Form 10-K.

(3) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (ASC 842). The new standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard affects any entity that enters into a lease, with some specified scope exemptions.

The Company adopted this update beginning on January 1, 2019 using the alternative modified retrospective transition method and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. The adoption of ASC 842 on January 1, 2019 resulted in the recognition of right-of-use assets (ROU) of approximately \$7,664,000 and lease liabilities of operating leases of approximately \$8,549,000. The implementation decreased the accumulated deficit by \$1,442,000, which was driven by the recognition of the remaining deferred gain related to the operating lease portion on a 2016 sale-leaseback directly into the accumulated deficit. There was no material impact to its Consolidated Statements of Operations or Cash Flows. See Note 4 for further information regarding the impact of the adoption of ASC 842 on the Company’s financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows Topic 230: *Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing differences in the presentation of these items. The amendments in ASU No. 2016-15 became effective for us in the first quarter and were adopted retrospectively. The adoption of this update did not impact our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Credit Losses – Measurement of Credit Losses on Financial Instruments*, new guidance for the accounting for credit losses on certain financial instruments. This guidance introduces a new approach to estimating credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. This guidance, which becomes effective January 1, 2020, is not expected to have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02). Under existing U.S. GAAP, the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Entities are required to make additional disclosures, regardless of whether they elect to reclassify stranded amounts of tax effects. The Company adopted the standard effective January 1, 2019, and has elected to not reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings. The adoption of ASU 2018-02 did not have an impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (ASU 2018-15). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

(4) Leases

The Company determines if an arrangement is a lease at its inception. The Company has entered into operating leases for real estate. These leases have initial terms which range from 10 year to 11 years, and often include one or more options to renew. These renewal terms can extend the lease term by 5 years, and will be included in the lease term when it is reasonably certain that the Company will exercise the option. The Company’s existing leases do not contain significant restrictive provisions; however, certain leases contain provisions for payment of real estate taxes, insurance and maintenance costs by the Company. The lease agreements do not contain any residual value guarantees. Some of the real estate lease agreements include periods of rent holidays and payments that escalate over the lease term by specified amounts. All operating lease expenses are recognized on a straight-line basis over the lease term. For finance leases, interest expense is recognized on the lease liability and the ROU asset is amortized over the lease term.

Some leases may require variable lease payments based on factors specific to the individual agreements. Variable lease payments for which we are typically responsible for include real estate taxes, insurance and common area maintenance expenses based on the Company’s pro-rata share, which are excluded from the measurement of the lease liability. Additionally, one of the Company’s real estate leases has lease payments that adjust based on annual changes in the Consumer Price Index (“CPI”). The leases that are dependent upon CPI are initially measured using the index or rate at the commencement date and are included in the measurement of the lease liability. Incremental payments due to changes in the index are treated as variable lease costs and expensed as incurred.

These operating leases are included in “Operating lease right-of-use assets” on the Company’s June 30, 2019 Consolidated Balance Sheet, and represent the Company’s right to use the underlying asset for the lease term. The Company’s obligations to make lease payments are included in “Operating lease liabilities, current portion” and “Operating lease liabilities, net of current portion” on the Company’s June 30, 2019 Consolidated Balance Sheet. Based on the present value of the lease payments for the remaining lease term of the Company’s existing leases, the Company recognized right-of-use assets of approximately \$7,664,000 and lease liabilities for operating leases of approximately \$8,549,000 on January 1, 2019, and included adjustments for any unamortized lease incentives and prepaid and accrued rent. Operating lease right-of-use assets and liabilities commencing after January 1, 2019 are recognized at the commencement date based on the present value of lease payments over the lease term. As of June 30, 2019, total right-of-use assets and operating lease liabilities were approximately \$7,368,000 and \$8,153,000, respectively.

We primarily use our incremental borrowing rate, which is updated quarterly, based on the information available at commencement date, in determining the present value of lease payments. If readily available, we would use the implicit rate in a new lease to determine the present value of lease payments. The Company has certain contracts for real estate which may contain lease and non-lease components which it has elected to treat as a single lease component.

The Company has entered into various short-term operating leases, primarily for office equipment with an initial term of twelve months or less. Lease payments associated with short-term leases are expensed as incurred and are not recorded on the Company's balance sheet. The related lease expense for short-term leases was not material for the three and six months ended June 30, 2019.

The following table presents information related to lease expense for the three and six months ended June 30, 2019 (in thousands):

	Three Months Ended, June 30, 2019	Six Months Ended June 30, 2019
Finance lease expense:		
Amortization expense	\$ 122	\$ 233
Interest expense	90	181
Operating lease expense	351	702
Variable lease expense	64	143
Total lease expense	<u>\$ 627</u>	<u>\$ 1,259</u>

The following table presents supplemental cash flow information related to leases (in thousands):

	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 713
Operating cash flows from finance leases	181
Financing cash flows from finance leases	304

The annual future minimum lease payments as of June 30, 2019 are as follows (in thousands):

	Operating Leases	Finance Leases
Next 12 months	\$ 1,416	\$ 944
12 to 24 months	1,468	833
24 to 36 months	1,484	612
36 to 48 months	1,501	612
48 to 60 months	1,466	591
Thereafter	3,537	870
Total lease payments	<u>10,872</u>	<u>4,462</u>
Less imputed interest	(2,719)	(1,098)
Total	<u>\$ 8,153</u>	<u>\$ 3,364</u>

For the year ended December 31, 2018, and under legacy lease accounting (ASC 840), future minimum lease payments under non-cancellable leases as of December 31, 2018 were expected to be as follows:

	Operating Leases	Finance Leases
2019	\$ 1,453	\$ 927
2020	1,387	881
2021	1,430	580
2022	1,443	548
2023	1,459	548
Thereafter	4,101	1,143
Total lease payments	11,273	4,627
Less imputed interest		(1,230)
Total		<u>\$ 3,397</u>

The following table presents certain information related to lease terms and discount rates for leases as of June 30, 2019:

	Operating Leases	Finance Leases
Weighted-average remaining lease term (years)	7.5	5.6
Weighted-average discount rate (percentage)	8.0	10.4

(5) Revenue from Contracts with Customers

The Company recognizes revenue when it satisfies a performance obligation by transferring control of a promised product or rendering a service to a customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for the product or service (the “transaction price”). The Company’s transaction price in its contracts with customers is generally fixed; no payment discounts, rebates or refunds are included within its contracts. The Company also does not provide service-type warranties nor does it allow customer returns. In connection with the sale of various parts to customers, the Company is subject to typical assurance warranty obligations covering the compliance of the electronics parts produced to agreed-upon specifications (See Note 14). Customer returns, when they occur, relate to quality rework issues and are not connected to any repurchase obligation of the Company.

A performance obligation is a promise in a contract to transfer a distinct product or render a service to a customer and is the unit of account to which the transaction price is allocated under ASC 606. When a contract contains multiple performance obligations, we allocate the transaction price to the individual performance obligations using the price at which the promised goods or services would be sold to customers on a standalone basis. For most sales within our Sypris Technologies segment and a portion of sales within Sypris Electronics, control transfers to the customer at a point in time. Indicators that control has transferred to the customer include the Company having a present right to payment, the customer obtaining legal title and the customer having the significant risks and rewards of ownership. The Company’s principal terms of sale are FOB Shipping Point, or equivalent, and, as such, the Company primarily transfers control and records revenue for product sales upon shipment.

For contracts where Sypris Electronics serves as a contractor for aerospace and defense companies under federally funded programs, we generally recognize revenue over time as we perform because of continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contracts that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work in process. Because control is transferred over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We use labor hours incurred as a measure of progress for these contracts because it best depicts the Company’s performance of the obligation to the customer, which occurs as we incur labor on our contracts. Under this measure of progress, the extent of progress towards completion is measured based on the ratio of labor hours incurred to date to the total estimated labor hours at completion of the performance obligation.

Our contract profit margins may include estimates of revenues for goods or services on which the customer and the Company have not reached final agreements, such as contract changes, settlements of disputed claims, and the final amounts of requested equitable adjustments permitted under the contract. These estimates are based upon management’s best assessment of the totality of the circumstances and are included in our contract profit based upon contractual provisions and our relationships with each customer.

The majority of our arrangements are for one year or less. For the remaining population of non-cancellable contracts greater than one year we had \$23,557,000 of remaining performance obligations as of June 30, 2019, all of which were long-term Sypris Electronics' contracts. We expect to recognize approximately 26% of our remaining performance obligations as revenue in the 2019, 52% in 2020 and the balance thereafter.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and six months ended June 30, 2019 and July 1, 2018:

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Sypris Technologies – transferred point in time	\$ 16,878	\$ 15,327	\$ 33,019	\$ 29,834
Sypris Electronics – transferred point in time	1,777	1,240	2,459	2,154
Sypris Electronics – transferred over time	5,789	6,404	8,530	10,925
	<u>\$ 24,444</u>	<u>\$ 22,971</u>	<u>\$ 44,008</u>	<u>\$ 42,913</u>

Contract Balances

Differences in the timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets) and deferred revenue, customer deposits and billings in excess of revenue recognized (contract liabilities) on the consolidated balance sheets.

Contract assets – Contract assets include unbilled amounts typically resulting from sales under contracts where revenue is recognized over time and revenue recognized exceeds the amount billed to the customer, and the right to payment is subject to conditions other than the passage of time. Contract assets are generally classified as current assets in the consolidated balance sheet. The balance of contract assets as of June 30, 2019 and December 31, 2018 were \$747,000 and \$839,000, respectively, and are included within other current assets in the accompanying consolidated balance sheets.

Contract liabilities – Some of the Company's contracts within Sypris Electronics are billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. Often this results in billing occurring prior to revenue recognition resulting in contract liabilities. Additionally, the Company occasionally receives cash payments from customers in advance of the Company's performance resulting in contract liabilities. These contract liabilities are classified as either current or long-term in the consolidated balance sheet based on the timing of when the Company expects to recognize revenue. As of June 30, 2019 and December 31, 2018, contract liabilities were \$8,669,000 and \$8,369,000, respectively, and are included within accrued liabilities in the accompanying consolidated balance sheets. Payments received from customers in advance of revenue recognition are not considered to be significant financing components because they are used to meet working capital demands that can be higher in the early stages of a contract.

The Company recognized revenue from contract liabilities of \$2,190,000 and \$3,234,000 during the three and six months ended June 30, 2019, respectively. The Company recognized revenue from contract liabilities of \$344,000 and \$1,071,000 during the three and six months ended July 1, 2018, respectively.

Practical expedients and exemptions

Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in selling, general and administrative expense in the consolidated statements of operations.

We do not disclose the value of unsatisfied performance obligations for contracts with original expected lengths of one year or less.

(6) Exit and Disposal Activities

On February 21, 2017, the Board of Directors approved a modified exit or disposal plan with respect to the Broadway Plant, which included the relocation of production to other Company facilities, as needed, and/or the closure of the plant. The relocation of production was complete as of the end of 2017. The Company has relocated certain assets from the Broadway Plant to other manufacturing facilities, as needed, to serve its existing and target customer base and identified underutilized or non-core assets for disposal. Management expects to apply the proceeds from the sale of any underutilized or non-core assets to help fund the costs to transfer any additional equipment from the Broadway Plant. Management is currently evaluating options for the real estate and any remaining assets in the Broadway Plant.

As a result of these initiatives, the Company recorded charges of \$201,000, or \$0.01 per share, and \$814,000, or \$0.04 per share, during the first six months of 2019 and 2018, respectively, related to the transition of production from the Broadway Plant, which is included in severance, relocation and other costs in the consolidated statement of operations. All amounts incurred were recorded within Sypris Technologies. The charges for the first six months of 2019 were primarily related to mothball costs associated with the closed facility. The charges for the first six months of 2018 included \$224,000 for equipment relocation costs and \$590,000 for other costs, primarily related to mothball costs associated with the closed facility.

	Total Program	Costs Incurred		Remaining Costs to be Recognized
		Six Months Ended June 30, 2019	Total Recognized to date	
Severance and benefit related costs	\$ 1,350	\$ 0	\$ 1,350	\$ 0
Asset impairments	188	0	188	0
Equipment relocation costs	1,793	8	1,793	0
Other	1,647	193	1,271	376
	<u>\$ 4,978</u>	<u>\$ 201</u>	<u>\$ 4,602</u>	<u>\$ 376</u>

The Company expects to incur additional pre-tax costs of approximately \$376,000 within Sypris Technologies, the majority of which is expected to be cash expenditures.

As noted above, management expects to use proceeds from the sale of underutilized or non-core assets to fund costs incurred on the transfer of equipment from the Broadway Plant. The following assets have been segregated and included in assets held for sale in the consolidated balance sheets (in thousands):

	June 30, 2019 (Unaudited)	December 31, 2018
Machinery, equipment, furniture and fixtures	\$ 7,825	\$ 11,207
Accumulated depreciation	(6,613)	(9,733)
Property, plant and equipment, net	<u>\$ 1,212</u>	<u>\$ 1,474</u>

(7) Other (Income), Net

During the six months ended June 30, 2019, the Company recognized a gain of \$1,500,000 as a result of a settlement agreement with one of its customers to resolve various outstanding disputes between the two parties. As a result of the agreement, the customer agreed to pay the Company \$1,500,000 in compensation, which is recorded in other current assets as of June 30, 2019. This amount was subsequently received in July 2019. Additionally, the Company recognized a net gain of \$477,000 for the six months ended June 30, 2019 related to the sale of idle assets, which was offset by pension expense of \$495,000.

During the six months ended July 1, 2018, the Company recognized an insurance recovery gain of \$2,275,000 related to the settlement of a property insurance claim on the Broadway Plant. Subsequent to the transfer of production from the Broadway Plant, the primary water supply and sprinkler pipes within the facility suffered freeze damage during an extended period of extreme cold temperatures. The Company and its insurer reached a full and final settlement agreement with respect to the claim during the second quarter of 2018. During the six months ended July 1, 2018, the Company received insurance proceeds of \$2,447,000 and recognized an insurance recovery gain of \$2,275,000, net of expenses incurred for claim related expenses. Additionally, the Company recognized a net loss of \$225,000 related to the sale of certain idle assets and pension expense of \$322,000 for the six months ended July 1, 2018.

(8) Stock-Based Compensation

During the six months ended June 30, 2019, the Company granted options to purchase 691,000 shares of our common stock under a long-term incentive program. The options have a five-year term and cliff vest at three years of service. The grants did not have a significant impact on the Company's consolidated financial statements during the three and six months ended June 30, 2019.

(9) Earnings (Loss) Per Common Share

The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Restricted stock granted by the Company is considered a participating security since it contains a non-forfeitable right to dividends.

Our potentially dilutive securities include potential common shares related to our stock options and restricted stock. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted earnings per share excludes the impact of common shares related to our stock options in periods in which the option exercise price is greater than the average market price of our common stock for the period. There were 2,735,750 and 1,200,250 potential common shares excluded from diluted earnings per share for the three months ended June 30, 2019 and July 1, 2018, respectively. For the six months ended June 30, 2019 and July 1, 2018, diluted weighted average common shares do not include the impact of any outstanding stock options and unvested compensation-related shares because the effect of these items on diluted net loss would be anti-dilutive.

A reconciliation of the weighted average shares outstanding used in the calculation of basic and diluted income (loss) per common share is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Income (loss) attributable to stockholders:				
Net income (loss) as reported	\$ 1,503	\$ 814	\$ (1,533)	\$ (981)
Less distributed and undistributed earnings allocable to restricted award holders	(28)	(32)	0	0
Less dividends declared attributable to restricted award holders	0	0	0	0
Net income (loss) allocable to common stockholders	<u>\$ 1,475</u>	<u>\$ 782</u>	<u>\$ (1,533)</u>	<u>\$ (981)</u>
Income (loss) per common share attributable to stockholders:				
Basic	\$ 0.07	\$ 0.04	\$ (0.07)	\$ (0.05)
Diluted	\$ 0.07	\$ 0.04	\$ (0.07)	\$ (0.05)
Weighted average shares outstanding – basic				
Weighted average additional shares assuming conversion of potential common shares	20,875	20,541	20,772	20,468
	0	314	0	0
Weighted average shares outstanding – diluted	<u>20,875</u>	<u>20,855</u>	<u>20,772</u>	<u>20,468</u>

(10) Inventory

Inventory consists of the following (in thousands):

	June 30, 2019	December 31, 2018
	(Unaudited)	
Raw materials	\$ 15,242	\$ 12,354
Work in process	4,871	6,331
Finished goods	1,439	1,313
Reserve for excess and obsolete inventory	(1,633)	(1,414)
Total	<u>\$ 19,919</u>	<u>\$ 18,584</u>

(11) Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	June 30, 2019	December 31, 2018
	(Unaudited)	
Land and land improvements	\$ 219	\$ 219
Buildings and building improvements	11,291	11,178
Machinery, equipment, furniture and fixtures	61,687	59,179
Construction in progress	713	2,141
	<u>73,910</u>	<u>72,717</u>
Accumulated depreciation	(59,837)	(58,062)
	<u>\$ 14,073</u>	<u>\$ 14,655</u>

(12) Debt

Debt outstanding consists of the following (in thousands):

	June 30, 2019	December 31, 2018
	(Unaudited)	
Current:		
Current portion of finance lease obligation	\$ 649	\$ 593
Long Term:		
Note payable – related party	\$ 6,500	\$ 6,500
Finance lease obligation	2,715	2,804
Less unamortized debt issuance and modification costs	(44)	(51)
Long term debt net of unamortized debt costs	<u>\$ 9,171</u>	<u>\$ 9,253</u>

(13) Segment Data

The Company is organized into two business segments, Sypris Technologies and Sypris Electronics. The segments are each managed separately because of the distinctions between the products, markets, customers, technologies and workforce skills of the segments. Sypris Technologies manufactures forged and finished steel components and subassemblies, high-pressure closures and other fabricated products. Sypris Electronics is focused on circuit card and full “box build” manufacturing, high reliability manufacturing, systems assembly and integration, design for manufacturability and design to specification work. There was no intersegment net revenue recognized in any of the periods presented.

The following table presents financial information for the reportable segments of the Company (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Net revenue from unaffiliated customers:				
Sypris Technologies	\$ 16,878	\$ 15,327	\$ 33,019	\$ 29,834
Sypris Electronics	7,566	7,644	10,989	13,079
	\$ 24,444	\$ 22,971	\$ 44,008	\$ 42,913
Gross profit (loss):				
Sypris Technologies	\$ 2,963	\$ 1,930	\$ 5,267	\$ 4,037
Sypris Electronics	1,026	1,004	(418)	928
	\$ 3,989	\$ 2,934	\$ 4,849	\$ 4,965
Operating income (loss):				
Sypris Technologies	\$ 1,544	\$ 374	\$ 2,596	\$ 679
Sypris Electronics	253	362	(2,057)	(393)
General, corporate and other	(1,515)	(1,278)	(2,949)	(2,454)
	\$ 282	\$ (542)	\$ (2,410)	\$ (2,168)
Income (loss) before taxes:				
Sypris Technologies	\$ 1,406	\$ 1,930	\$ 2,313	\$ 2,234
Sypris Electronics	264	337	(2,063)	(436)
General, corporate and other	(127)	(1,407)	(1,667)	(2,693)
	\$ 1,543	\$ 860	\$ (1,417)	\$ (895)
			June 30, 2019	December 31, 2018
			(Unaudited)	
Total assets:				
Sypris Technologies			\$ 33,528	\$ 31,312
Sypris Electronics			24,632	19,208
General, corporate and other			7,619	11,048
			\$ 65,779	\$ 61,568
Total liabilities:				
Sypris Technologies			\$ 23,794	\$ 23,644
Sypris Electronics			17,556	15,180
General, corporate and other			9,324	7,910
			\$ 50,674	\$ 46,734

(14) Commitments and Contingencies

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018 was \$575,000 and \$582,000, respectively. The Company's warranty expense for the three and six months ended June 30, 2019 and July 1, 2018 was not material.

The Company bears insurance risk as a member of a group captive insurance entity for certain general liability, automobile and workers' compensation insurance programs, a self-insured worker's compensation program and a self-insured employee health program. The Company records estimated liabilities for its insurance programs based on information provided by the third-party plan administrators, historical claims experience, expected costs of claims incurred but not paid, and expected costs to settle unpaid claims. The Company monitors its estimated insurance-related liabilities on a quarterly basis. As facts change, it may become necessary to make adjustments that could be material to the Company's consolidated results of operations and financial condition.

The Company is involved in certain litigation and contract issues arising in the normal course of business. While the outcome of these matters cannot, at this time, be predicted in light of the uncertainties inherent therein, management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company.

The Company accounts for loss contingencies in accordance with U.S. GAAP. Estimated loss contingencies are accrued only if the loss is probable and the amount of the loss can be reasonably estimated. With respect to a particular loss contingency, it may be probable that a loss has occurred but the estimate of the loss is within a range or undeterminable. If the Company deems an amount within the range to be a better estimate than any other amount within the range, that amount will be accrued. However, if no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued.

The Company has various current and previously-owned facilities subject to a variety of environmental regulations. The Company has received certain indemnifications from either companies previously owning these facilities or from purchasers of those facilities. As of June 30, 2019 and December 31, 2018, no amounts were accrued for any environmental matters.

On December 27, 2017, the U.S. Department of Labor (the "DOL") filed a lawsuit alleging that the Company had misinterpreted the language of the Company's 401(k) Plans (collectively, the "Plan"). The DOL does not appear to dispute that the Company reached such interpretation in good faith after consulting with independent ERISA counsel. If the DOL's allegations were upheld by a court, the Company could be required to make additional contributions into the accounts of its Plan participants. The Company regards the DOL's allegations to be without merit and is continuing to vigorously defend the matter.

During the year ended December 31, 2017, the Company became aware of a lawsuit involving one of Sypris Electronics' customers and its primary distributor. This customer informed the Company that, as a result of the lawsuit, the customer would no longer operate its business, and that it has transferred this business to a designated successor. The Company holds \$793,000 of gross inventory related specifically to this customer as of June 30, 2019. The Company entered into a new supply agreement with the designated successor, which provides for purchases of the aforementioned inventory and additional purchases in excess of our inventories on hand and for prices in excess of our cost. As of June 30, 2019, the Company has recognized revenue of \$293,000 under the new supply agreement and has received purchase orders under the new supply agreement, however not all purchase obligations were met as of June 30, 2019. No assurances can be given that the successor customer will be successful or will continue to comply with the terms of the new agreement, which could adversely affect our ability to recoup any or all of our investment in these inventories. Given the uncertainties described above, the Company maintains a reserve of \$418,000 on the recoverability of the inventory as of June 30, 2019 and estimates that the range of loss that is reasonably possible should the program with the successor not be successful could increase by an additional \$375,000.

As of June 30, 2019, the Company had outstanding purchase commitments of approximately \$12,858,000, primarily for the acquisition of inventory.

(15) Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company provides for income taxes for its domestic operations at a statutory rate of 21% in 2019 and 2018 and for its foreign operations at a statutory rate of 30% in 2019 and 2018. Reconciling items between the federal statutory rate and the effective tax rate also include the expected usage of federal net operating loss carryforwards, state income taxes, valuation allowances and certain other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with ASC 740, Income Taxes (ASC 740). These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets or liabilities are recovered or settled. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company evaluates its deferred tax position on a quarterly basis and valuation allowances are provided as necessary. During this evaluation, the Company reviews its forecast of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. Based on its current forecast, the Company has established a valuation allowance against the domestic net deferred tax asset. 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 a portion of its non-U.S. tax benefits.

(16) Employee Benefit Plans

Pension expense (benefit) consisted of the following (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Service cost	\$ 1	\$ 0	\$ 2	\$ 2
Interest cost on projected benefit obligation	375	325	704	658
Net amortizations, deferrals and other costs	175	148	333	316
Expected return on plan assets	(217)	(326)	(542)	(652)
Net periodic benefit cost	<u>\$ 334</u>	<u>\$ 147</u>	<u>\$ 497</u>	<u>\$ 324</u>

The net periodic benefit cost of the defined benefit pension plans incurred during the three and six-month periods ended June 30, 2019 and July 1, 2018 are reflected in the following captions in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2019	July 1, 2018	June 30, 2019	July 1, 2018
	(Unaudited)		(Unaudited)	
Service cost:				
Selling, general and administrative expenses	\$ 1	\$ 0	\$ 2	\$ 2
Other net periodic benefit costs:				
Other (income), net	333	147	495	322
Total	<u>\$ 334</u>	<u>\$ 147</u>	<u>\$ 497</u>	<u>\$ 324</u>

(17) Accumulated Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of employee benefit-related adjustments and foreign currency translation adjustments.

Accumulated other comprehensive loss consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
	(Unaudited)	
Foreign currency translation adjustments	\$ (10,755)	\$ (10,967)
Employee benefit related adjustments – U.S., net of tax	(14,177)	(14,177)
Employee benefit related adjustments – Mexico, net of tax	302	302
Accumulated other comprehensive loss	<u>\$ (24,630)</u>	<u>\$ (24,842)</u>

(18) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding at June 30, 2019 approximates fair value, and is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments (Level 2).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a diversified provider of truck components, oil and gas pipeline components and aerospace and defense electronics. We offer a wide range of manufactured products, often under multi-year sole-source contracts.

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 forged, machined, welded and heat-treated steel components primarily for the heavy commercial vehicle and high-pressure energy pipeline applications. Sypris Electronics, which is comprised of Sypris Electronics, LLC, generates revenue primarily through circuit card and full "box build" manufacturing, high reliability manufacturing, systems assembly and integration, design for manufacturability and design to specification work.

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 technological innovation and flexibility, coupled with multi-year contractual relationships, as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number, have historically created opportunities to invest in leading-edge processes or technologies to help our customers remain competitive. The productivity and innovation that can result from such investments helps to differentiate us from our competition when it comes to cost, quality, reliability and customer service.

Sypris Technologies Outlook

The Sypris Technologies segment continues to migrate from its historical, concentrated dependence upon the commercial vehicle markets to a more diversified base of customers who place value on our innovation, flexibility and lean manufacturing capabilities. During 2016, the continued strength of the U.S. dollar, the tightening of margins in certain sectors of the commercial vehicle markets and the generally softening of certain key market segments led the Company to reevaluate the strategic importance of each of its customers to the Company's long-term success. The Company has reduced its reliance on certain of its traditional Tier 1 customers that represent the primary suppliers to the original equipment manufacturers ("OEMs") in the commercial vehicle markets, while targeting to replace these customers with more diversified, longer-term relationships, especially among the OEMs and others who place a higher value on the Company's innovation, flexibility and core commitment to lean manufacturing principles. Among the customer programs not being renewed were (i) a supply agreement with Meritor that expired on January 1, 2017 and (ii) the Company's business with Eaton, both of which utilized production at the Company's Broadway Plant.

However, the Company continues to supply component parts to Sistemas Automotrices de Mexico, S.A de C.V. ("Sistemas"), Meritor's joint venture in Mexico. During the fourth quarter of 2018, the Company entered into a new three-year agreement to supply axle shafts, as well as a number of other product lines, to Sistemas for periods of up to six years from the commencement of production.

As a result of these decisions, the Company experienced a significant reduction in its commercial vehicle revenues in 2017. On February 21, 2017, the Board of Directors approved a modified exit or disposal plan with respect to the Broadway Plant, which was substantially complete as of the end of 2017. The Company has relocated certain assets from the Broadway Plant to other manufacturing facilities as needed to serve its existing and targeted customer base and identified underutilized or non-core assets for disposal. Management expects to use a portion of the proceeds from the sale of any underutilized or non-core assets to help fund costs of transferring any additional equipment from the Broadway Plant. Management is currently evaluating options for the real estate and any remaining assets in the Broadway Plant (See Note 6 to the consolidated financial statements in this Form 10-Q).

The oil and gas markets, served by our Tube Turns® brand of engineered product lines, have strengthened along with the overall economy, and domestic pipeline projects continue to be active with U.S. domestic gas and oil production increasing in 2018 and the first half of 2019. 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.

We are pursuing new business in a wide variety of markets from light automotive to refrigeration valves to new energy related product lines to achieve a more balanced portfolio across our customers, markets and products. We have recently announced new program awards in each of these markets that have contributed to revenue growth for Sypris Technologies in 2018 and the first half of 2019. We believe these opportunities provide a solid multi-year foundation for growth and that additional prospective business may result in increased revenue going forward.

Sypris Electronics Outlook

In the past few years, we have faced challenges within Sypris Electronics, including the emergence of new competitors to our manufacturing capabilities.

However, we have recently announced new program awards for Sypris Electronics that contributed to revenue in 2018, with certain programs continuing into 2019. In addition to program awards related to weapons systems, electronic warfare and infrared countermeasures in our traditional aerospace and defense markets, we have also been awarded programs related to the communication and navigation markets which align with our advanced capabilities for delivering products for complex, high cost of failure platforms. Full year appropriations for FY 2019 were enacted for all remaining U.S. government agencies and the President proposed an FY 2020 budget requesting nearly \$750 billion for national security, which is expected to support program growth and market expansion for the remainder of 2019 for aerospace and defense participants. We expect to compete for follow-on business opportunities on future builds of several existing programs, as our competitiveness is enhanced by the reduction in our overhead structure following our relocation into a new manufacturing facility at the beginning of 2017.

In the near term, certain electronic component shortages and extensive lead-time issues are prevalent in many of the segments in the electronic manufacturing industry that we serve. This had a negative impact on our segment revenues and gross profit in the first six months of 2019. We are working with our customers to qualify alternative components or suppliers to mitigate the impact on our business. We expect that these issues will be resolved for some component shortages in the next 3 to 6 months, but these and other shortages may persist as a challenge beyond 2019. The majority of our aerospace and defense programs require specific components that are sole-sourced to specific suppliers; therefore, the resolution of supplier constraints requires coordination with our customers or the end-users of the products. As a result, there can be no assurance that we will be successful in addressing these shortages and issues.

Results of Operations

The tables below compare our segment and consolidated results for the three and six month periods of operations of 2019 to the three and six month periods of operations of 2018. The tables present the results for each period, the change in those results from 2018 to 2019 in both dollars and percentage change and the results for each period 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 that segment’s net revenue. These amounts are shown in italics.

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

Three Months Ended June 30, 2019 Compared to Three Months Ended July 1, 2018

	Three Months Ended,		Year Over	Year Over	Results as Percentage of	
	June 30, 2019	July 1, 2018	Year Change	Year Percentage Change	Net Revenue for the Three Months Ended	
			Favorable (Unfavorable)	Favorable (Unfavorable)	June 30, 2019	July 1, 2018
	(in thousands, except percentage data)					
Net revenue:						
Sypris Technologies	\$ 16,878	\$ 15,327	\$ 1,551	10.1%	69.0%	66.7%
Sypris Electronics	7,566	7,644	(78)	(1.0)	31.0	33.3
Total	24,444	22,971	1,473	6.4	100.0	100.0
Cost of sales:						
Sypris Technologies	13,915	13,397	(518)	(3.9)	82.4	87.4
Sypris Electronics	6,540	6,640	100	1.5	86.4	86.9
Total	20,455	20,037	(418)	(2.1)	83.7	87.2
Gross profit:						
Sypris Technologies	2,963	1,930	1,033	53.5	17.6	12.6
Sypris Electronics	1,026	1,004	22	2.2	13.6	13.1
Total	3,989	2,934	1,055	36.0	16.3	12.8
Selling, general and administrative	3,604	3,171	(433)	(13.7)	14.7	13.8
Severance, relocation and other costs	103	305	202	66.2	0.4	1.3
Operating income (loss)	282	(542)	824	152.0	1.2	(2.4)
Interest expense, net	232	221	(11)	(5.0)	0.9	1.0
Other (income), net	(1,493)	(1,623)	(130)	(8.0)	(6.1)	(7.1)
Income before taxes	1,543	860	683	79.4	6.3	3.7
Income tax expense, net	40	46	6	13.0	0.2	0.2
Net income	\$ 1,503	\$ 814	\$ 689	84.6	6.1%	3.5%

Six Months Ended June 30, 2019 Compared to Six Months Ended July 1, 2018.

	Six Months Ended,		Year Over	Year Over	Results as Percentage of	
	June 30, 2019	July 1, 2018	Year Change Favorable (Unfavorable)	Year Change Percentage Change Favorable (Unfavorable)	Net Revenue for the Six Months Ended June 30, 2019	Net Revenue for the Six Months Ended July 1, 2018
(in thousands, except percentage data)						
Net revenue:						
Sypris Technologies	\$ 33,019	\$ 29,834	\$ 3,185	10.7%	75.0%	69.5%
Sypris Electronics	10,989	13,079	(2,090)	(16.0)	25.0	30.5
Total	44,008	42,913	1,095	2.6	100.0	100.0
Cost of sales:						
Sypris Technologies	27,752	25,797	(1,955)	(7.6)	84.0	86.5
Sypris Electronics	11,407	12,151	744	6.1	103.8	92.9
Total	39,159	37,948	(1,211)	(3.2)	89.0	88.4
Gross profit (loss):						
Sypris Technologies	5,267	4,037	1,230	30.5	16.0	13.5
Sypris Electronics	(418)	928	(1,346)	NM	(3.8)	7.1
Total	4,849	4,965	(116)	(2.3)	11.0	11.6
Selling, general and administrative	7,058	6,319	(739)	(11.7)	16.0	14.7
Severance, relocation and other costs	201	814	613	75.3	0.5	1.9
Operating loss	(2,410)	(2,168)	(242)	(11.2)	(5.5)	(5.1)
Interest expense, net	449	434	(15)	(3.5)	1.0	1.0
Other (income), net	(1,442)	(1,707)	(265)	(15.5)	(3.3)	(4.0)
Loss before taxes	(1,417)	(895)	(522)	(58.3)	(3.2)	(2.1)
Income tax expense, net	116	86	(30)	(34.9)	0.3	0.2
Net loss	\$ (1,533)	\$ (981)	\$ (552)	(56.3)	(3.5)%	(2.3)%

Net Revenue. Sypris Technologies derives its revenue from the sale of forged and finished steel components and subassemblies and high-pressure closures and other fabricated products. Net revenue for Sypris Technologies for the three and six-month periods ended June 30, 2019 increased \$1.6 million and \$3.2 million from the prior year comparable periods, respectively. The net revenue growth for the comparable three-month period was primarily attributable to increased energy related product sales of \$0.8 million and increased sales volume of \$0.4 million with customers in the commercial vehicle market. Additionally, price increases with one of our commercial vehicle programs implemented during the fourth quarter of 2018 resulted in an increase of \$0.3 million for the three months ended June 30, 2019. The net revenue growth for the comparable six-month periods was primarily attributable to increased sales volume of \$2.0 million with customers in the commercial vehicle market, increased energy related product sales of \$0.6 million and price increases of \$0.6 million.

Sypris Electronics derives its revenue primarily from circuit card and full “box build” manufacturing, high reliability manufacturing and systems assembly and integration. Net revenue for Sypris Electronics decreased \$0.1 million and \$2.1 million, respectively, for the three and six months ended June 30, 2019, from the prior year comparable periods. Revenue for the first six months of 2019 was partially affected by shortages of certain electronic components and extensive lead-time issues in the electronic manufacturing industry. The first half of 2019 was also impacted by shipments accelerated into the fourth quarter of 2018 as the Company planned for the implementation of a new ERP system effective in January.

Gross Profit. Sypris Technologies’ gross profit increased \$1.0 million and \$1.2 million for the three and six months ended June 30, 2019. The net increase in volumes contributed to an increase in gross profit of \$0.4 million and \$0.5 million for the three and six months ended June 30, 2019, respectively. Additionally, gross profit for the three and six months ended June 30, 2019 was positively impacted by a price increase on a commercial vehicle program implemented during the fourth quarter of 2018 and improvements in supply and maintenance expense.

Sypris Electronics' gross profit was flat for the three months ended June 30, 2019 and decreased \$1.3 million for the six months ended June 30, 2019. The decrease in gross profit was primarily as a result of lower volumes during the periods, driving an increase in unabsorbed overhead. Program mix also factored into the decrease, as the Company experienced declines on certain higher margin legacy programs. The lower volumes on the legacy programs were partially offset by a new program which launched during 2018, which was still in the ramp-up phase for the first half of 2019 and the margin performance was lower than what is expected after full run rates are achieved.

Selling, General and Administrative. Selling, general and administrative expense increased by \$0.4 million and \$0.7 million for the three and six month periods ended June 30, 2019, respectively, as compared to the same periods in 2018, primarily as a result of higher employee medical insurance claim expenses during the period as compared to the prior year and consultation costs associated with the Company's new ERP implementation effective in January.

Other (Income), Net. The Company recognized other income, net of \$1.4 million for the six months ended June 30, 2019 compared to \$1.7 million for the six months ended July 1, 2018. During the six months ended June 30, 2019, the Company recognized a gain in other income of \$1.5 million related to a settlement agreement reached with one of its customers during the period (see Note 7). Additionally, the Company recognized a net gain of \$0.5 million related to the sale of idle assets, offset by pension expense of \$0.5 million.

During the six months ended July 1, 2018, the Company recognized an insurance recovery gain of \$2.3 million related to proceeds received related to damage sustained at one of its plants (see Note 7). Additionally, the Company recognized a net loss of \$0.2 million related to the sale of idle assets and pension expense of \$0.3 million.

Liquidity, Capital Resources

Gill Family Capital Management Note. The Company has received the benefit of cash infusions from GFCM in the form of secured promissory note obligations totaling \$6.5 million in principal as of June 30, 2019 and December 31, 2018 (the "Note"). GFCM is an entity controlled by the Company's chairman, president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. As of June 30, 2019, our principal commitment under the Note was \$2.5 million due on April 1, 2021, \$2.0 million on April 1, 2023 and the balance on April 1, 2025. The Note allows for up to an 18-month deferral of payment for up to 60% of the interest due on the notes maturing in April of 2021 and 2023, and provide for a first security interest in substantially all of the Company's assets, including those in Mexico.

Finance Lease Obligations. On March 9, 2016, the Company completed the sale of its 24-acre Toluca property for 215 million Mexican Pesos, or approximately \$12.2 million in U.S. dollars. Simultaneously, the Company entered into a ten-year lease of the 9 acres and buildings currently occupied by the Company and needed for its ongoing business in Toluca. As a result of the Toluca Sale-Leaseback, the Company has a capital lease obligation of \$2.6 million for the building as of June 30, 2019.

In January 2018, the Company entered into a capital lease for \$1.3 million for new production equipment installed at its Sypris Electronics facility during 2017. The balance of the lease obligation as of June 30, 2019 was \$0.5 million.

In February 2019, the Company entered into a capital lease for \$0.3 million for new machinery at its Sypris Technologies facility in the U.S. The balance of the lease obligation as of June 30, 2019 was \$0.3 million.

Purchase Commitments. We had purchase commitments totaling approximately \$12.9 million at June 30, 2019, primarily for inventory.

Cash Balance. At June 30, 2019, we had approximately \$4.5 million of cash and cash equivalents, of which \$1.2 million was held in jurisdictions outside of the U.S. that, if repatriated, could result in withholding taxes.

We have projected that our cash and cash equivalents will be sufficient to allow us to continue operations for the next 12 months. Significant changes from our current forecasts, including, but not limited to: (i) meaningful shortfalls in projected revenue or sales proceeds from underutilized or non-core equipment, (ii) unexpected costs or expenses, and/or (iii) operating difficulties which cause unexpected delays in scheduled shipments, could require us to seek additional funding or force us to make further reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail planned programs. Any of these actions could materially harm our business, results of operations and future prospects.

Cash Flows

Operating Activities. Net cash used by operating activities was \$5.8 million in the first six months of 2019 as compared to \$2.7 million in the same period of 2018. The aggregate increase in accounts receivable in 2019 resulted in a use of cash of \$1.2 million as a result of the increase in revenue and the timing of revenue being weighted toward the last month of the period. The investment in inventory in the first six months of 2019 resulted in a usage of cash of \$1.6 million. The increase in inventory primarily relates to the new program revenue growth for Sypris Electronics. A significant portion of the inventory receipts were funded through prepayments from customers of Sypris Electronics in the second half of 2018. Additionally, there was a decrease in accounts payable during the first six months of 2019, which resulted in a usage of cash of \$2.4 million. Prepaid expenses and other assets increased during the first six months of 2019, resulting in a usage of cash of \$1.2 million, primarily as a result of the timing of the cash receipt associated with a settlement agreement with a customer (See Note 7). Accrued and other liabilities increased during the first six months of 2019, resulting in a source of cash of \$0.4 million, primarily as a result of additional prepayments from customers of Sypris Electronics.

Investing Activities. Cash flows from investing activities was cash neutral for the first six months of 2019 as compared to cash provided of \$2.4 million for the first six months of 2018. Net cash used in investing activities for the first six months of 2019 included capital expenditures of \$0.7 million offset by proceeds of \$0.6 million from the sale of idle asset by Sypris Technologies during the period.

Net cash provided by investing activities for the first six months of 2018 includes \$2.3 million from insurance proceeds related to damage sustained at one of its plants from freezing pipes (See Note 7). Additionally, the company received proceeds of \$1.4 million from the sale of idle assets by Sypris Technologies during the period. This was partially offset by capital expenditures of \$1.2 million during the period.

Financing Activities. Net cash used in financing activities was \$0.4 million for the first six months of 2019 as compared to \$0.7 million for the first six months of 2018. Net cash used in financing activities in the first six months of 2019 included capital lease payments of \$0.3 million and payments of \$0.1 million for minimum statutory tax withholdings on stock-based compensation.

Net cash used in financing activities in the first six months of 2018 included capital lease payments of \$0.6 million and payments of \$0.1 million for minimum statutory tax withholdings on stock-based compensation.

Critical Accounting Policies

See the information concerning our critical accounting policies included under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. There have been no significant changes in our critical accounting policies during the six months ended June 30, 2019.

Forward-looking Statements

This Quarterly Report on Form 10-Q, and our other oral or written communications, may contain “forward-looking” statements. These statements may include our expectations or projections about the future of our business, industries, business strategies, prospects, potential acquisitions, liquidity, financial condition or financial results and our views about developments beyond our control, including domestic or global economic conditions, trends and market developments. These statements, including those outlined in management’s recovery plan, are based on management’s views and assumptions at the time originally made, and, except as required by law, we undertake no obligation to update these statements, even if, for example, they remain available on our website after those views and assumptions have changed. There can be no assurance that our expectations, projections or views will come to pass, and undue reliance should not be placed on these forward-looking statements.

A number of significant 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. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: the quantitative effects of the restatement of our previously issued unaudited consolidated interim financial statements as of and for the quarter ended March 31, 2019; the effectiveness of our internal control over financial reporting and our disclosure controls and procedures; our failure to achieve targeted gains and cash proceeds from the anticipated sale of certain equipment; dependence on, retention or recruitment of key employees; our failure to return to profitability on a timely basis by steadily increasing our revenues from profitable contracts with a diversified group of customers, which would cause us to continue to use existing cash resources or other assets to fund operating losses; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including the impact of tariffs, product recalls or related liabilities, employee training, working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; cost, quality and availability of raw materials such as steel, component parts (especially electronic components), natural gas or utilities; inventory valuation risks including excessive or obsolescent valuations or price erosions of raw materials or component parts on hand or other potential impairments, non-recoverability or write-offs of assets or deferred costs; other potential weaknesses in internal controls over financial reporting and enterprise risk management; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability or environmental claims; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; our reliance on a few key customers, third party vendors and sub-suppliers; continued shortages and extensive lead-times for electronic components; failure to adequately insure or to identify environmental or other insurable risks; unanticipated or uninsured disasters, losses or business risks; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; our failure to successfully complete final contract negotiations with regard to our announced contract “orders”, “wins” or “awards”; volatility of our customers’ forecasts, scheduling demands and production levels which negatively impact our operational capacity and our effectiveness to integrate new customers or suppliers, and in turn cause increases in our inventory and working capital levels; the costs of compliance with our auditing, regulatory or contractual obligations; our inability to develop new or improved products or new markets for our products; labor relations; strikes; union negotiations; pension valuation, health care or other benefit costs; our inability to patent or otherwise protect our inventions or other intellectual property from potential competitors; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; our inability to regain compliance with the NASDAQ listing standards minimum closing bid price in a timely manner; U.S. government spending on products and services that Sypris Electronics provides, including the timing of budgetary decisions; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; risks of foreign operations; currency exchange rates; war, terrorism, or political uncertainty; cyber security threats and disruptions; inaccurate data about markets, customers or business conditions; or unknown risks and uncertainties and the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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 quantitative and qualitative disclosures about market risk specified in Item 305 of Regulation S-K.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that information relating to the Company is accumulated and communicated to management, including our principal officers as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2019 and have concluded that our disclosure controls and procedures were not effective as of June 30, 2019 due to material weaknesses in our internal control over financial reporting as described below.

As previously disclosed, the Company identified misstatements in the previously-reported quarter ended March 31, 2019. The misstatements were the result of improperly designed controls around the implementation of a new enterprise resource planning system (“ERP system”) at our Sypris Electronics segment effective January 1, 2019. Due to data entry processing errors that were made following this transition to the new ERP system, certain vendor invoices related to raw material inventory receipts in the first quarter of 2019 for the Sypris Electronics segment were incorrectly recorded in the second quarter of 2019. These errors resulted in an understatement of accounts payable and cost of sales as of and for the quarter ended March 31, 2019.

In connection with the restatement of Company's financial statements for the quarter ended March 31, 2019, the Company identified two material weaknesses in internal controls over financial reporting that arose from the new ERP system implementation. The two material weaknesses are:

- The ineffective design and implementation of effective controls with respect to the ERP system transition. Specifically, we did not maintain adequate control over user access within the ERP system to restrict access to accounting period changes in the financial reporting modules. Additionally, we did not exercise sufficient oversight over the ERP system transition, design effective controls over the ERP implementation to ensure appropriate data conversion and data integrity, or provide sufficient end user training to our employees to ensure that our employees could effectively operate the new ERP system and carry out their responsibilities.
- Inadequate process level and monitoring controls in the area of accounting close and financial reporting. Specifically, we did not have appropriate controls around the review of account reconciliations, and related cut-off, and monitoring of the accounting close cycle.

The Audit Committee, the Board of Directors, and management are committed to maintaining a strong internal control environment. As a result, the Company has been actively engaged in developing and implementing remediation plans to address the material weaknesses outlined above. The remediation efforts include the following:

- User Access – We have restricted the ability of accounting personnel to modify data entry fields that relate to previously closed accounting periods for accounts payable processing.
- Oversight – We have established a plan to address the control deficiencies arising from our ERP system conversions, including additional training for accounting personnel and a more formal review and documentation process around financial reporting.
- Accounting Close and Financial Reporting – We have implemented additional analysis and review procedures related to the cost of goods sold variance accounts on a monthly basis and additional controls over the closing of accounting periods within the ERP system. We have hired additional qualified personnel to assist management with its financial statement close process and to provide additional oversight of our financial reporting.

Management believes the foregoing remedial efforts will effectively remediate the material weaknesses, but the material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As the Company continues to evaluate and work to improve its internal control over financial reporting, management may determine to take additional measures to address control deficiencies or determine to modify the remediation efforts described above.

(b) Changes in internal controls.

Beginning January 1, 2019, we implemented the updated guidance on lease accounting. In connection with the adoption of this standard, we implemented changes to our disclosure controls, procedures related to lease accounting as well as the associated control activities within.

On January 1, 2019, we implemented an ERP system at Sypris Electronics. The implementation resulted in the two material weaknesses identified above. We believe we have developed an appropriate plan to remediate and have begun our remediation efforts related to the material weaknesses.

Other than the updates and remediation efforts described above, there were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are involved from time to time in litigation and other legal or environmental proceedings incidental to our business. Neither we, nor any of our subsidiaries, are currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding currently threatened against us.

Item 1A. Risk Factors

Information regarding risk factors appears in Part I — Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements,” in this Quarterly Report on Form 10-Q, and in Part I — Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. There have been no material changes during the fiscal quarter from the risk factors disclosed in our Annual Report on Form 10-K other than with respect to the risk factors discussed below.

Implementation of our new enterprise resource planning system has adversely impacted and could continue to negatively affect our business.

We rely extensively on our information technology (“IT”) systems to assist us in managing our business and summarizing our operational results. On January 1, 2019 we deployed a new ERP system at Sypris Electronics. The new ERP system was implemented to position the Company for long-term growth, further enhance operating efficiencies and provide more effective management of our business operations, including sales order processing, inventory control, purchasing and supply chain management, and financial reporting. Implementing the new ERP system has been costly and has required, and may continue to require, the investment of significant personnel and financial resources. In addition to the risks inherent in the conversion to any new IT system, including the loss of information, disruption to our normal operations, and changes in accounting procedures, the implementation of our new ERP system has resulted in reporting disruptions related to maintaining an effective internal control environment.

Failure to properly or adequately address any issues with our new ERP system could result in increased costs and the diversion of management’s and employees’ attention and resources and could materially adversely affect our operating results, internal control over financial reporting and ability to manage our business effectively. While the ERP system is intended to further improve and enhance our information management systems, the ongoing implementation of this new ERP system exposes us to the risks of integrating that system with our existing systems and processes, including possible continued disruption of our financial reporting.

We have identified two material weaknesses in our internal control over financial reporting which, if not remediated, could result in material misstatements of our financial statements.

We recently identified material weaknesses in internal control over financial reporting that pertain to our ERP system conversion that took place on January 1, 2019 involving (1) the ineffective design and implementation of effective controls with respect to the ERP system conversion, and (2) inadequate or ineffective process level and monitoring controls in the area of accounting close and financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Although we have developed and are implementing a plan to remediate these material weaknesses and believe, based on our evaluation to date, that these material weaknesses will be remediated in a timely fashion, we cannot ensure that this will occur within a specific timeframe. These material weaknesses will not be remediated until all necessary internal controls have been implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weaknesses or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weaknesses will not result in an additional material misstatement of our financial statements. Moreover, we cannot ensure that we will not identify additional material weaknesses in our internal control over financial reporting in the future.

If we are unable to remediate the material weaknesses, our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission, could be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties and materially and adversely impact our business and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the shares of common stock that were repurchased by the Company – all from its current or former employees – during the second quarter ended June 30, 2019 (dollars in thousands except per share data):

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
4/1/2019 – 4/28/2019	59,740	\$ 1.07	—	\$ —
4/29/2019 – 5/26/2019	23,103	\$ 0.85	—	\$ —
5/27/2019 – 6/30/2019	1,652	\$ 0.78	—	\$ —

- (a) The total number of shares purchased includes shares of stock withheld for the payment of withholding taxes upon the vesting of restricted stock. Common shares withheld to satisfy tax withholding obligations were immediately cancelled.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

Number	Description
31(i).1	CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
31(i).2	Principal Financial Officer certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
32	CEO and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYPRIS SOLUTIONS, INC.
(Registrant)

Date: August 14, 2019

By: /s/ Anthony C. Allen
(Anthony C. Allen)
Vice President & Chief Financial Officer

Date: August 14, 2019

By: /s/ Rebecca R. Eckert
(Rebecca R. Eckert)
Controller (Principal Accounting Officer)

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Jeffrey T. Gill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sypris Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2019

By: /s/ Jeffrey T. Gill
Jeffrey T. Gill
President & Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Anthony C. Allen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sypris Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2019

By: /s/ Anthony C. Allen
Anthony C. Allen
Vice President & Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sypris Solutions, Inc. (the Company) on Form 10-Q for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions, Inc., that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2019

By: /s/ Jeffrey T. Gill
Jeffrey T. Gill
President & Chief Executive Officer

Date: August 14, 2019

By: /s/ Anthony C. Allen
Anthony C. Allen
Vice President & Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Sypris Solutions, Inc. and will be retained by Sypris Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.