

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities  
- ----- Exchange Act of 1934. For the quarterly period ended June 27, 1999.

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.)

455 South Fourth Street  
Louisville, Kentucky 40202  
(Address of principal executive offices, including zip code)

(502) 585-5544  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days.

Yes  No   
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As of July 13, 1999, the Registrant had 9,521,867 shares of Common Stock  
outstanding.

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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 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
	(Unaudited)		(Unaudited)	
Net revenue.....	\$ 49,331	\$ 55,196	\$ 94,229	\$ 110,686
Cost of sales.....	37,597	42,044	72,775	86,622
Gross profit.....	11,734	13,152	21,454	24,064
Selling, general and administrative expense.....	5,929	7,695	11,371	14,855
Research and development.....	1,857	1,354	3,460	2,860
Amortization of intangible assets.....	244	331	487	484
Operating income.....	3,704	3,772	6,136	5,865
Interest expense, net.....	329	290	627	750
Other (income) expense, net.....	(142)	34	(247)	(93)
Income before income taxes.....	3,517	3,448	5,756	5,208
Income tax expense.....	1,058	1,361	1,764	2,060
Net income.....	\$ 2,459	\$ 2,087	\$ 3,992	\$ 3,148
Net income per common share:				
Basic.....	\$ 0.26	\$ 0.22	\$ 0.42	\$ 0.33
Diluted.....	\$ 0.25	\$ 0.21	\$ 0.41	\$ 0.32
Shares used in computing per common share amounts:				
Basic.....	9,488	9,424	9,472	9,424
Diluted.....	9,815	9,836	9,781	9,831

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

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

	June 27, 1999	December 31, 1998
	-----	-----
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents.....	\$ 10,959	\$ 12,387
Accounts receivable, net.....	29,621	26,283
Inventory, net.....	43,126	38,465
Other current assets.....	1,541	1,724
	-----	-----
Total current assets.....	85,247	78,859
Property, plant and equipment, net.....	29,213	27,535
Intangible assets, net.....	11,497	12,075
Other assets.....	2,862	2,650
	-----	-----
	\$128,819	\$121,119
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable.....	\$ 13,630	\$ 13,004
Accrued liabilities.....	17,232	23,651
Current portion of long-term debt.....	9,602	10,083
	-----	-----
Total current liabilities.....	40,464	46,738
Long-term debt.....	28,750	18,500
Other liabilities.....	5,954	6,522
	-----	-----
Total liabilities.....	75,168	71,760
Shareholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; no shares issued.....	--	--
Common stock, non-voting, par value \$.01 per share, 10,000,000 shares authorized; no shares issued.....	--	--
Common stock, par value \$.01 per share, 20,000,000 shares authorized; 9,516,801 and 9,450,593 shares issued and outstanding in 1999 and 1998, respectively.....	95	95
Additional paid-in capital.....	23,538	23,238
Retained earnings.....	31,312	27,320
Accumulated other comprehensive income.....	(1,294)	(1,294)
	-----	-----
Total shareholders' equity.....	53,651	49,359
	-----	-----
	\$128,819	\$121,119
	=====	=====

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

Sypris Solutions, Inc.

Consolidated Statements of Cash Flows  
(in thousands)

	Six Months Ended	
	June 27, 1999	June 28, 1998
	----- (Unaudited) -----	
Cash flows from operating activities:		
Net income.....	\$ 3,992	\$ 3,148
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization.....	3,696	3,678
Other noncash charges.....	202	156
Changes in operating assets and liabilities:		
Accounts receivable.....	(3,183)	(232)
Inventory.....	(5,192)	5,274
Other current and noncurrent assets.....	(373)	23
Accounts payable.....	626	(2,632)
Accrued and other liabilities.....	(6,331)	(1,772)
	-----	-----
Net cash (used in) provided by operating activities.....	(6,563)	7,643
Cash flows from investing activities:		
Capital expenditures.....	(4,665)	(2,054)
Other.....	(268)	(643)
	-----	-----
Net cash used in investing activities.....	(4,993)	(2,697)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements.....	10,627	(2,157)
Principal payments on long-term debt.....	(859)	(886)
Proceeds from issuance (payments for redemption) of common stock.....	300	(56)
	-----	-----
Net cash provided by (used in) financing activities.....	10,068	(3,099)
	-----	-----
Net (decrease) increase in cash and cash equivalents.....	(1,428)	1,847
Cash and cash equivalents at beginning of period.....	12,387	9,836
	-----	-----
Cash and cash equivalents at end of period.....	\$10,959	\$11,683
	=====	=====

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

Notes to Consolidated Financial Statements

(1) Organization

Sypris Solutions, Inc. ("Sypris" or the "Company") is a Delaware corporation which was organized in 1997 and began business on March 30, 1998 with the completion of the merger of Group Financial Partners, Inc. ("GFP") and two of its subsidiaries, Bell Technologies, Inc. ("Bell") and Tube Turns Technologies, Inc. ("Tube Turns"), with and into Group Technologies Corporation ("GroupTech"), a Nasdaq-traded company in which GFP owned an approximate 80% interest. Effective immediately thereafter, GroupTech was merged with and into Sypris, a subsidiary created to accomplish the reincorporation in Delaware. As a result of these and other transactions (collectively referred to herein as the "Reorganization"), Sypris became the holding company for Bell, GroupTech, Tube Turns and Metrum-Datatape, Inc. ("Metrum-Datatape"), a wholly-owned subsidiary of GFP prior to the Reorganization, and succeeded to the listing of GroupTech on the Nasdaq Stock Market under the new symbol SYPR. In connection with the Reorganization, a one-for-four reverse stock split was effected for shareholders of record as of March 30, 1998. All references in the unaudited consolidated financial statements to number of shares and per share amounts of the Company's common stock have been retroactively restated to reflect the decreased number of shares outstanding.

Sypris is a diversified provider of specialized industrial products and technical services. The Company's products range from integrated data acquisition, storage and analysis systems, magnetic instruments and current sensors to high pressure closures and other industrial products. The Company's technical services include a variety of specialized engineering, manufacturing, testing, calibration and encryption capabilities.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris and its subsidiaries and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission (the "Commission"). All significant intercompany transactions and accounts have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three and six months ended June 27, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 1998 as presented in the Company's annual report on Form 10-K.

Certain amounts in the Company's 1998 consolidated financial statements have been reclassified to conform with the 1999 presentation.

(3) Net Income per Common Share

For the six months ended June 28, 1998, shares used in computing basic and diluted net income per common share include the outstanding shares of Sypris common stock as of the date of the Reorganization and the dilution associated with common stock options issued prior to the Reorganization.

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

	Three Months Ended		Six Months Ended	
	June 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
	(Unaudited)		(Unaudited)	
Shares used to compute basic net income per common share.....	9,488	9,424	9,472	9,424
Dilutive effect of stock options.....	327	412	309	407
	-----	-----	-----	-----
Shares used to compute diluted net income per common share.....	9,815	9,836	9,781	9,831
	=====	=====	=====	=====

(4) Inventory

Inventory consists of the following (in thousands):

	June 27, 1999	December 31, 1998
	(Unaudited)	
Raw materials.....	\$ 13,315	\$ 15,697
Work-in-process.....	13,899	12,447
Finished goods.....	2,011	2,478
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date.....	24,093	16,700
Progress payments related to long-term contracts and programs.....	(5,157)	(4,224)
LIFO reserve.....	(609)	(609)
Reserve for excess and obsolete inventory.....	(4,426)	(4,024)
	-----	-----
	\$ 43,126	\$ 38,465
	=====	=====

(5) Segment Data

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial Group. There was no intersegment net revenue recognized for all periods presented. The following table presents financial information for the reportable segments of the Company for the three and six months ended June 27, 1999 and June 28, 1998 (in thousands):

	Three Months Ended		Six Months Ended	
	June 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
	(Unaudited)		(Unaudited)	
Net revenue from unaffiliated customers:				
Electronics Group.....	\$ 40,257	\$ 44,638	\$ 75,778	\$ 91,524
Industrial Group.....	9,074	10,558	18,451	19,162
	-----	-----	-----	-----
	\$ 49,331	\$ 55,196	\$ 94,229	\$ 110,686
	=====	=====	=====	=====
Gross profit:				
Electronics Group.....	\$ 10,176	\$ 11,037	\$ 18,059	\$ 20,510
Industrial Group.....	1,558	2,115	3,395	3,554
	-----	-----	-----	-----
	\$ 11,734	\$ 13,152	\$ 21,454	\$ 24,064
	=====	=====	=====	=====
Operating income:				
Electronics Group.....	\$ 3,636	\$ 3,098	\$ 5,452	\$ 5,141
Industrial Group.....	941	1,581	2,275	2,572
General, corporate and other.....	(873)	(907)	(1,591)	(1,848)
	-----	-----	-----	-----
	\$ 3,704	\$ 3,772	\$ 6,136	\$ 5,865
	=====	=====	=====	=====

(6) Commitments and Contingencies

Tube Turns is a co-defendant in two separate lawsuits filed in 1993 and 1994, one pending in federal court and one pending in state district court in Louisiana, arising out of an explosion in a coker plant owned by Exxon Corporation located in Baton Rouge, Louisiana. The suits are being defended for Tube Turns by its insurance carrier, and the Company intends to vigorously defend its case. The Company believes that a settlement or related judgment would not result in a material loss to Tube Turns or the Company.

More specifically, according to the complaints, Tube Turns is the alleged manufacturer of a carbon steel pipe elbow which failed, causing the explosion which destroyed the coker plant and caused unspecified damages to surrounding property owners. One of the actions was brought by Exxon and claims damages for destruction of the plant, which Exxon estimates exceed one hundred million dollars. In this action, Tube Turns is a co-defendant with the fabricator who built the pipe line in which the elbow was incorporated and with the general contractor for the plant. The second action is a class action suit filed on behalf of the residents living around the plant and claims damages in an amount as yet undetermined. Exxon is a co-defendant with Tube Turns, the contractor and the fabricator in this action. In both actions, Tube Turns maintains that the carbon steel pipe elbow at issue was appropriately marked as carbon steel and was improperly installed, without the knowledge of Tube Turns, by the fabricator and general contractor in a part of the plant requiring a chromium steel elbow.



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

Results of Operations

The following table sets forth certain financial data, expressed as a percentage of net revenue, from the Company's Consolidated Statements of Operations for the three and six months ended June 27, 1999 and June 28, 1998.

	Three Months Ended		Six Months Ended	
	June 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
Net revenue.....	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales.....	76.2	76.2	77.2	78.3
Gross profit.....	23.8	23.8	22.8	21.7
Selling, general and administrative expense..	12.0	13.9	12.1	13.4
Research and development.....	3.8	2.5	3.7	2.6
Amortization of intangible assets.....	0.5	0.6	0.5	0.4
Operating income.....	7.5 %	6.8 %	6.5 %	5.3 %
Net income.....	5.0 %	3.8 %	4.2 %	2.8 %

For reporting purposes, the operations of Bell, GroupTech and Metrum-Datatape are included in the Electronics Group, and Tube Turns' operations are included in the Industrial Group. Segment discussion is included in the following discussion and analysis of the Company's consolidated results of operations.

Net revenue for the second quarter of 1999 was \$49.3 million, a decrease of \$5.9 million, or 10.6%, from \$55.2 million for the second quarter of 1998. Net revenue for the first six months of 1999 was \$94.2 million, a decrease of \$16.5 million, or 14.9%, from \$110.7 million for the first six months of 1998. The Electronics Group reported a decrease in net revenue of \$4.4 million and \$15.8 million for the second quarter and six-month periods, respectively. During 1998, the Electronics Group targeted new business opportunities aimed at improving profitability and completed, without renewal, certain of its low-margin electronics manufacturing contracts. The transition from the low-margin contracts was substantially completed during 1998, but the effect has continued into the first half of 1999 and is the primary source of the decrease in net revenue for the comparable year-to-year periods. The business development efforts have enabled sequential quarterly net revenue for the Electronics Group in 1999 to increase from \$35.5 million for the first quarter to \$40.2 million for the second quarter and resulted in an increase in backlog for the Electronics Group to \$107.4 million at June 27, 1999. The Electronics Group expects to begin shipments on certain of its new contracts during the second half of 1999. The Industrial Group reported a decrease in net revenue of \$1.5 million and \$0.7 million for the second quarter and six-month periods, respectively. Volume reductions for a product line provided to customers in foreign markets of the oil and gas industry was the primary factor for the decline in net revenue for the comparable year-to-year periods. The Industrial Group continued to increase shipments of truck axles during the second quarter, thereby partially offsetting declines in other forged product lines.

Gross profit for the second quarter of 1999 was \$11.7 million, or 23.8% of net revenue, as compared to \$13.1 million, or 23.8% of net revenue for the second quarter of 1998. Gross profit for the first six months of 1999 was \$21.5 million, or 22.8% of net revenue, as compared to \$24.1 million, or 21.7% of net revenue for the first six months of 1998. The Electronics Group's gross profit for the second quarter of 1999 was \$10.2 million, a decrease of \$0.8 million, or 7.8%, compared to \$11.0 million for the second quarter of 1998. The Electronics Group's gross profit for the first six months of 1999 was \$18.1 million, a decrease of \$2.4 million, or 12.0%, compared to \$20.5 million for the first six months of 1998. The decrease in the Electronics Group's gross profit for the comparable second quarter and six-month periods is primarily attributable to the reduced level of net revenue described above. The Electronics Group's gross profit percentage increased to 25.3% in the second quarter of 1999 from 24.7% for the comparable period in 1998. The gross profit percentage of the Electronics Group for the first six months of 1999 and 1998 was 23.8% and 22.4%, respectively. The margin improvement for the comparable year-to-

year periods further reflects management's actions to improve profitability by focusing on specific manufacturing and service opportunities in which the Company offers value-added solutions under a competitive cost structure. The gross profit percentage comparison also reflects the mix change caused by revenue reductions in certain of the Company's electronics assembly and test operations that typically have lower margins than product sales. The Industrial Group's gross profit for the second quarter of 1999 was \$1.6 million, a decrease of \$0.5 million, or 26.3%, compared to \$2.1 million for the second quarter of 1998. The lower level of revenue in the second quarter of 1999 combined with the change in revenue mix associated with the increase in forged truck axles and volume reductions for other product lines were the primary factors in the gross profit reduction. Shipments of certain high-margin products during the second quarter of 1998 contributed to a gross profit percentage of 20.0% for the second quarter of 1998 as compared to 17.5% for the full year of 1998 and 18.4% for the first six months of 1999.

Selling, general and administrative expense for the second quarter of 1999 was \$5.9 million, or 12.0% of net revenue, as compared to \$7.7 million, or 13.9% of net revenue for the second quarter of 1998. Selling, general and administrative expense for the first six months of 1999 was \$11.4 million, or 12.1% of net revenue, as compared to \$14.9 million, or 13.4% of net revenue for the first six months of 1998. The Electronics Group reported a decrease of \$1.8 million and \$3.4 million for the second quarter and six-month periods, respectively. The consolidation of certain functional activities that was initiated in the first half of 1998 contributed to this decrease in the year-to-year comparison. Other contributing factors include workforce reductions in certain operations, a reduction in selling expense attributable to the decrease in net revenue, and adjustments to the Company's estimated liability for the sale of certain assets of the Electronics Group in June 1997, for which a final settlement agreement was reached during the second quarter of 1999. The first six months of 1998 also included professional fees and other costs associated with the Reorganization which were nonrecurring.

Research and development expense for the second quarter of 1999 was \$1.9 million, or 3.8% of net revenue, as compared to \$1.4 million, or 2.5% of net revenue for the second quarter of 1998. Research and development expense for the first six months of 1999 was \$3.5 million, or 3.7% of net revenue, as compared to \$2.9 million, or 2.6% of net revenue for the first six months of 1998. This increase was generated by the Electronics Group, and reflects management's continued investment in the data acquisition, storage and analysis product lines.

Amortization of intangible assets for the second quarter and first six months of 1999 was \$0.2 million and \$0.5 million, respectively, as compared to \$0.3 million and \$0.5 million, respectively, for the comparable periods of 1998. The amortization is primarily attributable to goodwill recorded in connection with the Reorganization.

Interest expense for the second quarter and first six months of 1999 was \$0.3 million and \$0.6 million, respectively, as compared to \$0.3 million and \$0.8 million, respectively, for the comparable periods of 1998. Borrowings during the second quarter of 1999 increased the Company's outstanding level of debt; however, interest rates on outstanding borrowings for the second quarter and the first six months of 1999 were lower than the comparable prior year periods offsetting the increase in debt.

Income tax expense, on an interim basis, is provided for at the anticipated effective tax rate for the year.

#### Liquidity, Capital Resources and Financial Condition

Net cash used by operating activities was \$6.6 million for the first six months of 1999 as compared to net cash provided by operating activities of \$7.6 million for the year-earlier period. During the first six months of 1999, the Company's accounts receivable and inventory balances increased by \$3.2 million and \$5.2 million, respectively. The \$3.2 million increase in accounts receivable resulted from a high volume of shipments occurring late in the second quarter. Inventory increased during the first six months of 1999 by \$4.5 million and \$0.7 million in the Electronics Group and Industrial Group, respectively. The increase in the Electronics Group's inventory corresponds with the increase in backlog and inventory requirements for the expected shipment schedule on certain contracts scheduled to begin during the second half of 1999. Accrued liabilities decreased by \$6.3 million during the first six months of 1999, principally due to the final settlement payment made during the second quarter with respect to the June 1997 asset divestiture transaction.

Net cash used in investing activities was \$5.0 million for the first six months of 1999 as compared to \$2.7 million for the year-earlier period. Capital expenditures by the Electronics Group and the Industrial Group for the first six months of 1999 were \$2.9 million and \$1.7 million, respectively. Capital expenditures for the

Electronics Group include information system upgrades and replacements as well as manufacturing, assembly and test equipment. The Industrial Group's capital expenditures relate primarily to increasing production capacity to meet the expanding needs of its customer base. At June 27, 1999, the Industrial Group also had commitments for the purchase of \$3.5 million of additional manufacturing equipment to further increase production capacity, which is expected to be funded through the Company's cash balances and borrowings under its revolving credit facility. The Company expects total capital expenditures during the second half of 1999 will be approximately \$10.0 million. The planned capital expenditures are for facilities and equipment to increase capacity, expand production capabilities and improve efficiency through automation.

Net cash provided by financing activities was \$10.1 million during the first six months of 1999 as compared to net cash used in financing activities of \$3.1 million during the year-earlier period. The Company funded the additional working capital investment and capital expenditures during the first six months of 1999 through additional borrowings under its revolving credit facility.

Under the terms of the credit agreement between the Company and its bank, the Company had total availability for borrowings and letters of credit under its revolving credit facility of \$2.5 million at June 27, 1999; however, the Company repaid \$6.5 million on its revolving credit facility during the first week of the third quarter, thereby increasing its total availability to \$9.0 million at July 4, 1999. Maximum borrowings on the revolving credit facility are \$30.0 million, subject to a \$5.0 million limit for letters of credit. The Company is currently reviewing financing alternatives that would increase its total borrowing capacity to approximately \$75.0 million. The Company expects to complete any such financing during the second half of 1999 and intends to use proceeds from the financing to repay in full all debt outstanding under its existing credit agreement, fund the Company's capital expenditure plan for the second half of 1999 and for other general corporate purposes, including acquisitions.

#### Impact of Year 2000

Some of the Company's older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software which recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Sypris has implemented a company-wide Year 2000 Project (the "Y2K Project") to address the Year 2000 issue. The Y2K Project encompasses both information technology ("IT") and non-IT systems. The Y2K Project is being addressed by project teams at each of the Company's subsidiaries and by the Company's IT Committee, which consists of senior members of the IT departments from each subsidiary.

Beginning in 1998, the Company began a program of reviewing its enterprise resource planning ("ERP") systems to reduce the number of ERP systems utilized across its business units and improve overall access to information. During 1998, the Company selected three primary ERP systems and is in the process of implementing the upgrades or conversions for these new systems. All new ERP systems are Year 2000 compliant, and the implementations have been completed or are scheduled for completion at various dates through the third quarter of 1999. The Company has a contingency plan for the implementation of one ERP system, which provides for a Year 2000 compliance patch to its current system in the event an unforeseen problem is encountered during the total system conversion. The installation of the Year 2000 compliance patch was completed in the second quarter of 1999.

A detailed assessment of all significant IT systems has been completed. The project teams are implementing plans to correct problems identified during the assessment phase of the Y2K Project. The implementation of the new ERP systems and the related hardware modifications have addressed the majority of the Company's business systems. The Company has also upgraded or replaced the majority of its personal computers and standardized its desktop software applications over the past three years. The Company expects that the testing and remediation of all IT systems will be complete by the third quarter of 1999.

A detailed assessment of all significant non-IT systems has been completed. The Company has identified the critical non-IT systems, which includes microcontroller based systems and other devices with embedded chips used in the engineering, manufacturing and testing processes and expects to complete the assessment, testing and

remediation on the critical systems by the third quarter of 1999. Completion of testing and remediation on certain of the lower priority non-IT systems will continue during the third and fourth quarters of 1999. The Company is also reviewing telephone, security, HVAC and other facility related systems and will complete the testing and remediation of these systems by the third quarter of 1999.

The Company has identified and is communicating with customers, suppliers and other critical service providers to determine if entities with which the Company transacts business have an effective plan in place to address the Year 2000 issue, and to determine the extent of the Company's vulnerability to the failure of first parties to remediate their own Year 2000 issue. The Company is relying on statements from its service and goods suppliers and is not auditing suppliers' preparation plans. Risks associated with this approach are being identified and contingency plans will be developed as needed.

As of June 27, 1999, the Company has spent approximately \$500,000 on its Y2K Project. Additional costs to be incurred in 1999 to correct Year 2000 problems are estimated at approximately \$300,000. Such costs do not include normal system upgrades and replacements. The costs incurred by the Company for the new ERP systems are considered to be normal system upgrades and replacements and, therefore, are not included in costs for the Y2K Project. The Company does not expect the costs relating to Year 2000 remediation to have a material effect on its results of operations or financial condition.

The failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's results of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of first-party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Y2K Project is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and, in particular, about the Year 2000 compliance and readiness of its material first-party suppliers and customers. The Company believes that, with the implementation of new ERP systems and completion of the Y2K Project as scheduled, the possibility of significant interruptions of normal operations should be reduced.

#### Forward-looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Similar forward looking statements are made periodically in reports to the Securities and Exchange Commission, press releases, reports and documents and in written and oral presentations to investors, shareholders, analysts and others, regarding future results or expected developments. Words such as "anticipates," "believes," "estimates," "expects," "is likely," "predicts," and variations of such words and similar expressions are intended to identify such forward-looking statements. Although Sypris believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Such statements involve risks and uncertainties which may cause actual future activities and results of operations to be materially different from those suggested in this report, including, among others: the Company's dependence on its current management; the risks and uncertainties present in the Company's business; business conditions and growth in the general economy and the electronics and industrial markets served by the Company; competitive factors and price pressures; availability of third party component parts at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; changes in product mix; cost and yield issues associated with the Company's manufacturing facilities; as well as other factors described elsewhere in this report and in the Company's other filings with the Securities and Exchange Commission.

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on April 29, 1999 in Louisville, Kentucky. At the meeting, stockholders elected a Board of eight directors pursuant to the following votes:

Director	Votes in Favor	Votes Withheld
Robert E. Gill.....	9,194,326	9,329
Jeffrey T. Gill.....	9,195,076	8,579
R. Scott Gill.....	9,195,076	8,579
Henry F. Frigon....	9,197,044	6,611
William L. Healey...	9,197,044	6,611
Roger W. Johnson...	9,197,044	6,611
Sidney R. Petersen..	9,196,294	7,361
Robert Sroka.....	9,197,044	6,611

In addition, the stockholders approved (i) an amendment to the Sypris Solutions, Inc. 1994 Independent Directors' Stock Option Plan to increase the number of authorized shares available for issuance thereunder by the vote of 8,875,474 in favor, 75,571 against and 2,652 abstentions; and (ii) the Sypris Solutions, Inc. Employee Stock Purchase Plan by the vote of 8,923,181 in favor, 29,550 against and 966 abstentions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description
27	Financial Data Schedule.

(b) Reports on Form 8-K:

The Company filed no reports on Form 8-K during the three months ended June 27, 1999.

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: July 27, 1999  
-----

By: /s/ David D. Johnson  
-----  
(David D. Johnson)  
Vice President & Chief  
Financial Officer

Date: July 27, 1999  
-----

By: /s/ Anthony C. Allen  
-----  
(Anthony C. Allen)  
Vice President, Controller &  
Chief Accounting Officer



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ACCOMPANYING FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	
DEC-31-1999	
JAN-01-1999	
JUN-27-1999	
	10,959
	0
	29,651
	0
	43,126
85,247	
	29,213
	0
128,819	
40,464	
	28,750
0	
	0
	95
128,819	
	53,556
	94,229
94,229	
	72,775
	72,775
	0
	0
627	
5,756	
	1,764
3,992	
	0
	0
	0
	3,992
	0.42
	0.41