

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

FORM 10-K

(Mark one)  
 Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the fiscal year ended December 31, 2020.  
 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)

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

**61-1321992**  
(I.R.S. Employer  
Identification No.)

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock	SYPR	NASDAQ

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

**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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).  Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (July 5, 2020) was \$8,846,647.

There were 21,436,963 shares of the registrant's common stock outstanding as of March 10, 2021.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 11, 2021 are incorporated by reference into Part III to the extent described therein.

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

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## Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements made by or on behalf of Sypris Solutions, Inc. (“Sypris”, the “Company”, “we”, “our”, or “us”). These statements are based on management's beliefs, as well as assumptions made by and information currently available to management. Forward-looking statements may be identified by words like “expect,” “anticipate,” “believe,” “plan,” “project,” “could,” “estimate,” “intend,” “may,” “will”, “in our view” and similar expressions, or the negative of such terms, or other comparable terminology. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this Annual Report on Form 10-K or in other documents filed with the Securities and Exchange Commission, in press releases, or in the Company's communications and discussions with investors and analysts in the normal course of business through meetings, phone calls, or conference calls regarding, among other things, the consummation and benefits of transactions, joint ventures, business combinations, divestitures and acquisitions, expectations with respect to future sales, financial performance, operating efficiencies, or product expansion, are subject to known and unknown risks, uncertainties, and contingencies, many of which are beyond the control of the Company. Various factors may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements expressed or implied by forward-looking statements. Briefly, we currently believe that such risks also include the following: the impact of the current coronavirus disease (“COVID-19”) and economic conditions on our future operations; possible public policy response to the pandemic, including legislation or restrictions that may impact our operations or supply chain; our failure to successfully complete final contract negotiations with regard to our announced contract “orders”, “wins” or “awards”; our failure to successfully win new business; the termination or non-renewal of existing contracts by customers; our failure to achieve and maintain 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 require us to sell assets to fund operating losses; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; 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; dependence on, retention or recruitment of key employees and distribution of our human capital; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability, warranty or environmental claims; our failure to achieve targeted gains and cash proceeds from the anticipated sale of certain equipment and other assets; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; our ability to comply with the requirements of the SBA and seek forgiveness of all or a portion of the PPP Loan; our inability to develop new or improved products or new markets for our products; cost, quality and availability or lead times of raw materials such as steel, component parts (especially electronic components), natural gas or utilities; our ability to maintain compliance with the NASDAQ listing standards minimum closing bid price; our reliance on a few key customers, third party vendors and sub-suppliers; 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; potential weaknesses in internal controls over financial reporting and enterprise risk management; failure to adequately insure or to identify product liability, environmental or other insurable risks; unanticipated or uninsured disasters, public health crises, losses or business risks; unanticipated or uninsured product liability claims; 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; labor relations; strikes; union negotiations; pension valuation, health care or other benefit costs; costs associated with environmental claims relating to properties previously owned; 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; 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; risks related to owning our common stock, including increased volatility; or unknown risks and uncertainties. We undertake no obligation to update our forward-looking statements, except as may be required by law.

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## PART I

### Item 1. Business

#### General

We were formed as a Delaware corporation in 1997. We are a diversified provider of truck components, oil and gas pipeline components and aerospace and defense electronics. We produce a wide range of manufactured products, often under multi-year, sole-source contracts.

We focus on those markets where we believe we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry participants that embrace multi-year contractual relationships as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number, historically have created opportunities to invest in leading-edge processes or technologies to help our customers remain competitive. The productivity 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.

Our manufacturing processes frequently involve the fabrication or assembly of a product or subassembly according to specifications provided by our customers. We strive to enhance our manufacturing capabilities by advanced quality and manufacturing techniques, lean manufacturing, just-in-time procurement and continuous flow manufacturing, six sigma, total quality management, stringent and real-time engineering change control routines and total cycle time reduction techniques. At the same time, we are working to develop new designs and product innovations by re-engineering traditional solutions to eliminate cost without reducing durability or quality.

#### Business Division Summary

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, 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.

*Sypris Technologies.* Through Sypris Technologies, we are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, recreational vehicle, automotive, industrial and energy markets in North America. We have the capacity to produce drive train components including axle shafts, transmission shafts, gear sets, steer axle knuckles, and other components for ultimate use by the leading automotive, truck and recreational vehicle manufacturers, including General Motors Company (GM), Freightliner LLC (Freightliner), Mack Truck (Mack), Navistar International Corporation (Navistar), PACCAR, Inc. (PACCAR), Volvo Truck Corporation (Volvo) and Bombradier Recreational Products (BRP). We support our customers’ strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies. We also manufacture high-pressure closures and other fabricated products for oil and gas pipelines.

Our manufacturing contracts for the truck components and assemblies markets are often sole-source by part number. Part numbers may be specified for inclusion in a single model or a range of models. Where we are the sole-source provider by part number, we are generally the exclusive provider to our customer of those specific parts for the duration of the manufacturing contract.

Sypris Technologies also manufactures energy-related products such as pressurized closures, insulated joints and other specialty products, primarily for oil and gas pipelines and related energy markets. This product line is an important source of diversified revenues and is becoming an area of greater focus for the Company going forward. We are committed to exploring new product developments and potential new markets, which will also be an increasing area of focus for the Company going forward.

Sypris Technologies represented approximately 55% of our net revenues in 2020.

*Sypris Electronics.* Sypris Electronics 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, for customers in the aerospace and defense electronics markets. This includes circuit card assemblies for electronic sensors and systems including radar and targeting systems, tactical ground stations, navigation systems, weapons systems, targeting and warning systems and those used in the nation's high priority space programs.

We provide our customers with a broad variety of value added solutions, from low-volume prototype assembly to high-volume turnkey manufacturing. Our manufacturing contracts for the aerospace and defense electronics market are generally sole-source by part number. Our customers include large aerospace and defense companies such as Northrop Grumman Corporation (Northrop Grumman), L3Harris Technologies (L3Harris), Collins Aerospace Systems, BAE Systems (BAE) and Analog Devices, Inc. (ADI). We serve as a subcontractor on U.S. government programs and do not serve as a prime contractor to the U.S. government.

The engineering and manufacturing of highly complex components for the aerospace and defense industries is a fragmented industry with no dominant player in the market. The industry has continued to grow with more companies developing printed circuit board assembly capabilities and others entering the market via mergers and acquisitions of smaller companies. This competitive business environment, along with the impact of federal government spending uncertainties in the U.S. and the allocation of funds by the U.S. Department of Defense has challenged Sypris Electronics over the past several years.

During 2019 and 2020, we announced new program awards as a subcontractor for Sypris Electronics, with certain programs contributing to revenue in 2020 and continuing into 2021 through 2022. In addition to contract awards from U.S. Department of Defense ("DoD") prime contractors related to weapons systems, electronic warfare and infrared countermeasures in our traditional aerospace and defense markets, we have also been awarded subcontracts related to the communication and navigation markets, which align with our advanced capabilities for delivering products for complex, high cost of failure platforms.

On December 27, 2020, the President of the United States signed the fiscal year (FY) 2021 Consolidated Appropriations Act, providing annual funding for the DoD, other government agencies, and COVID-19 relief. The appropriations provide \$741 billion in discretionary funding for national defense (including DoD funding and defense-related spending in energy and water development, homeland security, and military construction appropriations), of which \$671 billion is in base funding and \$69 billion is Overseas Contingency Operations ("OCO")/emergency funding (OCO and emergency supplemental funding do not count toward discretionary spending caps). Of the \$741 billion, the DoD was allocated \$704 billion, composed of \$635 billion in base funding and \$69 billion in OCO and emergency funding. The appropriations adhere to the Bipartisan Budget Act of 2019 (BBA 2019), which increased the spending limits for both defense and non-defense discretionary funds for the final two years (FY 2020 and FY 2021) of the Budget Control Act of 2011 (BCA).

It remains uncertain when the government will approve FY 2021 appropriations and what government programs will be funded and at what levels. We expect to compete for follow-on business opportunities as a subcontractor on future builds of several existing government programs. However, the long-term impacts of COVID-19 on government budgets and other funding priorities that impact demand for our products and services and our business are difficult to predict.

In the past few years, we have faced challenges within Sypris Electronics, including certain electronic component shortages and extensive lead-time manufacturing issues. This had a negative impact on our production schedules and margin performance in 2019. However, these negative impacts did not persist in 2020, as most of the component shortages and issues were resolved in 2019 and in early 2020. The majority of the government aerospace and defense programs that we support 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. We have partnered with our customers to qualify alternative components or suppliers and will continue to focus on our supply chain to attempt to mitigate the impact of supply component shortages on our business. While the COVID-19 outbreak did not have a material impact on our supply chain in 2020, we expect that global shutdowns of raw materials production are expected to have a delayed impact on overall component shortages in 2021. We may not be successful in addressing these shortages and other issues.

Sypris Electronics accounted for approximately 45% of net revenue in 2020.

## **Our Markets**

*Sypris Technologies.* The industrial manufacturing markets include automotive, truck and off-highway components and assemblies and specialty closures. The automotive and truck components and assemblies market consists of the original equipment manufacturers, or OEMs, including FCA, Freightliner, GM, Mack, Navistar, PACCAR and Volvo, and an extensive supply chain of companies of all types and sizes that are classified into different levels or tiers. Tier 1 companies represent the primary suppliers to the OEMs and include Meritor, Dana Inc. (Dana), Detroit Diesel Corporation (Detroit Diesel), American Axle & Manufacturing Holdings, Inc. (America Axle) and Transmisiones y Equipos Mecanicos, S.A. de C.V. (Tremec), among others. Below this group of companies reside numerous suppliers that either supply the OEMs directly or supply the Tier I companies. In all segments of the truck components and assemblies market, however, suppliers are under intense competitive pressure to improve product quality and to reduce capital expenditures, production costs and inventory levels. Beginning in 2015, the Company lost several of its traditional Tier 1 customers in the commercial vehicle markets, and we have determined to migrate away from doing business with certain of those customers, while seeking to replace these customers with more profitable customer relationships, especially among the heavy truck, off-highway and automotive OEMs, Tier 1 suppliers and others who place a higher value on the Company's innovation, flexibility and core commitment to lean manufacturing principles. The customers for our specialty closure products consists primarily of operators and builders of oil and gas pipelines, which are also facing significant pressures to improve quality, reduce costs and defer capital expenditures.

*Sypris Electronics.* Although we believe that our programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense and intelligence priorities, the affordability of our products, changes in or preferences for new or different technologies, general economic conditions, tariffs and other factors may affect the level of funding for existing or proposed programs.

Market conditions for our electronic manufacturing business are characterized by a number of obstacles. The nature of providing manufactured products to the aerospace and defense electronics industry as well as other regulated markets differs substantially from the commercial electronics manufacturing industry. The cost of failure can be extremely high, the manufacturing requirements are typically complex and products are produced in relatively small quantities. Companies within this industry are required to maintain and adhere to a number of strict and comprehensive certifications, security clearances and traceability standards.

## **Our Business Strategy**

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

*Concentrate on our Core Markets.* We are a significant supplier of forged, machined, welded and heat-treated components and subassemblies, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We have been an established supplier to major aerospace and defense companies and agencies of the U.S. Government for over 40 years. We will continue to focus on those markets where we have the expertise, capacity and qualifications to achieve a competitive advantage.

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

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

*Grow Through the Addition of New Value-Added Manufacturing Capabilities.* We hope to grow through the addition of new value-added manufacturing capabilities and the introduction of additional components in the supply chain that enable us to provide a more complete solution by improving quality and reducing product cost, inventory levels and cycle times for our customers. In many instances, we offer a variety of state-of-the-art machining capabilities to our customers in the industrial manufacturing markets that enable us to reduce labor and shipping costs and minimize cycle times for our customers over the long-term, which we believe will provide us with additional growth opportunities in the future.

We believe that the number and duration of our strategic customer relationships should grow to enable us to invest in our business with greater certainty and with less risk. The investments we make in support of these relationships are targeted to provide us with the productivity, flexibility, technological edge and economies of scale that we believe will help to differentiate us from the competition in the future when it comes to cost, quality, reliability and customer service.

### **Customer Concentration**

Our five largest customers in 2020 were Northrop Grumman, Sistemas Automotrices de Mexico, S.A de C.V. (Sistemas), Detroit Diesel, ADI and SubCom, which in the aggregate accounted for 64% of net revenue. Our five largest customers in 2019 were Sistemas Automotrices de Mexico, S.A de C.V. (Sistemas), Detroit Diesel, Northrop Grumman, L3Harris and SubCom, which in the aggregate accounted for 61% of net revenue. In 2020, Northrop Grumman, Sistemas and Detroit Diesel and represented approximately 22%, 14% and 12% of our net revenue, respectively. No other customer accounted for more than 10% of our net revenue in 2020. In 2019, Sistemas, Detroit Diesel and Northrop Grumman represented approximately 22%, 14% and 11% of our net revenue, respectively. No other customer accounted for more than 10% of our net revenue in 2019.

### **Geographic Areas and Currency Fluctuations**

Our operations are located in the U.S. and Mexico. Our Mexican subsidiaries and affiliates are a part of Sypris Technologies and manufacture and sell a number of products similar to those Sypris Technologies produces or previously produced in the U.S. In addition to normal business risks, operations outside the U.S. may be subject to a greater risk of changing political, economic and social environments, changing governmental laws and regulations, currency revaluations and market fluctuations. Fluctuations in foreign currency exchange rates have primarily impacted our earnings only to the extent of remeasurement gains or losses related to U.S. dollar denominated accounts of our foreign subsidiaries, because the vast majority of our transactions are denominated in U.S. dollars. For the years ended December 31, 2020 and 2019, "other income, net" included foreign currency translation gains of less than \$0.1 million and \$0.2 million, respectively.

Net revenues from Mexican operations were \$29.8 million, or 36%, and \$40.5 million, or 46%, of our consolidated net revenues in 2020 and 2019, respectively. In 2020, net income from our Mexican operations was \$4.7 million, as compared to our consolidated net income of \$1.7 million. In 2019, net income from our Mexican operations was \$1.1 million, as compared to our consolidated net loss of \$3.9 million. You can find more information about our regional operating results, including our export sales, in Note 21 to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

### **Sales and Business Development**

Our principal sources of new business originate from the expansion of existing relationships, referrals and direct sales through senior management, direct sales personnel, domestic and international sales representatives, distributors and market specialists. We supplement these selling efforts with a variety of sales literature, advertising in trade media and participating in trade shows. We also utilize engineering specialists to facilitate the sales process by working with potential customers to reduce the cost of the products they need. Our specialists achieve this objective by working with the customer to improve their product's design for ease of manufacturing or by reducing the amount of set-up time or material that may be required to produce the product. The award of contracts or programs can be a lengthy process, which in some circumstances can extend well beyond 24 months. Upon occasion, we commit resources to potential contracts or programs that we ultimately do not win.

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

We have signed long-term supply agreements with Detroit Diesel, Volvo, Tremec, Danfoss Industries S.A de C.V. (Danfoss) and Sistemas. We have also been awarded purchase orders for various products and components from American Axle, Meritor, and Dana. We have launched the Sypris Ultra® axle shaft with Detroit Diesel and have strong interest from others within the customer base who are interested in this patented product. We are continuing to explore other opportunities as they arise and have a significant number of outstanding quotations in progress, but there can be no assurances that our efforts to develop new sources of revenues will be successful.

## **Competition**

The markets that we serve are highly competitive, and we compete against numerous domestic and international companies in addition to the internal capabilities of some of our customers. In the industrial manufacturing markets, we compete primarily against other component suppliers such as Ramkrishna Forgings Limited, Mid-West Forge, Inc., GNA Axles Limited, Brunner International, Inc., Bharat Forge, Commercial Forged Products, Spencer Forge and Machine, Inc., Traxle, SPX Flow, Inc., T.D. Williamson Inc. and National Oilwell Varco, Inc., certain of which serve as suppliers to many Tier I and smaller companies. In the aerospace and defense electronics market, we compete primarily against other component suppliers such as Celestica Inc., Jabil Circuit, Inc. and Spartan Corporation. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours. In addition, we will face new competitors as we attempt to increase and expand our business.

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

## **Suppliers**

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

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

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



## **Patents, Trademarks and Licenses**

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

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

## **Government Regulation**

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

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

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

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

## **Human Capital**

As of December 31, 2020, we had a total of 664 employees, of which 491 were engaged in manufacturing, 13 were engaged in sales and marketing, 58 were engaged in engineering and 102 were engaged in administration. Approximately 386 of our employees were covered by collective bargaining agreements with various unions that expire on various dates through 2022. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements expiring within the next 12 months. Our ability to maintain our workforce depends on our ability to attract and retain new and existing customers. Although we believe overall that relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably, that negotiations will be successful or that we will not experience a work stoppage, which could adversely affect our consolidated results of operations.

Throughout our Company's history, we always recognized that people drive the strength of our business and our ability to effectively serve our clients and sustain our competitive position. We are focused on harmonizing our approach to talent to provide seamless opportunities and better experiences to our employees.

We have a Code of Conduct ("Code of Conduct") applicable to all of our employees, which creates expectations and provides guidance for employees to make the right decisions. Our Code of Conduct includes topics such as anti-corruption, discrimination, harassment, privacy, appropriate use of Company assets, protecting confidential information, and reporting Code of Conduct violations. It is used to reinforce our passion for operating in a fair, honest, responsible and ethical manner. The Code of Conduct also emphasizes the importance of having an open, welcoming environment in which all employees feel empowered to do what is right and are encouraged to voice concerns should violations of the Code of Conduct be observed. All employees are required to complete training on the Code of Conduct annually.

In an effort to ensure business continuity of our operations during events where senior leadership personnel is impacted, we endeavor each year to examine the top roles within our corporate and subsidiary organizations and identify individuals who could step into those positions if called upon to do so and to identify a set of individuals who could do so with additional time, experience and development. This succession planning exercise is conducted annually and reviewed with the Board of Directors.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees and which are intended to comply with government orders in all the states and countries where we operate. In an effort to keep our employees safe and to maintain operations during the COVID-19 pandemic, we have implemented a number of new health-related measures including, the requirement to wear Company-provided face-masks at all times while on Company property, temperature taking protocols, increased hygiene, cleaning and sanitizing procedures at all locations, social-distancing, restrictions on visitors to our facilities and limits on in-person meetings and other gatherings. The health and wellness of our employees are critical to our success.

For information on the risks related to our human capital resources, see Item 1A – Risk Factors.

#### **Internet Access**

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website ([www.sypris.com](http://www.sypris.com)) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission (“SEC”). The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us, at [www.sec.gov](http://www.sec.gov). The references to these website addresses do not constitute incorporation by reference of the information contained on the websites, which should not be considered part of this document.

## **Item 1A. Risk Factors**

A number of significant risk factors could materially affect our business operations and cause our performance to differ materially from any future results projected or implied by our prior statements, including those described below. Many of these risk factors are also identified in connection with the more specific descriptions of our business and results of operations contained throughout this report. The impact of the COVID-19 pandemic and resulting economic conditions may increase many of these risks.

### ***Customers and Revenue Growth Risks***

#### **We seek to generate new business revenues to support our ongoing operations.**

Our businesses generally require a higher level of new business revenues than we currently have in order to operate profitably. We are working to increase our revenues with new and existing customers. However, if we are not successful in significantly increasing over overall net revenues, we may be unable to maintain the critical mass of capital investments or talented employees that are needed to succeed in our chosen markets or to maintain our existing facilities, which could result in additional restructuring or exit costs. As we expand our customers and our products, we must also effectively manage a more diverse production schedule to avoid slowing our production output. As we are awarded new products with new customers, we must onboard new operational processes in an effective and efficient manner. We cannot assure you that we will be successful in increasing our revenues with new and existing customers to a level necessary to maintain or return to profitability.

Even when we are chosen by a new or existing customer for new business, there can be no assurance that we will be able to successfully complete final contract negotiations on acceptable terms or at all. In many cases, we announce significant contract “orders”, “wins” or “awards” before final contract negotiations are complete, and there is a chance that these new announced contract orders, wins or awards may not result in a definitive agreement or the expected amount of revenues or profits. We cannot guarantee that any particular contract with a customer will result in the anticipated level revenue or profitability.

#### **We depend on a few key customers in challenging industries for most of our revenues.**

Our five largest customers in 2020 were Northrop Grumman, Sistemas, Detroit Diesel, ADI and SubCom, which in the aggregate accounted for 64% of net revenue. The loss of any of these customers or any other significant customer, or the renewal of business on less favorable terms, would have a material adverse impact on our business and results of operations. Due to our customer concentration, if one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us, favor competitors or new entrants or change their purchasing patterns, our business may be harmed.

The truck components and assemblies industry has experienced consolidation, credit risk, highly cyclical market demand, labor unrest, rising steel costs, extensive raw material lead-times, bankruptcy and other obstacles. The demand for our energy-related products lines, historically, has risen and fallen with the prices of oil and/or natural gas, as our customers’ capital expenditures budgets tend to be dependent upon energy prices. We depend on the continued growth and financial stability of customers in these industries and our core markets, as well as general economic conditions. Adverse changes affecting these customers, markets or economic conditions could harm our operating results.

The aerospace and defense electronics industry has experienced consolidation, increased competition, disruptive new technologies and uncertain funding levels. The aerospace and defense industry is also pressured by cyclical, rapid technological change, shortening product life cycles, decreasing margins, component obsolescence and shortages and government procurement and certification processes. Our aerospace and defense business faces reduced revenues in the final phases of several key legacy programs which must be replenished with new technologies if we are to successfully maintain or expand our market share. Our failure to address any of these factors could impair our ability to grow and diversify our base of customers in this segment.

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

**Customer contracts could be less profitable than expected.**

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

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

Unexpected changes in our customers' demand levels and our ability to execute our production efficiently have harmed our operating results in the past and could do so in the future. Many of our customers will not commit to firm production or delivery schedules. Inaccurate forecasting of our customers' requirements can disrupt the efficient utilization of our manufacturing capacity, inventories or workforce and can cause increases in our inventory and working capital levels. If we receive unanticipated orders or rapid increases in demand, these incremental volumes could be unprofitable due to the higher costs of operating above our optimal capacity. Disagreements over pricing, quality, delivery, capacity, exclusivity or trade credit terms could disrupt order schedules. Orders may also fluctuate due to changing global capacity and demand, new products, changes in market share, reorganizations or bankruptcies, material shortages, labor disputes, freight costs, tariffs or other factors that discourage outsourcing. These forces could increase, decrease, accelerate, delay or cancel our delivery schedules.

Our ability to stabilize employee retention and execute on existing customer orders could put current revenues at risk as we proceed with the execution of our plans. If we lose anticipated revenues, we might not succeed in redeploying our substantial capital investments and other fixed costs, potentially forcing additional plant closures, impairments of long-lived and other assets or increased losses.

**Congressional budgetary constraints or reallocations could reduce our government related sales.**

Sypris Electronics serves as a contractor for large aerospace and defense companies such as Northrop Grumman and L3Harris, typically under federally funded programs, which represented approximately 37% and 23% of net revenue in 2020 and 2019, respectively.

Sypris Electronics was adversely affected by declines in the overall government defense market due to the effects of sequestration in the past, and may be further affected if funding for programs in which we participate, either by selling products directly to U.S. government agencies or as a subcontractor to prime contractors such as Northrop Grumman, L3Harris, SubCom, LLC (SubCom) and ADI, is reduced, delayed or cancelled. Our ability to obtain new contract awards also could be negatively affected by funding and budgeting for such programs.

**Competition Risks****Increasing competition could limit or reduce our market share.**

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

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

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

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

**Execution Risks**

**Contract terminations or delays could harm our business.**

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

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

**We must operate more efficiently.**

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

- difficulties arising from our present financial condition, including difficulties in maintaining customer and supplier relationships and difficulties acquiring new business due to lingering concerns about our financial condition until we have returned to consistent profitability;
- efforts to increase our manufacturing capacity, maintain quality control systems and launch new programs, especially as we continue to increase production at our Mexico operations;
- the breakdown or the need for major repairs of critical machinery or equipment, especially as we increase production at our Mexico operations;

- the risk of warranty expenses and product liability claims, including the outcome of known or potential recall campaigns, if our products fail to meet or perform to specifications or cause property damage, injury or death;
- inflationary pressures;
- tariffs or trade restrictions imposed on imports or exports, particularly in the United States and Mexico;
- our ability to comply with exportation and importation regulations with an expanding global market;
- increased borrowing due to declines in sales;
- changes in anticipated product mix and the associated variances in our profit margins;
- the need to identify and eliminate our root causes of scrap;
- our ability to achieve expected annual savings or other synergies from past and future business combinations;
- inventory risks due to forecasting errors, shifts in market demand, the unanticipated loss of future business, or the obsolescence and/or price erosion of raw materials or component parts on hand; and
- any inability to successfully manage growth, contraction or competitive pressures in our primary markets.

Our management or systems could be inadequate to support our existing or future operations, especially as we downsize our operating staff to reduce expenses while we work to increase revenues. New customers or new contracts, particularly with new product offerings, could require us to invest in additional equipment or other capital expenditures which exceed our budgeted plans. We may have limited experience or expertise in installing or operating such equipment, which could negatively impact our ability to deliver products on time or with acceptable costs. In addition, a material portion of our manufacturing equipment requires significant maintenance to operate effectively, and we may experience maintenance and repair issues. The risk of technical failures, nonconformance with customer specifications, an inability to deliver next generation products or other quality concerns could materially impair our operating results. Similarly, expanding production for our energy-related products without effective process or quality controls could materially increase scrap rates and may impact the safety of our operating environment or expose our business to warranty risks and contractual violations.

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

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

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our sensitive information, as do our customers, suppliers and subcontractors. Prior cyber attacks directed at us have not had a material impact on our financial results. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and often are not recognized until launched against a target, or even some time after. We may be unable to anticipate these techniques, implement adequate preventative measures or remediate any intrusion on a timely or effective basis even if our security measures are appropriate, reasonable, and/or comply with applicable legal requirements. Certain efforts may be state-sponsored and supported by significant financial and technological resources, making them even more sophisticated and difficult to detect. Insider or employee cyber and security threats are also a significant concern for all companies, including ours.

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

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

### ***Supplier Risks***

#### **Interruptions in the supply of key components and quality systems could disrupt production.**

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

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

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

#### **Fluctuations in the price of raw materials, including tariffs or other trade restrictions on imported steel or other goods, could negatively impact us.**

For significant portions of our business, we purchase raw materials and component parts which have been designated or specified by our customers, at prices negotiated by our customers. Raw material price fluctuations and volatility in the commodity markets, including tariffs and trade restriction could impact prices in the future. While our customers have generally agreed to reimburse us for the cost of such materials, this could change in the future, and our risks will continue to include the timely communication and successful collection of any such reimbursements. In any event, for a growing part of our business, we arrange our own suppliers and we could be impacted by the risks of any landed price increases, trade restrictions or production delays. Increases in the costs of steel or other supplies could also increase our working capital requirements, scrap expenses and borrowing costs.

In general, there can be no assurance that any price fluctuations relating to tariffs or trade restrictions will not reduce demand, slow production, delay shipments to our customers or increase our costs in the future, any of which could adversely affect our financial results.

## *Access to Capital and Acquisitions Risks*

**Until we have returned to sustained levels of profitability, our access to capital may be limited.**

Until the Company becomes profitable again, there can be no assurances that the Company will succeed in attracting new, acceptable sources of debt or equity capital. If we are unable to become profitable on a timely basis, we may need to use existing cash resources or other assets to fund operating losses. While we have borrowed from Gill Family Capital Management, Inc. (“GFCM”), an entity controlled by the Gill family which beneficially owns approximately 15.3% of our common stock, on acceptable terms in the past, there can be no assurances that such debt financing would be available in the future.

**We have incurred indebtedness under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) which may be subject to audit, may not be forgivable and may eventually have to be repaid. Any repayment of such indebtedness may limit the funds available to us and may restrict our flexibility in operating our business.**

The Company entered into a promissory note with BMO Harris Bank National Association (“BMO”), effective May 1, 2020, that provides for a loan in the amount of \$3.6 million (the “PPP Loan”) pursuant to expansion of the Small Business Administration (“SBA”) 7(a) loan program (the “Paycheck Protection Program” or “PPP”), established under the CARES Act. The PPP Loan is subject to forgiveness under the PPP upon submission and review of a loan forgiveness application, to the extent that PPP Loan proceeds have been used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments. Amounts outstanding under the loan bear a fixed interest rate of 1.0% per annum with a maturity date of May 1, 2022, two years from the commencement date.

The U.S. Department of the Treasury and SBA have announced that SBA will conduct audits for PPP loans that exceed \$2 million. Should we be audited or reviewed by the U.S. Department of the Treasury or the SBA as a result of the PPP Loan or filing an application for forgiveness or otherwise, such audit or review could result in the diversion of management’s time and attention, generate negative publicity and cause us to incur legal and reputational costs. If we were to be audited and receive an adverse outcome in such an audit, we could be required to return the full amount of the PPP Loan and may potentially be subject to civil and criminal fines and penalties. We may not have the resources to repay the PPP Loan if required to do so by the federal government.

On November 24, 2020, the Company submitted an application for forgiveness of the entire amount due on the PPP Loan. There can be no assurance that the principal and interest amounts under the PPP Loan will be forgiven. If all or substantially all of the PPP Loan is not forgiven or it is subsequently determined that it must be repaid, we may be required to use a substantial portion of our cash flows from operations or proceeds from the sale of our assets to pay interest and principal on the PPP Loan. Any such repayment of the PPP Loan will reduce the funds available to us for working capital and other corporate purposes and may limit our ability to obtain additional financing for working capital or divert funds that are otherwise necessary to run our business. We cannot assure that our business will generate sufficient cash flow from operations or that future financing will be available to us in amounts sufficient to enable us to make required and timely repayments on our indebtedness, or to fund our operations. Additionally, though we believe we are eligible recipients of the PPP Loan under the PPP and our use of PPP Loan proceeds has been in compliance with PPP rules and guidance, our receipt of the PPP Loan and the use of PPP Loan proceeds could result in negative publicity, or expose us to claims or potential liability under the federal False Claims Act, which prohibits the known filing of a false claim or the known use of false statements to obtain payment from the federal government, if it is determined that we were in fact not eligible to take the PPP Loan in the first instance.



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

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

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

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

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

**We could fail to fully implement our growth plans.**

As the Company seeks to expand its revenues and strategically diversify its customer base, we could fail to adequately overcome significant obstacles such as slowing markets, the loss of key employees, unexpected increases in costs, or new competitors or technologies in our key markets, among other risks. The failure to fully implement our growth plans could materially adversely affect our revenues, operating results and financial condition.

***Labor Relations Risks***

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

Our future success in a changing business environment, including during rapid changes in the size, complexity or skills required of our workforce, as we experienced in 2018 and 2017 and again in 2021, will depend to a large extent upon the efforts and abilities of our executive, managerial and technical employees. The loss of key employees, especially in a strong economic environment, and our ability to effectively train existing employees, could have a material adverse effect on our operations. Our future success will also require an ability to attract and retain qualified employees, especially those with engineering or production expertise in our core business lines.

Changes in our labor costs such as salaries, wages and benefits, or the cost of providing pension and other employee benefits, changes in health care costs, investment returns on plan assets and discount rates used to calculate pension and related liabilities or other requirements to accelerate the level of our pension fund contributions to reduce or eliminate underfunded liabilities, could lead to increased costs or disruptions of operations in any of our business units.

**Disputes with labor unions could disrupt our business plans.**

As of December 31, 2020, we had collective bargaining agreements covering approximately 386 employees (all of which were in Sypris Technologies), or 58% of our total employees. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements expiring within the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement. These employees in Mexico represented approximately 53% of the Company's workforce, or 350 employees at December 31, 2020. Our ability to maintain our workforce depends on our ability to attract and retain new and existing customers as well as maintain good relations with our employees and labor unions. We could experience a work stoppage or other disputes which could disrupt our operations or the operations of our customers and could harm our operating results.

## **Regulatory Risks**

### **Environmental, natural disasters, health and safety risks could expose us to potential liability.**

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

Groundwater and other contamination has occurred at certain of our current and former facilities during the operation of those facilities by their former owners, and this contamination may occur at future facilities we operate or acquire. There is no assurance that environmental indemnification agreements we have secured from the former owners of certain of these properties will be adequate to protect us from liability. Additionally, certain property we sold which was designated as Brownfields has been approved for development by the current owners and could expose us to future costs.

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

A natural disaster could disrupt our operations, or our customers' or suppliers' operations and could adversely affect our results of operations and financial condition. Although we have plans designed to mitigate the impact of natural disasters on our operations, those plans may be insufficient, and any catastrophe may disrupt our ability to manufacture and deliver products to our customers, resulting in an adverse impact on our business and results of operations. In addition, our global operations expose us to risks associated with public health crises, such as pandemics and epidemics, which could harm our business and cause our operating results to suffer. For example, the COVID-19 pandemic has resulted in travel disruption, trade disruption and has effected many companies' operations globally. Infections may continue to be widespread, including in the countries where we have operations, and travel restrictions may remain or worsen, all of which could lead to reduced demand for our products and services, disruptions in our supply chain, any of which could have a negative impact on our business and operating results. Under our self-insured employee health program, the costs associated with a large number of employees infected could significantly impact our results.

### **Changes in interest rates and asset returns could increase our pension funding obligations and reduce our profitability.**

We have unfunded obligations under certain of our defined benefit pension plans. The valuation of our future payment obligations under the plans and the related plan assets are subject to significant adverse changes if the credit and capital markets cause interest rates and projected rates of return to decline. Such declines could also require us to make significant additional contributions to our pension plans in the future. A material increase in the unfunded obligations of these plans could also result in a significant increase in our pension expense in the future.

### **We may incur additional tax expense or become subject to additional tax exposure.**

Our provision for income taxes and the cash outlays required to satisfy our income tax obligations in the future could be adversely affected by numerous factors. These factors include changes in the level of earnings in the tax jurisdictions in which we operate, changes in the valuation of deferred tax assets and liabilities, changes in our plans to repatriate the earnings of our non-U.S. operations to the U.S. and changes in tax laws and regulations.

In December 2017, the U.S. introduced broad ranging tax reform with the passage of the Tax Cuts and Jobs Act (“Act”) legislation. Among the tax reforms was a reduction of the corporate tax rate from 35% to 21%. Although the tax reform in the U.S. reduced the statutory tax rate to 21% for 2018, the effects of the lower rate were offset in part by the effects of increased nondeductible expenses and the global intangible low taxed income (“GILTI”) provisions which result in a certain amount of foreign earnings being subjected to U.S. tax. Considering the exclusion of foreign subsidiary dividends from taxation in the U.S., we believe the Act will provide some greater flexibility to repatriate future earnings of our foreign operations.

Our income tax returns are subject to examination by federal, state and local tax authorities in the U.S. and tax authorities outside the U.S. The results of these examinations and the ongoing assessments of our tax exposures could also have an adverse effect on our provision for income taxes and the cash outlays required to satisfy our income tax obligations.

**Adverse regulatory developments or litigation could harm our business.**

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

**General Risks**

**The COVID-19 pandemic has and could continue to materially adversely affect our financial condition and results of operations.**

COVID-19, which has spread to every state in the United State and every county and has been declared a pandemic by the World Health Organization underscores certain risks we face, including those described above. COVID-19 has resulted in authorities imposing, and businesses and individuals implementing, numerous unprecedented measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter-in-place/stay-at-home and social distancing orders, and shutdowns. These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners. We have manufacturing operations in the U.S. and Mexico, and each of these countries has been materially affected by the outbreak and taken measures to try to contain it. While we believe that, based on the various standards published to date, the work our employees are performing for the aerospace and defense, energy and transportation markets is essential, there can be no assurance that governmental authorities will not impose restrictions on the operations of our facilities as a result of the COVID-19 pandemic or that our facilities will continue to operate during the pandemic. If our operations or the operations of our suppliers are restricted, we may be unable to perform fully on our contracts and our costs may increase as a result of the COVID-19 pandemic. These cost increases may result in unfavorable changes in estimates which may not be fully recoverable or adequately covered by insurance. The ultimate impact and efficacy of government measures and potential future measures is currently unknown.

There is considerable uncertainty regarding the business impacts from such measures and potential future measures. Shelter-in-place orders and other measures, including work-from-home and social distancing policies implemented to protect employees, have resulted in reduced workforce availability at some of our sites, and reduced capacity at some of our vendors and suppliers. Restrictions on our access to or operation of our manufacturing facilities or on our support operations or workforce, or similar limitations for our vendors and suppliers, can impact our ability to meet customer demand and could have a material adverse effect on our financial condition and results of operations, particularly if prolonged. Similarly, current, and future restrictions or disruptions of transportation, such as reduced availability of air transport, port closures or delays, and increased border controls, delays or closures, can also impact our ability to meet demand and could materially adversely affect us. Our customers have experienced, and may continue to experience, disruptions in their operations and supply chains, which can result in delayed, reduced, or canceled orders, or collection risks, and which may adversely affect our results of operations.

The pandemic has significantly increased economic and demand uncertainty. The current outbreak and continued spread of COVID-19 has caused an economic slowdown, and it is possible that it could cause a global recession. There is a significant degree of uncertainty and lack of visibility as to the extent and duration of any such slowdown or recession. We have seen and may continue to see negative impacts on demand in some of our markets, particularly automotive and oil and gas. Given the significant economic uncertainty and volatility created by the pandemic, it is difficult to predict the nature and extent of impacts on our business but it has and may continue to have a materially adverse effect on our financial condition and result of operations.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, cancellation of physical participation in meetings, events and conferences, and social distancing measures), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, vendors, and suppliers. Work-from-home and other measures introduce additional operational risks, including cybersecurity risks, which could have an adverse effect on our operations. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and illness and workforce disruptions could lead to unavailability of key personnel and harm our ability to perform critical functions.

**Recently, the market price for our common stock has been volatile.**

The market price of our common stock is subject to wide price fluctuations in response to various factors, many of which are beyond our control and may be unrelated to our financial condition, operating performance, prospects or other indicators of value. The factors include:

- the impact on global and regional economies as a result of the COVID-19 pandemic;
- quarterly variations in our results of operations and liquidity or changes in our forecasts and guidance;
- changes in recommendations by the investment community or their estimates of our net revenues or operating results;
- speculation in the press or investment community concerning our business and results of operations;
- announcements by us or our competitors or new market entrants, including new contracts or renewals of existing contracts, strategic actions, management changes, and material transactions or acquisitions;
- technical factors in the public trading market for our stock that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as it may be expressed on financial trading and other social media sites), the amount and status of short interest in our securities, access to margin debt, trading in options and other derivatives on our common stock, fractional share trading and other technical trading factors or strategies;
- announcements regarding stock repurchases, sales of our common stock, credit agreements and debt issuances;
- announcements of technological innovations or new products by us, our customers or competitors;
- sales of stock by us, our officers or directors; and
- general economic market conditions.

**Our insurance coverage may be inadequate to cover all significant risk exposures.**

We carry a range of insurance policies intended to protect our assets and operations, including general liability insurance and property damage insurance. While we endeavor to purchase insurance coverage appropriate to our risk assessment, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages, and as a result our insurance program may not fully cover us for losses we may incur. In addition, as a result of a number of catastrophic weather and other events in the United States, insurance companies have incurred substantial losses and accordingly in many cases they have substantially reduced the nature and amount of insurance coverage available to the market, have broadened exclusions, and/or have substantially increased the cost of such coverage. It is likely that the tight insurance market will continue into the foreseeable future. Our business requires that we maintain various types of insurance. If such insurance is not available or not available on economically acceptable terms, our business could be materially and adversely affected.

**We face other factors which could seriously disrupt our operations.**

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

Location	Segment (Market Served)	Own or Lease (Expiration)	Approximate Square Feet	Certifications
<b>Corporate Office:</b>				
Louisville, Kentucky		Lease (2024)	13,800	
<b>Manufacturing Facilities:</b>				
Louisville, Kentucky	Sypris Technologies (Oil & Gas Pipeline Components)	Own	57,000	ISO 9001
Tampa, Florida	Sypris Electronics (Aerospace & Defense Electronics)	Lease (2027)	50,000	ISO 9001 ISO 13485 ISO 14001 AS 9100 AS5553 NASA-STD-8739 IPC-A-610, Rev D, Class 3 J-STD-001, Rev D, Class 3 NADCAP accredited
Toluca, Mexico	Sypris Technologies (Truck Components and Oil & Gas Pipeline Components)	Lease (2026)	215,000	TS 16949 ASME Certified Clean Industry Certified

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

**Certification/Specification    Description**

AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
AS 5553	A certification process intended for use by aerospace and military manufactures to mitigate the risk or receiving and installing counterfeit electronic parts.
ASME Certified	Performance criteria determined by the American Society of Mechanical Engineers.
Clean Industry Certified	Mexican Environmental Protection Agency sponsored voluntary regulatory program for pollution control.

<b><u>Certification/Specification</u></b>	<b><u>Description</u></b>
IPC-A-610	A certification process for electronics assembly manufacturing which describes materials, methods and verification criteria for producing high quality electronic products. Class 3 specifically includes high performance or performance-on-demand products where equipment downtime cannot be tolerated, end-use environment may be uncommonly harsh, and the equipment must function when required.
J-STD-001	A family of voluntary standards of industry-accepted workmanship criteria for electronic assemblies.
ISO 9001	A certification process comprised of quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 14001	A family of voluntary standards and guidance documents defining specific requirements for an Environmental Management System.
ISO 13485	An internationally recognized voluntary system of quality management for companies that design, develop, manufacture, distribute, and service medical devices.
NADCAP accredited	The National Aerospace and Defense Contractors Accreditation Program is a global cooperative accreditation program for aerospace engineering, defense and related industries.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
TS 16949	A quality certification system developed within the automotive sector. Using ISO 9001:2000 as its foundation, ISO/TS 16949:2002 specifies the quality management system (QMS) requirements for the design, development, production, installation and servicing of automotive related products.

### **Item 3. Legal Proceedings**

Groundwater and other contamination has occurred at certain of our current and former facilities during the operation of those facilities by their former owners, and this contamination may occur at future facilities we operate or acquire. There is no assurance that environmental indemnification agreements we have secured from the former owners of certain of these properties will be adequate to protect us from liability. No administrative or judicial proceedings with respect to these or any other environmental regulations or conditions are pending against the Company or known by the Company to be contemplated by Government authorities.

The Company is subject to other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for these other asserted legal and other claims. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. In addition, there may be other potential claims, liabilities, materials or design defects, or other customer complaints that have not been asserted, but which could adversely impact us in the future. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these other legal matters or potential matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

The information set forth in Note 16 to the consolidated financial statements in this Annual Report on Form 10-K is incorporated by reference into this Item 3.

### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

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

Our common stock is traded on the NASDAQ Global Market under the symbol "SYPR."

As of March 10, 2021, there were 593 holders of record of our common stock. No cash dividends were declared during 2020 or 2019.

Dividends may be paid on common stock only when, as and if declared by our Board of Directors in its sole discretion. We do not anticipate paying dividends in 2021.

The following table summarizes the shares of common stock that were repurchased by the Company – all from its current or former employees for withholding tax purposes – during the fourth quarter ended December 31, 2020:

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
10/5/2020 – 11/1/2020	—	\$ —	—	\$ —
11/2/2020 – 11/29/2020	—	\$ —	—	\$ —
11/30/2020 – 12/31/2020	19,596	\$ 1.36	—	\$ —

- (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 6. Selected Financial Data

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



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

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

### Overview

We are a diversified provider of 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 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.

### *Impact of COVID-19 on Our Business*

The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruption and has and will likely continue to adversely affect our business. As of the date of this filing, significant uncertainty exists concerning the continued impact and duration of the COVID-19 pandemic. The Company has continued to operate at each location and sought to remain compliant with government regulations imposed due to the COVID-19 pandemic. The Company began to experience lower revenue late in the first quarter of 2020 due to the COVID-19 pandemic, followed by a more significant impact in the second quarter, especially within the Sypris Technologies group. During periods of lower production, the Company performed certain preventative maintenance procedures on its equipment and utilized resources to continue to make progress on certain strategic initiatives. Towards the end of the second quarter, some state and local jurisdictions started to lift mandatory stay-at-home or shelter-in-place orders and started gradually to ease restrictions. While the COVID-19 pandemic negatively impacted the Company’s results of operations, cash flows and financial position in 2020, management implemented actions to mitigate the financial impact, to protect the health of its employees and to comply with government regulations at each of our locations. Factors deriving from the COVID-19 response that have and may continue to negatively impact sales and gross margin in the future include, but are not limited to: limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the material components we utilize in the manufacture of the products we sell, or to meet delivery requirements and commitments; limitations on the ability of our employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring employees to remain at home; limitations on the ability of our customers to conduct their business and purchase our products; and limitations on the ability of our customers to pay us on a timely basis.

We experienced disruptions in our business as we implemented modifications to preserve adequate liquidity and ensure that our business continued to operate during this uncertain time. With respect to liquidity, we evaluated and took actions to reduce costs and spending across our organization. This included reducing hiring activities, reducing compensation of our Chairman, President and CEO, certain other senior leadership and corporate personnel and our Board of Directors, and limiting discretionary spending. In addition, under the CARES Act, we have deferred certain payroll taxes into future years. We also reduced spending on capital investment projects and managed working capital to preserve liquidity during this crisis. In addition to these activities, during the second quarter, the Company secured a \$3.6 million term loan with BMO, pursuant to the PPP under the CARES Act. Proceeds from the PPP Loan have been used to retain workers and maintain payroll and make lease and utility payments.

While we are unable to determine or predict the nature, duration or scope of the overall impact the COVID-19 pandemic will have on our business, results of operations, liquidity or capital resources, we will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

#### *Sypris Technologies Outlook*

After two years of record high volumes, the commercial vehicle market softened materially during the fourth quarter of 2019, impacting production rates as customers responded to the demand reduction and balanced inventory levels. This anticipated cyclical decline, coupled with the impact of the COVID-19 pandemic, resulted in a significant decline in North American Class 4-8 shipments in 2020, with Class 8 production dropping nearly 31% from the prior year. In 2020, Sypris Technologies experienced a significant reduction in demand from customers serving the automotive, commercial vehicle, sport utility vehicle and off-highway markets, and the significant drop in oil prices has created uncertainty for many of the energy infrastructure projects utilizing the components we produce and sell. Sypris Technologies' revenue was negatively impacted at the end of the first quarter of 2020 and was more significantly impacted during the second quarter contributing to a 55.9% decline from the second quarter of 2019. However, demand improved during the second half of 2020, declining only 15.7% from the second half of 2019. We are anticipating year-over-year growth in 2021. We believe that the market diversification Sypris Technologies has accomplished over recent years by adding new programs in the automotive, sport-utility and off-highway markets has benefited and will continue to benefit the Company, as demand for our products in these markets did not decline as dramatically as demand declined in the Class 8 commercial vehicle market.

Depressed oil and gas prices coupled with reduced travel, business closures, and other economic impacts related to the COVID-19 pandemic are suppressing near-term oil and natural gas demand, which has adversely impacted the oil and gas markets served by our Tube Turns® brand of engineered product lines. This is causing major pipeline developers to significantly scale back near term capital investments in new pipeline infrastructure. This has resulted in reduced demand for our products for the oil and gas markets. However, we expect oil and gas sector spending to improve in 2021 compared to 2020.

We will continue to pursue new business in a wide variety of markets from light automotive to new energy related product lines to achieve a more balanced portfolio across our customers, markets and products.

#### *Sypris Electronics Outlook*

In accordance with the DoD guidance issued in March 2020 designating the Defense Industrial Base as a critical infrastructure workforce, our Sypris Electronics production facility continued to operate in support of essential products and services required to meet national security commitments to the U.S. Government and the U.S. military.

The U.S. Government has taken actions in response to COVID-19 to increase progress payments in new and existing contracts and accelerate contract awards through increased use of Unfinalized Contracting Actions (UCAs) to provide cash flow and liquidity for companies in the Defense Industrial Base, including large prime contractors and smaller suppliers. Certain of the large prime contractors are implementing multiple actions to help support certain suppliers affected by COVID-19, including accelerating payments to subcontractors, such as Sypris Electronics.

In the past few years, we have faced challenges within Sypris Electronics, including certain electronic component shortages and extensive lead-time manufacturing issues. This had a negative impact on our production schedules and margin performance in 2019. However, these negative impacts did not persist in 2020, as many of the component shortages and issues were resolved in 2019 and in early 2020. The majority of the government aerospace and defense programs that we support 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. We have partnered with our customers to qualify alternative components or suppliers and will continue to focus on our supply chain to attempt to mitigate the impact of supply component shortages on our business. While the COVID-19 outbreak did not have a material impact on our supply chain in 2020, overall component shortages may become a challenge in 2021. We may not be successful in addressing these shortages and other issues.

During 2019 and 2020, we announced new program awards as a contractor for Sypris Electronics, with certain programs contributing to revenue in 2020 and continuing into 2022. In addition to contract awards from U.S. Department of Defense ("DoD") prime contractors related to weapons systems, electronic warfare and infrared countermeasures in our traditional aerospace and defense markets, we have also been awarded subcontracts related to the communication and navigation markets, which align with our advanced capabilities for delivering products for complex, high cost of failure platforms.

On December 27, 2020, the President of the United States signed the fiscal year (FY) 2021 Consolidated Appropriations Act, providing annual funding for the DoD, other government agencies, and COVID-19 relief. The appropriations provide \$741 billion in discretionary funding for national defense (including DoD funding and defense-related spending in energy and water development, homeland security, and military construction appropriations), of which \$671 billion is in base funding and \$69 billion is OCO/emergency funding (OCO and emergency supplemental funding do not count toward discretionary spending caps). Of the \$741 billion, the DoD was allocated \$704 billion, composed of \$635 billion in base funding and \$69 billion in OCO and emergency funding. The appropriations adhere to the Bipartisan Budget Act of 2019 (BBA 2019), which increased the spending limits for both defense and non-defense discretionary funds for the final two years (FY 2020 and FY 2021) of the Budget Control Act of 2011 (BCA).

It remains uncertain when the government will approve FY 2021 appropriations and what government programs will be funded and at what levels. We expect to compete for follow-on business opportunities as a subcontractor on future builds of several existing government programs. However, the long-term impacts of COVID-19 on government budgets and other funding priorities that impact demand for our products and services and our business are difficult to predict.

### **Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition for Sypris Technologies, including cost of sales; however, these policies do not meet the definition of critical accounting policies because they do not generally require us to make estimates or judgments that are difficult or subjective. The following discussion of accounting estimates is intended to supplement the Summary of Significant Accounting Policies presented as Note 1 to our consolidated financial statements in Item 8.

*Net Revenue and Cost of Sales.* 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 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 1 to the consolidated financial statements in this Annual Report on Form 10-K). 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, *Revenue from Contracts with Customers*. 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 due to the 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.

*Long-lived asset impairment.* We perform periodic impairment analysis on our long-lived amortizable assets whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. When indicators are present, we compare the estimated future undiscounted net cash flows of the operations to which the assets relate to their carrying amount. If the operations are unable to recover the carrying amount of their assets, the long-lived assets are written down to their estimated fair value. Fair value is determined based on discounted cash flows, third party appraisals or other methods that provide appropriate estimates of value. A considerable amount of management judgment and assumptions are required in performing the impairment test, principally in determining whether an adverse event or circumstance has triggered the need for an impairment review. The Company did not have any long-lived assets measured at fair value on a nonrecurring basis as of December 31, 2020 or 2019.

*Pension Plan Funded Status.* Our U.S. defined benefit pension plans are closed to new entrants and only \$5,000 of service-related cost was recorded in 2020 related to a small number of participants who are still accruing benefits in the Louisville Hourly and Salaried Plans. Changes in our net obligations are principally attributable to changing discount rates and the performance of plan assets. Pension obligations are valued using discount rates established annually in consultation with our outside actuarial advisers using a theoretical bond portfolio, adjusted according to the timing of expected cash flows for our future obligations. Plan liabilities at December 31, 2020 are based upon a discount rate of 2.25% which reflects the Above Mean Mercer Yield Curve rate as of December 31, 2020 rounded to the nearest 5<sup>th</sup> basis point. Declining discount rates increase the present value of future pension obligations; a 25 basis point decrease in the discount rate would increase our U.S. pension liability by about \$0.9 million. As indicated above, when establishing the expected long-term rate of return on our U.S. pension plan assets, we consider historical performance and forward looking return estimates reflective of our portfolio mix and investment strategy. Based on the most recent analysis of projected portfolio returns, we concluded that the use of 3.15% for the Louisville Hourly Plan, 3.40% for the Marion Plan and 3.05% for the Louisville Salaried Plan as the expected return on our U.S. pension plan assets for 2020 was appropriate. A change in the assumed rate of return on plan assets of 100 basis points would result in a \$0.3 million change in the estimated 2020 pension expense.

At December 31, 2020, we have \$13.3 million of unrecognized losses relating to our U.S. pension plans. Actuarial gains and losses, which are primarily the result of changes in the discount rate and other assumptions and differences between actual and expected asset returns, are deferred in Accumulated Other Comprehensive Income and amortized to expense following the corridor approach. We use the average remaining service period of active participants unless almost all of the plan's participants are inactive, in which case we use the average remaining life expectancy for all active and inactive participants.

Based on the current funded status of our U.S. plans, we expect to contribute approximately \$0.6 million during 2021, which represents the minimum funding amounts required by federal law.

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

*Stock-based Compensation.* We account for stock-based compensation in accordance with the fair value recognition provisions using the Black-Scholes option-pricing method, which requires the input of several subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term) and the estimated volatility of our common stock price over the expected term. The dividend yield is assumed to be zero as we have not paid dividends nor do we anticipate paying any dividends in the foreseeable future. Changes in the subjective assumptions can materially affect the fair value estimate of stock-based compensation and consequently, the related expense recognized in the consolidated statements of operations.

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

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

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, ASC 740 requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment is largely dependent upon projected near-term profitability including the effects of tax planning. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. 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 believes it will have sufficient future taxable income to realize the deferred tax assets recorded by its Mexican subsidiaries. Therefore, the Company reversed its valuation allowance recorded in prior years against certain Mexican net deferred tax assets and recognized an income tax benefit of \$3.7 million during the year ended December 31, 2020.

Based on its current forecast, the Company has established a valuation allowance against all U.S. deferred tax assets. 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. tax benefits. If we determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to reduce the valuation allowance would increase net income in the period that such determination is made.

## Results of Operations

We operate in two segments, Sypris Technologies and Sypris Electronics. The table presented below compares our segment and consolidated results of operations from 2020 to 2019. The table presents the results for each year, the change in those results from one year to another in both dollars and percentage change and the results for each year as a percentage of net revenue.

- The first two columns in each table show the absolute results for each period presented.
- The columns entitled “Year-Over-Year Change” and “Year-Over-Year Percentage Change” show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when our net revenue increases from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative number in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of each segment’s net revenue. These amounts are shown in italics.

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

### Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

	Year Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Year Ended December 31,		
	2020	2019	Favorable (Unfavorable)	Favorable (Unfavorable)	2020	2019	
(in thousands, except percentage data)							
<b>Net revenue:</b>							
Sypris Technologies	\$ 45,321	\$ 61,683	\$ (16,362)	(26.5)%	55.0%	70.2%	
Sypris Electronics	37,025	26,208	10,817	41.3	45.0	29.8	
Total net revenue	82,346	87,891	(5,545)	(6.3)	100	100	
<b>Cost of sales:</b>							
Sypris Technologies	39,157	51,898	12,741	24.6	86.4	84.1	
Sypris Electronics	31,624	26,110	(5,514)	(21.1)	85.4	99.6	
Total cost of sales	70,781	78,008	7,227	9.3	86.0	88.8	
<b>Gross profit:</b>							
Sypris Technologies	6,164	9,785	(3,621)	37.0	13.6	15.9	
Sypris Electronics	5,401	98	5,303	5,411.2	14.6	0.4	
Total gross profit	11,565	9,883	1,682	17.0	14.0	11.2	
Selling, general and administrative	11,351	13,680	2,329	17.0	13.8	15.5	
Severance, relocation and other costs	124	509	385	75.6	0.2	0.6	
Operating income (loss)	90	(4,306)	4,396	NM	0.1	(4.9)	
Interest expense, net	838	903	65	7.2	1.0	1.0	
Other expense (income), net	544	(1,256)	(1,800)	NM	0.7	(1.4)	
Loss before income taxes	(1,292)	(3,953)	2,661	67.3	(1.6)	(4.5)	
Income tax benefit, net	(2,960)	(4)	2,956	NM	(3.6)	0.0	
Net income (loss)	\$ 1,668	\$ (3,949)	\$ 5,617	NM	2.0%	(4.5)%	

*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 decreased \$16.4 million from the prior year to \$45.3 million in 2020 as a result of the expected cyclical decline in the commercial vehicle market and the impact of the COVID-19 pandemic, as noted above. The net revenue decrease for the year ended December 31, 2020 was primarily attributable to decreased sales volumes of \$13.8 million primarily with customers in the commercial vehicle market and decreased energy related product sales of \$6.7 million, partially offset by growth in the automotive, light truck and sport utility markets of \$4.1 million. Revenue for Sypris Technologies is expected to increase in 2021, primarily attributable to the expected improvement in the commercial vehicle market and the addition of new program launches.

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 increased \$10.8 million to \$37.0 million in 2020. The year over year revenue growth reflects increased demand for a government funded product, shipments on a weapons system program that was in development and early build during 2019 and increased orders on certain commercial subsea communications components. Revenue for 2019 was partially affected by shortages of certain electronic components and extensive lead-time issues in the electronic manufacturing industry. Revenue for 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 2019. Most of the challenges faced during 2019 with electronic component shortages have been resolved and production rebounded to more normal run rates during 2020. The majority of programs that generated revenue in 2020 will continue to generate revenue into 2021.

*Gross Profit.* Sypris Technologies’ gross profit decreased \$3.6 million to \$6.2 million in 2020 as compared to \$9.8 million in the prior year. The net decrease in volumes contributed to a decrease in gross profit of \$6.8 million for the year ended December 31, 2020. Partially offsetting this decrease were improvements in productivity, utilities, scrap and rework expense. During 2019, the results for the period were negatively impacted by additional start-up costs on new programs, including lower productivity, higher supply consumption and scrap and rework expense. Additionally, utility costs were higher in 2019 as more production occurred during peak electrical rate periods. Management implemented programs to control variable and fixed spend during 2020 in response to the sharp decline in revenue attributable to the COVID-19 pandemic. In the operations most dramatically impacted by the reduction in demand, these programs included initiatives to retain the workforce necessary to support future demand in anticipation of reduced impacts of COVID-19.

Sypris Electronics’ gross profit increased \$5.3 million to \$5.4 million as compared to \$0.1 million in the prior year. The increase in gross profit was primarily as a result of the growth in revenue during 2020. Certain programs contributing to the improvement in revenue and gross margin for the year reached their expected quarterly run rates during 2020 and allowed management to more efficiently balance production and to improve overhead absorption. The order backlog for Sypris Electronics supported a stable revenue rate during the year ended December 31, 2020 and price increases on certain programs also contributed to margin expansion in comparison with the previous year.

*Selling, General and Administrative.* Selling, general and administrative expense decreased \$2.3 million to \$11.4 million in 2020 as compared to \$13.7 million in 2019 as a result of a reduction in spending across the Company. This included reducing hiring activities, reducing compensation for our Chairman, President and CEO and certain other senior leadership and corporate personnel and our Board of Directors, and limiting discretionary spending. We also had a reduction in consultation costs associated with the Company’s new ERP implementation effective in January 2019.

*Severance, Relocation and Other Costs.* Severance, relocation and other costs were \$0.1 million and \$0.5 million for the years ended December 31, 2020 and 2019, respectively. The charges for 2020 and 2019 were primarily related to mothball costs associated with the closure of the Broadway Plant (see Note 4 to the consolidated financial statements in this Annual Report on Form 10-K).

*Other Expense (Income), Net.* Other expense (income), net, was expense of \$0.5 million in 2020 as compared to income of \$1.3 million for 2019. During the year ended December 31, 2020, the Company completed the sale of the Broadway Plant real estate for \$1.7 million and other idle assets for \$0.3 million and recognized net gains of \$0.8 million (see Note 4 to the consolidated financial statements included in this Annual Report on Form 10-K). The \$0.8 million gain on disposal was offset by a loss on the abandonment of assets of \$0.6 million and pension expense of \$0.7 million. Foreign currency related expenses were not material for the year ended December 31, 2020.

During 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 year (see Note 5 to the consolidated financial statements in this Annual Report on Form 10-K). Additionally, the Company recognized a net gain of \$0.7 million related to the sale of idle assets within Sypris Technologies, offset by pension expense of \$1.0 million.

*Income Taxes.* The 2020 income tax provision consists of current tax expense of \$0.1 million and a deferred tax benefit of \$3.1 million. The current tax expense in 2020 and 2019 includes taxes paid by our Mexican subsidiaries and domestic state income taxes and adjustments. The 2020 deferred tax benefit includes a \$3.7 million benefit from the change in the valuation allowance for our Mexican subsidiaries, partially offset by net changes in the foreign deferred tax assets during the year. The 2019 deferred tax benefit includes a \$0.2 million benefit recorded due to the required intraperiod tax allocation resulting from the loss from continuing operations and other comprehensive income.

Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. 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 believes it will have sufficient future taxable income to realize the deferred tax assets recorded by its Mexican subsidiaries. Therefore, the Company reversed its valuation allowance recorded in prior years against certain Mexican net deferred tax assets and recognized an income tax benefit of \$3.7 million during the year ended December 31, 2020.

Based on its current forecast, the Company has established a valuation allowance against all U.S. deferred tax assets. 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. tax benefits. If we determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to reduce the valuation allowance would increase net income in the period that such determination is made.



## Quarterly Results

The following table presents our unaudited condensed consolidated statements of operations data for each of the eight quarters in the two-year period ended December 31, 2020. The quarterly results are presented on a 13-week period basis. We have prepared this data on the same basis as our audited consolidated financial statements and, in our opinion, have included all normal recurring adjustments necessary for a fair presentation of this information. You should read these unaudited quarterly results in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The consolidated results of operations for any quarter are not necessarily indicative of the results to be expected for any subsequent period. The sum of quarterly earnings per share may differ from the full-year amounts due to rounding.

	2020				2019			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net revenue:	(in thousands, except per share data)							
Sypris Technologies	\$ 13,717	\$ 7,445	\$ 12,072	\$ 12,087	\$ 16,141	\$ 16,878	\$ 15,654	\$ 13,010
Sypris Electronics	8,708	9,708	10,082	8,527	3,423	7,566	6,605	8,614
Total net revenue	22,425	17,153	22,154	20,614	19,564	24,444	22,259	21,624
Cost of sales:								
Sypris Technologies	11,224	7,216	10,165	10,552	13,837	13,915	13,140	11,006
Sypris Electronics	7,610	7,934	8,568	7,512	4,867	6,540	6,793	7,910
Total cost of sales	18,834	15,150	18,733	18,064	18,704	20,455	19,933	18,916
Gross profit (loss):								
Sypris Technologies	2,493	229	1,907	1,535	2,304	2,963	2,514	2,004
Sypris Electronics	1,098	1,774	1,514	1,015	(1,444)	1,026	(188)	704
Total gross profit	3,591	2,003	3,421	2,550	860	3,989	2,326	2,708
Selling, general and administrative	3,223	2,830	2,577	2,721	3,454	3,604	3,148	3,474
Severance, relocation and other costs	91	33	—	—	98	103	190	118
Operating income (loss)	277	(860)	844	(171)	(2,692)	282	(1,012)	(884)
Interest expense, net	227	193	216	202	217	232	227	227
Other expense (income), net	283	(769)	372	658	51	(1,493)	286	(100)
(Loss) income before tax	(233)	(284)	256	(1,031)	(2,960)	1,543	(1,525)	(1,011)
Income tax expense (benefit)	72	64	(3,239)	143	76	40	32	(152)
Net (loss) income	\$ (305)	\$ (348)	\$ 3,495	\$ (1,174)	\$ (3,036)	\$ 1,503	\$ (1,557)	\$ (859)
(Loss) income per common share:								
Basic	\$ (0.01)	\$ (0.02)	\$ 0.17	\$ (0.06)	\$ (0.15)	\$ 0.07	\$ (0.07)	\$ (0.04)
Diluted	\$ (0.01)	\$ (0.02)	\$ 0.17	\$ (0.06)	\$ (0.15)	\$ 0.07	\$ (0.07)	\$ (0.04)

## Liquidity and Capital Resources

**Paycheck Protection Program.** The Company secured the PPP Loan under the CARES Act during the second quarter of 2020. Proceeds from the PPP Loan have been used to retain workers and maintain payroll and make lease and utility payments. The PPP Loan is evidenced by a promissory note in favor of BMO, as lender, with a principal amount of \$3.6 million that bears interest at a fixed annual rate of 1.00%. The term of the PPP Loan is two years, with no payments due under the PPP Loan until July 2021, although interest will accrue during the deferment period. Beginning July 2021, the Company will pay equal monthly installments of principal and interest in the amount necessary to fully amortize the PPP Loan through the Maturity Date, less any amount of potential forgiveness. Recent legislation under the Paycheck Protection Program Flexibility Act of 2020 provides for an extension of the maturity date up to five years, an extension of the principal and interest deferral period to the date of a loan forgiveness determination and modifications to the debt amortization schedule if the Company and BMO reach an agreement on modified terms. The PPP Loan may be accelerated upon the occurrence of an event of default.

Under the terms of the CARES Act, all or a portion of the principal of the PPP Loan may be forgiven. Such forgiveness will be determined, subject to limitations, based on the use of the PPP Loan proceeds for payroll costs, mortgage interest payments, lease payments or utility payments. On November 24, 2020, the Company submitted an application for forgiveness of the entire amount due on the PPP Loan. As of December 31, 2020, the Company has not made any principal or interest payments related to the PPP Loan. The Company cannot provide assurance that the principal and interest amounts under the PPP Loan will be forgiven. See Item 1A. Risk Factors of this Annual Report on Form 10-K.

*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 December 31, 2020 and 2019 (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.

During the fourth quarter of 2020, the Company amended its secured promissory note obligation with GFCM to, among other things: (i) extend the maturity dates by one year for (a) \$2.5 million of the obligation from April 1, 2021 to April 1, 2022, (b) \$2.0 million of the obligation from April 1, 2023 to April 1, 2024 and (c) the balance of the obligation from April 1, 2025 to April 1, 2026; (ii) extend the allowance for up to an 18-month deferral of payment for up to 60% of the interest due on the notes maturing in April of 2022 and 2024; (iii) provide for the reinstatement of a first security interest in the assets of Sypris Electronics, LLC; and (iv) provide for payment on January 4, 2021 of any accrued but unpaid interest for 2020. All other terms of the Note, as amended, remain in place. The Note provides for a first security interest in substantially all of the Company’s assets, including those in Mexico (see Note 13 to the consolidated financial statements in this Annual Report on Form 10-K).

*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 finance lease obligation of \$2.1 million for the building as of December 31, 2020.

In February 2019, the Company entered into a finance 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 December 31, 2020 was \$0.2 million.

*Purchase Commitments.* We also had purchase commitments totaling approximately \$15.4 million at December 31, 2020, primarily for inventory.

*Cash Balance.* At December 31, 2020, we had approximately \$11.6 million of cash and cash equivalents, of which \$3.2 million was held in jurisdictions outside of the U.S. that, if repatriated, could result in withholding taxes. We expect existing cash and cash flows of operations to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as capital expenditures, for at least the next 12 months.

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 our projected revenues, (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 from Operating, Investing and Financing Activities**

*Operating Activities.* Net cash provided by operating activities was \$3.6 million in 2020, as compared to net cash used of \$5.9 million in 2019. The aggregate decrease in accounts receivable in 2020 resulted in a source of cash of \$0.2 million as a result of a \$1.4 million early payment by a customer at the end of 2020 partially offset by an increase in fourth quarter revenue with customers in the commercial vehicle market. The decrease in inventory in 2020 resulted in a source of cash of \$4.2 million. The decrease in inventory primarily relates to inventory within Sypris Electronics, as shipments on programs using inventory procured in prior periods increased in 2020. Additionally, there was a decrease in accounts payable during 2020, which resulted in a usage of cash of \$2.6 million. Prepaid expenses and other assets increased during 2020, resulting in a usage of cash of \$0.2 million, primarily as a result of an increase in contract assets. Accrued and other liabilities increased during 2020, resulting in a source of cash of \$0.4 million, primarily as a result of an increase in pension related liabilities.

*Investing Activities.* Net cash provided by investing activities was \$0.4 million in 2020 as compared to \$1.0 million in 2019. Net cash provided by investing activities for the year ended December, 31, 2020 includes proceeds of \$2.0 million from the sale of idle assets by Sypris Technologies during the period partially offset by capital expenditures of \$1.5 million.

Net cash provided by investing activities for the year ended December, 31, 2019 includes proceeds of \$1.9 million from the sale of idle assets by Sypris Technologies during the period partially offset by capital expenditures of \$0.9 million.

*Financing Activities.* Net cash provided by financing activities was \$2.7 million in 2020 as compared to net cash used of \$0.8 million in 2019. Net cash provided by financing activities in 2020 included proceeds of \$3.6 million under the PPP Loan, as described above, partially offset by finance lease payments of \$0.7 million and payments of \$0.1 million for minimum statutory tax withholdings on stock-based compensation. Net cash used in financing activities in 2019 included finance lease payments of \$0.6 million and payments of \$0.2 million for minimum statutory tax withholdings on stock-based compensation.

#### **Off-Balance Sheet Arrangements**

On December 31, 2020, we had no material off-balance sheet arrangements.

#### **Recent Accounting Pronouncements**

See Note 1 to our consolidated financial statements for a full description of recent accounting pronouncements, including the respective dates of adoption and effects on our results of operations and financial condition.

#### **Item 7A. 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 8. Financial Statements and Supplementary Data**

**SYPRIS SOLUTIONS, INC.**

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Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of Sypris Solutions, Inc.  
Louisville, Kentucky

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Crowe LLP

We have served as the Company’s auditor since 2014.

Louisville, Kentucky  
March 18, 2021

SYPRIS SOLUTIONS, INC.  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except for per share data)

	Year ended December 31,	
	2020	2019
Net revenue	\$ 82,346	\$ 87,891
Cost of sales	70,781	78,008
Gross profit	11,565	9,883
Selling, general and administrative	11,351	13,680
Severance, relocation and other costs	124	509
Operating income (loss)	90	(4,306)
Interest expense, net	838	903
Other expense (income), net	544	(1,256)
Loss before income taxes	(1,292)	(3,953)
Income tax benefit, net	(2,960)	(4)
Net income (loss)	<u>\$ 1,668</u>	<u>\$ (3,949)</u>
Income (loss) per common share:		
Basic	\$ 0.08	\$ (0.19)
Diluted	\$ 0.08	\$ (0.19)
Cash dividends per common share	\$ 0	\$ 0
Weighted average shares outstanding:		
Basic	21,084	20,865
Diluted	21,086	20,865

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

**SYPRIS SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands)

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net income (loss)	\$ 1,668	\$ (3,949)
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of tax expense of \$0 and tax benefit of \$104 in 2020 and 2019, respectively	(224)	344
Employee benefit related, net of tax expense of \$0 and \$136 in 2020 and 2019, respectively	(423)	447
Other comprehensive (loss) income	(647)	791
Comprehensive income (loss)	\$ 1,021	\$ (3,158)

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

**SYPRIS SOLUTIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except for share data)

	December 31,	
	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,606	\$ 5,095
Accounts receivable, net	7,234	7,444
Inventory, net	16,236	20,784
Other current assets	3,948	4,282
Assets held for sale	412	2,233
Total current assets	<u>39,436</u>	<u>39,838</u>
Property, plant and equipment, net	10,161	11,675
Operating lease right-of-use assets	6,103	7,014
Other assets	5,008	1,529
Total assets	<u>\$ 60,708</u>	<u>\$ 60,056</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,734	\$ 9,346
Accrued liabilities	13,409	12,495
Operating lease liabilities, current portion	965	841
Finance lease obligations, current portion	393	684
Note payable – PPP Loan, current portion	1,186	0
Total current liabilities	<u>22,687</u>	<u>23,366</u>
Operating lease obligations, net of current portion	5,941	6,906
Finance lease obligations, net of current portion	1,927	2,351
Note payable – related party	6,477	6,463
Note payable – PPP Loan, net of current portion	2,372	0
Other liabilities	6,529	7,539
Total liabilities	<u>45,933</u>	<u>46,625</u>
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	—	—
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	—	—
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 21,302,194 shares issued and 21,300,958 outstanding in 2020 and 21,324,618 shares issued and 21,298,426 outstanding in 2019	213	213
Additional paid-in capital	155,025	154,702
Accumulated deficit	(115,765)	(117,433)
Accumulated other comprehensive loss	(24,698)	(24,051)
Treasury stock, 1,236 and 26,192 shares in 2020 and 2019, respectively	0	0
Total stockholders' equity	<u>14,775</u>	<u>13,431</u>
Total liabilities and stockholders' equity	<u>\$ 60,708</u>	<u>\$ 60,056</u>

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



**SYPRIS SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 1,668	\$ (3,949)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	2,503	2,671
Deferred income taxes	(3,070)	(260)
Non-cash compensation	426	469
Deferred loan costs amortized	14	11
Net gain on disposal or abandonment of assets	(236)	(654)
Provision for excess and obsolete inventory	222	616
Non-cash lease expense	911	650
Other noncash items	(1)	52
Contributions to pension plans	(862)	(382)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	214	2,425
Inventory	4,230	(2,621)
Prepaid expenses and other assets	(204)	756
Accounts payable	(2,591)	(4,100)
Accrued and other liabilities	424	(1,537)
Net cash provided by (used in) operating activities	<u>3,648</u>	<u>(5,853)</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,542)	(859)
Proceeds from sale of assets	1,969	1,858
Net cash provided by investing activities	<u>427</u>	<u>999</u>
<b>Cash flows from financing activities:</b>		
Principal payments on finance lease obligations	(715)	(632)
Proceeds from Paycheck Protection Program loan	3,558	0
Indirect repurchase of shares for minimum statutory tax withholdings	(103)	(156)
Net cash provided by (used in) financing activities	<u>2,740</u>	<u>(788)</u>
Effect of exchange rate changes on cash balances	(304)	33
Net increase (decrease) in cash and cash equivalents	6,511	(5,609)
Cash and cash equivalents at beginning of year	5,095	10,704
Cash and cash equivalents at end of year	<u>\$ 11,606</u>	<u>\$ 5,095</u>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Non-cash investing and financing activities:</b>		
Right-of-use assets obtained in exchange for finance lease obligations	\$ 0	\$ 269

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

**SYPRIS SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except for share data)

	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	(3,949)	0	0
Adoption of new accounting standard	0	0	0	1,442	0	0
Employee benefit related, net of tax	0	0	0	0	447	0
Foreign currency translation adjustment, net of tax	0	0	0	0	344	0
Noncash compensation	60,000	0	469	0	0	0
Treasury stock	(10,000)	0	0	0	0	0
Retire treasury stock	(149,756)	(1)	(155)	0	0	0
December 31, 2019 balance	21,298,426	\$ 213	\$ 154,702	\$ (117,433)	\$ (24,051)	\$ 0
Net income	0	0	0	1,668	0	0
Employee benefit related, net of tax	0	0	0	0	(423)	0
Foreign currency translation adjustment, net of tax	0	0	0	0	(224)	0
Noncash compensation	70,000	0	426	0	0	0
Exercise of stock options	14,956	0	(4)	0	0	0
Retire treasury stock	(82,424)	0	(99)	0	0	0
December 31, 2020 balance	21,300,958	\$ 213	\$ 155,025	\$ (115,765)	\$ (24,698)	\$ 0

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

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**(1) Organization and Significant Accounting Policies**

*Consolidation Policy*

The accompanying consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, “Sypris” or the “Company”) and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The Company’s operations are domiciled in the United States (U.S.) and Mexico and serve a wide variety of domestic and international customers. All intercompany accounts and transactions have been eliminated.

*Nature of Business*

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 with corporations and government agencies. The Company offers such products through its two business segments, Sypris Technologies, Inc. (“Sypris Technologies”) and Sypris Electronics, LLC (“Sypris Electronics”). Sypris Technologies derives its revenue primarily from the sale of forged, machined, welded and heat-treated steel components primarily for heavy commercial vehicle and high-pressure energy pipeline applications. Sypris Electronics derives its revenue primarily from circuit card and box build manufacturing, high reliability manufacturing and systems assembly and integration. Most products are built to the customer’s design specifications. The Company also provides engineering design services and repair or inspection services. See Note 21 for additional information regarding our segments.

*Use of Estimates*

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and the COVID-19 pandemic has increased the uncertainty with respect to developing these estimates and assumptions. The COVID-19 pandemic continues to rapidly evolve and the ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. Actual results could differ from these estimates.

*Fair Value Estimates*

The Company estimates fair value of its financial instruments utilizing an established three-level hierarchy. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows: Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 – Valuation 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 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

*Cash Equivalents*

Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

*Inventory*

Inventory is stated at the lower of cost or estimated net realizable value. Costs for raw materials, work in process and finished goods is determined under the first-in, first-out method. Indirect inventories, which include perishable tooling, repair parts and other materials consumed in the manufacturing process but not incorporated into finished products are classified as raw materials.

The Company’s reserve for excess and obsolete inventory is primarily based upon forecasted demand for its product sales, and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Property, Plant and Equipment*

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is generally computed using the straight-line method over their estimated economic lives. For land improvements, buildings and building improvements, the estimated economic life is generally 40 years. Estimated economic lives range from three to fifteen years for machinery, equipment, furniture and fixtures. Leasehold improvements are amortized over the shorter of their economic life or the respective lease term using the straight-line method. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major rebuilds and improvements are capitalized. Also included in plant and equipment are assets under finance lease, which are stated at the present value of minimum lease payments.

*Long-lived Assets*

The Company reviews the carrying value of amortizable long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held for sale and held for use is measured by a comparison of the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If facts and circumstances indicate that the carrying value of an asset or groups of assets, as applicable, is impaired, the long-lived asset or groups of long-lived assets are written down to their estimated fair value.

*Held for sale*

The Company classifies long-lived assets or disposal groups as held for sale in the period: management commits to a plan to sell; the long-lived asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such long-lived assets or disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; the sale is probable within one year; the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Long-lived assets and disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. See Note 4 for further discussion of our assets held for sale.

*Leases*

Our lease portfolio represents leases of real estate, including manufacturing, assembly and office facilities, while the remainder represents leases of personal property, including manufacturing and information technology equipment. We have lease agreements with lease and non-lease components, which are accounted for as a single lease component. Leases with an initial term of 12 months or less are not recorded on the balance sheet, and we recognize lease expense for these leases on a straight-line basis over the lease term. Generally, we use our incremental borrowing rate in determining the present value of lease payments, unless the implicit rate is readily available.

*Stock-based Compensation*

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions using the Black-Scholes option-pricing method, which requires the input of several subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term) and the estimated volatility of our common stock price over the expected term. Changes in the subjective assumptions can materially affect the fair value estimate of stock-based compensation and consequently, the related expense is recognized in the consolidated statements of operations.

*Income Taxes*

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

In the ordinary course of business there is inherent uncertainty in quantifying the Company's income tax positions. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized.

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*. The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

*Net Revenue and Cost of Sales*

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 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. 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, *Revenue from Contracts with Customers* ("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 due to the 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.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Allowance for Doubtful Accounts*

An allowance for uncollectible trade receivables is recorded when accounts are deemed uncollectible based on consideration of write-off history, aging analysis, and any specific, known troubled accounts.

*Product Warranty Costs*

The provision for estimated warranty costs is recorded at the time of sale and is periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying balance sheets, as of December 31, 2020 and 2019, was \$638,000 and \$569,000, respectively. The Company's warranty expense for the years ended December 31, 2020 and 2019 was \$294,000 and \$156,000, respectively.

*Concentrations of Credit Risk*

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's customer base consists of a number of customers in diverse industries across geographic areas, primarily in North America and Mexico, and aerospace and defense companies under contract with the U.S. Government. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral on its commercial accounts receivable. Credit losses are provided for in the consolidated financial statements and consistently have been within management's expectations. Approximately 53% of accounts receivable outstanding at December 31, 2020 is due from four customers. More specifically, Sistemas, Detroit Diesel, CECO Peerless and Tremec comprise 17%, 14%, 11% and 11%, respectively, of December 31, 2020 outstanding accounts receivables. Approximately 27% of accounts receivable outstanding at December 31, 2019 is due from two customers. More specifically, SubCom and Detroit Diesel comprise 17% and 10%, respectively, of December 31, 2019 outstanding accounts receivables.

The Company's largest customers for the year ended December 31, 2020 were Northrop Grummon, Sistemas, and Detroit Diesel, which represented approximately 22%, 14% and 12%, respectively, of the Company's total net revenue. Detroit Diesel and Sistemas are both customers within the Sypris Technologies segment and Northrop Grummon is a customer within the Sypris Electronics segment. Sistemas, Detroit Diesel and Northrop Grummon were the Company's largest customers for the year ended December 31, 2019, which represented approximately 22%, 14% and 11%, respectively, of the Company's total net revenue. No other single customer accounted for more than 10% of the Company's total net revenue for the years ended December 31, 2020 or 2019.

*Foreign Currency Translation*

The functional currency for the Company's Mexican subsidiaries is the Mexican peso. Assets and liabilities are translated at the period end exchange rate, and income and expense items are translated at the weighted average exchange rate. The resulting translation adjustments are recorded in comprehensive loss as a separate component of stockholders' equity. Remeasurement gains or losses for U.S. dollar denominated accounts of the Company's Mexican subsidiaries are included in other income, net.

*Collective Bargaining Agreements*

Approximately 386, or 58% of the Company's employees, all within Sypris Technologies, were covered by collective bargaining agreements at December 31, 2020. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements expiring within the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement. These employees represented approximately 53% of the Company's workforce, or 350 employees as of December 31, 2020.

*Recently Issued Accounting Standards*

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The guidance eliminated certain disclosures about defined benefit plans, added new disclosures, and clarified other requirements. This guidance became effective January 1, 2020. As this standard relates only to financial disclosures, its adoption did not have an impact to our operating results, financial position or cash flows.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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. The Company adopted ASU 2018-48 prospectively on January 1, 2020, and the adoption did not have a material impact on the consolidated financial statements or disclosures. All future implementation costs in such arrangements will be capitalized and amortized over the life of the arrangement, which may have a material impact in those future periods if such costs are material.

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, 2023, is not expected to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes – Simplifying the Accounting for Income Taxes*. This guidance is intended to simplify various aspects of income tax accounting including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. This guidance becomes effective January 1, 2021 and early adoption is permitted. Adoption of this guidance requires certain changes to primarily be made prospectively, with some changes to be made retrospectively. The Company did not early adopt this standard. The adoption is not expected to have a material impact on the Company’s consolidated financial statements.

*Reclassifications*

Certain amounts in the Company’s 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation, which had no impact to the previously reported net loss and stockholder’s equity.

**(2) 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 years 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 right-of-use 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 December 31, 2020 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 consolidated balance sheets. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As of December 31, 2020, total right-of-use assets and operating lease liabilities were approximately \$6,103,000 and \$6,906,000, respectively. As of December 31, 2019, total right-of-use assets and operating lease liabilities were approximately \$7,014,000 and \$7,747,000, respectively.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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 year ended December 31, 2020 and 2019.

The following table presents information related to lease expense for the year ended December 31, 2020 and 2019 (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Finance lease expense:</b>		
Amortization expense	\$ 425	\$ 481
Interest expense	261	348
Operating lease expense	1,406	1,406
Variable lease expense	317	272
Total lease expense	<u>\$ 2,409</u>	<u>\$ 2,507</u>

The following table presents supplemental cash flow information related to leases for the year ended December 31, 2020 (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 1,363	\$ 1,436
Operating cash flows from finance leases	261	348
Financing cash flows from finance leases	715	632

The annual future minimum lease payments as of December 31, 2020 are as follows (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>
Next 12 months	\$ 1,476	\$ 612
12 to 24 months	1,492	612
24 to 36 months	1,509	612
36 to 48 months	1,318	559
48 to 60 months	1,231	550
Thereafter	1,700	46
Total lease payments	<u>8,726</u>	<u>2,991</u>
Less imputed interest	(1,820)	(671)
Total	<u>\$ 6,906</u>	<u>\$ 2,320</u>



**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

The following table presents certain information related to lease terms and discount rates for leases as of December 31, 2020 and 2019:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Weighted-average remaining lease term (years):</b>		
Operating leases	6.2	7.1
Finance leases	4.9	5.3
<b>Weighted-average discount rate (percentage):</b>		
Operating leases	8.0	8.0
Finance leases	10.2	10.3

**(3) 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 1). 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.

Many of Sypris Electronics’ contractual arrangements with customers are for one year or less. For the remaining population of non-cancellable contracts greater than one year we had \$30,324,000 of remaining performance obligations as of December 31, 2020, all of which were long-term Sypris Electronics’ contracts. We expect to recognize approximately 61% of our remaining performance obligations as revenue in 2021 and the balance in 2022.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Disaggregation of Revenue*

The following table summarizes revenue from contracts with customers for the years ended December 31, 2020 and 2019:

	December 31,	
	2020	2019
Sypris Technologies – transferred point in time	\$ 45,321	\$ 61,683
Sypris Electronics – transferred point in time	6,550	6,201
Sypris Electronics – transferred over time	30,475	20,007
Net revenue	<u>\$ 82,346</u>	<u>\$ 87,891</u>

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 December 31, 2020 and 2019 were \$1,240,000 and \$906,000, 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 December 31, 2020, the contract liabilities balance was \$7,339,000, of which \$6,816,000 was included within accrued liabilities and \$523,000 was included within other liabilities in the accompanying consolidated balance sheets. As of December 31, 2019, the contract liabilities balance was \$7,504,000, of which \$5,769,000 was included within accrued liabilities and \$1,735,000 was included within other 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 \$7,619,000 and \$5,109,000 during the years ended December 31, 2020 and 2019, 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.

**(4) Assets Held for Sale**

On February 21, 2017, the Board of Directors approved a modified exit or disposal plan with respect to the Company’s Louisville, Kentucky automotive and commercial vehicle manufacturing plant (the “Broadway Plant”), which included the relocation of production to other Company facilities and the closure of the plant. The Company has relocated certain assets from the Broadway Plant to other manufacturing facilities to serve its existing and target customer base within the Sypris Technologies segment. Additionally, the Company identified underutilized or non-core assets for disposal. The assets identified for disposal, including the Broadway real estate, were included in assets held for sale in the consolidated balance sheet as of December 31, 2019.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

On April 13, 2020, the Company completed the sale of the Broadway Plant real estate for \$1,700,000. The Company also sold other equipment during 2020 for \$268,000 while certain equipment at the Broadway Plant was abandoned as of December 31, 2020. Management continues to market certain other equipment located at its facility in Toluca, Mexico, which has been included in assets held for sale as of December 31, 2020.

All assets held for sale are within the Sypris Technologies segment. The following assets have been segregated and included in assets held for sale in the consolidated balance sheets (in thousands):

	December 31,	
	2020	2019
Property, plant and equipment	\$ 1,387	\$ 13,346
Accumulated depreciation	(975)	(11,113)
Property, plant and equipment, net	<u>\$ 412</u>	<u>\$ 2,233</u>

**(5) Other Expense (Income), Net**

The Company recognized other expense of \$544,000 during the year ended December 31, 2020. During the year ended, December 31, 2020, the Company completed the sale of the Broadway Plant real estate for \$1,700,000 and other idle assets for \$268,000 and recognized net gains of \$813,000 (see Note 4). The \$813,000 gain on disposal was offset by a loss on the abandonment of assets of \$577,000 and pension expense of \$728,000. Foreign currency related expenses were not material for the year ended December 31, 2020.

The Company recognized other income of \$1,256,000 during the year ended December 31, 2019. During 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 paid the Company \$1,500,000 in compensation during 2019. Additionally, the Company recognized a net gain of \$654,000 in the year ended December 31, 2019 related to the sale of idle assets and foreign currency related gains of \$152,000 related to the net U.S. dollar denominated monetary asset position of our Mexican subsidiaries for which the Mexican peso is the functional currency. This was offset by pension expense of \$970,000.

**(6) Accounts Receivable**

Accounts receivable consists of the following (in thousands):

	December 31,	
	2020	2019
Commercial	\$ 7,264	\$ 7,494
Allowance for doubtful accounts	(30)	(50)
Net	<u>\$ 7,234</u>	<u>\$ 7,444</u>

**(7) Inventory**

Inventory consists of the following (in thousands):

	December 31,	
	2020	2019
Raw materials	\$ 11,118	\$ 15,139
Work in process	6,210	5,889
Finished goods	762	1,675
Reserve for excess and obsolete inventory	(1,854)	(1,919)
Total	<u>\$ 16,236</u>	<u>\$ 20,784</u>

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**(8) Other Current Assets**

Other current assets consist of the following (in thousands):

	December 31,	
	2020	2019
Prepaid expenses	\$ 911	\$ 835
Contract assets	1,240	906
Other	1,797	2,541
Total	<u>\$ 3,948</u>	<u>\$ 4,282</u>

Included in other current assets are income and VAT taxes refundable, tools, spare parts and other items, none of which exceed 5% of total current assets.

**(9) Property, Plant and Equipment**

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

	December 31,	
	2020	2019
Land and land improvements	\$ 43	\$ 50
Buildings and building improvements	7,747	8,108
Machinery, equipment, furniture and fixtures	55,620	55,520
Construction in progress	609	371
	<u>64,019</u>	<u>64,049</u>
Accumulated depreciation	(53,858)	(52,374)
	<u>\$ 10,161</u>	<u>\$ 11,675</u>

Depreciation expense, including amortization of assets recorded under finance leases, totaled approximately \$2,503,000 and \$2,671,000 for the years ended December 31, 2020 and 2019, respectively. Capital expenditures included in accounts payable or accrued liabilities were not material at December 31, 2020 and 2019, respectively.

Included within property, plant and equipment were assets under finance leases as follows (in thousands):

	December 31,	
	2020	2019
Buildings and building improvements	\$ 2,955	\$ 3,128
Machinery, equipment, furniture and fixtures	269	1,546
	<u>3,224</u>	<u>4,674</u>
Accumulated depreciation	(1,522)	(1,495)
	<u>\$ 1,702</u>	<u>\$ 3,179</u>

**(10) Other Assets**

Other assets consist of the following (in thousands):

	December 31,	
	2020	2019
Long term spare parts	\$ 494	\$ 183
Long term deposits	286	396
Pension asset	380	607
Deferred tax asset, net	3,604	172
Other	244	171
Total	<u>\$ 5,008</u>	<u>\$ 1,529</u>

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**(11) Accrued Liabilities**

Accrued liabilities consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Salaries, wages, employment taxes and withholdings	\$ 2,793	\$ 2,416
Employee benefit plans	1,216	1,517
Accrued professional fees	695	966
Income, property and other taxes	253	355
Contract liabilities	6,816	5,769
Deferred gain from sale-leaseback	296	313
Other	1,340	1,159
Total	<u>\$ 13,409</u>	<u>\$ 12,495</u>

Included in other accrued liabilities are accrued operating expenses, accrued warranty expenses, accrued interest, and other items, none of which exceed 5% of total current liabilities.

**(12) Other Liabilities**

Other liabilities consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Noncurrent pension liability	\$ 4,290	\$ 4,026
Deferred gain from sale leaseback	1,231	1,616
Other	1,008	1,897
Total	<u>\$ 6,529</u>	<u>\$ 7,539</u>

Included in other liabilities are long-term contract liabilities and other items, none of which exceed 5% of total liabilities.

**(13) Debt**

Long-term obligations consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Current:</b>		
Finance lease obligation, current portion	\$ 393	\$ 684
PPP Loan, current portion	1,186	0
Current portion of long term debt and finance lease obligations	<u>\$ 1,579</u>	<u>\$ 684</u>
<b>Long Term:</b>		
Finance lease obligations	\$ 1,927	\$ 2,351
PPP Loan	2,372	0
Note payable – related party	6,500	6,500
Less unamortized debt issuance and modification costs	(23)	(37)
Long term debt and finance lease obligations, net of unamortized debt costs	<u>\$ 10,776</u>	<u>\$ 8,814</u>

The weighted average interest rate for outstanding borrowings at December 31, 2020 and 2019 was 5.5% and 8.0%, respectively. The Company had no capitalized interest in 2020 or 2019. Interest paid during the years ended December 31, 2020 and 2019 totaled approximately \$369,000 and \$526,000, respectively.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Paycheck Protection Program*

During the second quarter of 2020, the Company secured a \$3,558,000 term loan (the “PPP Loan”) with BMO Harris Bank National Association (“BMO”). Proceeds from the PPP Loan have been used to retain workers and maintain payroll and make lease and utility payments. The PPP Loan is evidenced by a promissory note in favor of BMO, as lender, with a principal amount of \$3,558,000 that bears interest at a fixed annual rate of 1.00%. The term of the PPP Loan is two years, with no payments due under the PPP Loan until July 2021, although interest will accrue during the deferment period. Beginning July 2021, the Company will pay equal monthly installments of principal and interest in the amount necessary to fully amortize the PPP Loan through the Maturity Date, less any amount of potential forgiveness. Recent legislation under the Paycheck Protection Program Flexibility Act of 2020 provides for an extension of the maturity date up to five years, an extension of the principal and interest deferral period to the date of a loan forgiveness determination and modifications to the debt amortization schedule if the Company and BMO reach an agreement on modified terms. The PPP Loan may be accelerated upon the occurrence of an event of default.

The PPP Loan is unsecured and guaranteed by the U.S. Small Business Administration (the “SBA”). The Company may apply for forgiveness of the PPP Loan, with the amount which may be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Company during the 24-week period beginning upon receipt of funds from the PPP Loan, subject to limitations and calculated in accordance with the terms of the CARES Act. Any forgiveness of the PPP Loan shall be subject to approval of the SBA and will require the Company and BMO to apply to the SBA for such treatment in the future. During the fourth quarter of 2020, the Company applied for forgiveness for the total amount due on the PPP Loan, but no assurance can be provided that we will obtain forgiveness of the PPP Loan in whole or in part. As a result, the Company is taking the approach that a portion of the PPP Loan is short-term and a portion is long-term, and has reflected such borrowing on the Company’s consolidated balance sheet, as appropriate. The Company will record any amounts of the loan that are forgiven as a gain on extinguishment in the period in which legal release is received.

*Note Payable – Related Party*

The Company has received the benefit of cash infusions from Gill Family Capital Management, Inc. (“GFCM”) in the form of secured promissory note obligations totaling \$6,500,000 in principal as of December 31, 2020 and 2019. 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. The promissory note bears interest at a rate of 8.0% per year through March 31, 2019 and, thereafter is reset on April 1<sup>st</sup> of each year, at the greater of 8.0% or 500 basis points above the five-year Treasury note average during the preceding 90-day period, in each case, payable quarterly. The note allows for up to an 18-month deferral of payment for up to 60% of the interest due on the portion of the notes maturing in April of 2021 and 2023. During the first quarter of 2020, the Company provided notice to GFCM of its intention to elect to defer the specified portion of the interest payments due beginning on April 6, 2020.

During the fourth quarter of 2020, the Company amended its secured promissory note obligation with GFCM to, among other things: (i) extend the maturity dates by one year for (a) \$2,500,000 of the obligation from April 1, 2021 to April 1, 2022, (b) \$2,000,000 of the obligation from April 1, 2023 to April 1, 2024 and (c) the balance of the obligation from April 1, 2025 to April 1, 2026; (ii) extend the allowance for up to an 18-month deferral of payment for up to 60% of the interest due on the notes maturing in April of 2022 and 2024; (iii) provide for the reinstatement of a first security interest in the assets of Sypris Electronics, LLC; and (iv) provide for payment on January 4, 2021 of any accrued but unpaid interest for 2020. All other terms of the promissory note, as amended, remain in place.

Obligations under the promissory note are guaranteed by all of the subsidiaries and are secured by a first priority lien on substantially all assets of the Company, including those in Mexico.

*Finance Lease Obligations*

On March 9, 2016, the Company completed the sale of its 24-acre Toluca property for 215,000,000 Mexican Pesos, or approximately \$12,182,000 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 finance lease obligation of \$2,139,000 for the building as of December 31, 2020.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

In February 2019, the Company entered into a 60-month capital lease for \$269,000 for new machinery at its Sypris Technologies facility in the U.S. The balance of the finance lease obligation as of December 31, 2020 was \$181,000.

**(14) 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 December 31, 2020 approximates fair value, and is based upon a market approach (Level 2).

**(15) Employee Benefit Plans**

Sypris Technologies sponsors noncontributory defined benefit pension plans (the “Pension Plans”) covering certain of its employees. The Pension Plans covering salaried and management employees provide pension benefits that are based on the employees’ highest five-year average compensation within ten years before retirement. The Pension Plans covering hourly employees and union members generally provide benefits at stated amounts for each year of service. All of the Company’s pension plans are frozen to new participants and certain plans are frozen to additional benefit accruals. The Company’s funding policy is to make the minimum annual contributions required by the applicable regulations. The Pension Plans’ assets are primarily invested in equity securities and fixed income securities.

The following table details the components of pension (income) expense (in thousands):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Service cost	\$ 5	\$ 4
Interest cost on projected benefit obligation	1,084	1,407
Net amortization of actuarial loss	631	666
Expected return on plan assets	(987)	(1,103)
Net periodic benefit cost	<u>\$ 733</u>	<u>\$ 974</u>

The net periodic cost of the defined benefit pension plans incurred during the years ended December 31, 2020 and 2019 are reflected in the following captions in the accompanying consolidated statements of operations (in thousands):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Service cost:		
Selling, general and administrative expenses	\$ 5	4
Other net periodic benefit costs:		
Other expense (income), net	728	970
Total	<u>\$ 733</u>	<u>\$ 974</u>

The following are summaries of the changes in the benefit obligations and plan assets and of the funded status of the Pension Plans (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 36,050	\$ 34,690
Service cost	5	4
Interest cost	1,084	1,407
Actuarial loss	2,516	2,835
Benefits paid	(2,796)	(2,886)
Benefit obligation at end of year	<u>\$ 36,859</u>	<u>\$ 36,050</u>

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

	December 31,	
	2020	2019
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 31,738	\$ 30,199
Actual return on plan assets	2,549	4,043
Company contributions	862	382
Benefits paid	(2,796)	(2,886)
Fair value of plan assets at end of year	<u>\$ 32,353</u>	<u>\$ 31,738</u>
Underfunded status of the plans	<u>\$ (4,506)</u>	<u>\$ (4,312)</u>
<b>Balance sheet assets (liabilities):</b>		
Other assets	\$ 380	\$ 607
Accrued liabilities	(596)	(893)
Other liabilities	(4,290)	(4,026)
Net amount recognized	<u>\$ (4,506)</u>	<u>\$ (4,312)</u>
<b>Pension plans with accumulated benefit obligation in excess of plan assets:</b>		
Projected benefit obligation	\$ 25,566	\$ 24,843
Accumulated benefit obligation	25,566	24,843
Fair value of plan assets	20,680	19,924

	December 31,	
	2020	2019
<b>Projected benefit obligation and net periodic pension cost assumptions:</b>		
Discount rate – projected benefit obligation	2.25%	3.15%
Discount rate – net periodic pension cost	3.15	4.25
Rate of compensation increase	N/A	4.00
Expected long-term rate of return on plan assets	3.05 – 3.40	3.65 – 3.90
<b>Weighted average asset allocation:</b>		
Equity securities	17%	18%
Debt securities	80	78
Other	3	4
Total	<u>100%</u>	<u>100%</u>

The fair values of our pension plan assets as of December 31, 2020 are as follows (in thousands):

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
<b>Asset categories:</b>		
Cash and cash equivalents	\$ 2,744	\$ 0
<b>Equity securities:</b>		
U.S. Large Cap	2,272	0
U.S. Mid Cap	867	0
U.S. Small Cap	224	0
World Equity	2,256	0
Real Estate	391	0
Other	600	0
Fixed income securities	6,304	16,695
Total Plan Assets	<u>\$ 15,658</u>	<u>\$ 16,695</u>



**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

The fair values of our pension plan assets as of December 31, 2019 are as follows (in thousands):

	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>Asset categories:</b>		
Cash and cash equivalents	\$ 2,228	\$ 0
<b>Equity securities:</b>		
U.S. Large Cap	1,935	0
U.S. Mid Cap	1,067	0
U.S. Small Cap	609	0
World Equity	2,214	0
Real Estate	546	0
Other	757	0
Fixed income securities	3,394	18,988
<b>Total Plan Assets</b>	<b>\$ 12,750</b>	<b>\$ 18,988</b>

Investments in our defined benefit plans are stated at fair value. The following valuation methods were used to value our pension assets:

Equity securities	The fair value of equity securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.
Fixed income securities	The fair value of fixed income securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.
Cash and cash equivalents	The fair value of cash and cash equivalents is set equal to its cost.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company uses December 31 as the measurement date for the Pension Plans. Total estimated contributions expected to be paid to the plans during 2021 is \$574,000, which represents the minimum funding amounts required by federal law. The expected long-term rates of return on plan assets for determining net periodic pension cost for 2020 and 2019 were chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various assets categories to the target asset allocation of the plan. The target asset allocation of plan assets is equity securities ranging 0-55%, fixed income securities ranging 35-100% and non-traditional/other of 0-10% of total investments.

When establishing the expected long-term rate of return on our U.S. pension plan assets, the Company considered historical performance and forward looking return estimates reflective of our portfolio mix and investment strategy. Based on the most recent analysis of projected portfolio returns, the Company concluded that the use of 3.15% for the Louisville Hourly Plan, 3.40% for the Marion Plan and 3.05% for the Louisville Salaried Plan as the expected return on our U.S. pension plan assets for 2020 was appropriate.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Actuarial gains and losses, which are primarily the result of changes in the discount rate and other assumptions and differences between actual and expected asset returns, are deferred in Accumulated other comprehensive loss and amortized to expense following the corridor approach. We use the average remaining service period of active participants unless almost all of the plan's participants are inactive, in which case we use the average remaining life expectancy for all active and inactive participants. Accumulated other comprehensive loss at December 31, 2020 includes \$13,329,000 of unrecognized actuarial losses that have not yet been recognized in net periodic pension cost. The actual loss reclassified from accumulated other comprehensive loss for 2020 and 2019 was \$631,000 and \$666,000, respectively.

At December 31, 2020, the benefits expected to be paid in each of the next five fiscal years, and in aggregate for the five fiscal years thereafter are as follows (in thousands):

2021	\$	2,772
2022		2,707
2023		2,631
2024		2,565
2025		2,490
2026-2030		11,118
Total	\$	<u>24,283</u>

The Company sponsors a defined contribution plan (the "Defined Contribution Plan") for substantially all domestic employees of the Company. The Defined Contribution Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Defined Contribution Plan allows the Company to match participant contributions up to 3% and provide discretionary contributions. In connection with the matching contributions, the Company recognized compensation expense of approximately \$350,000 and \$392,000 in 2020 and 2019, respectively.

In addition, certain of the Company's non-U.S. employees are covered by various defined benefit and defined contribution plans. The Company's expenses for these plans totaled approximately \$199,000 and \$185,000 in 2020 and 2019, respectively. The aggregate benefit plan assets and accumulated benefit obligation of these plans are not significant.

**(16) Commitments and Contingencies**

As of December 31, 2020, the Company had outstanding purchase commitments of approximately \$15,365,000 primarily for the acquisition of inventory. These commitments are for goods and services to be acquired in the ordinary course of business and are fulfilled by our vendors within a short period of time.

The Company bears insurance risk as a member of a group captive insurance entity for certain general liability, automobile and workers' compensation insurance programs 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. Additionally, the Company believes its product liability insurance is adequate to cover all potential product liability claims.

The Company accounts for loss contingencies in accordance with U.S. generally accepted accounting principles (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.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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. Additionally, certain property previously sold by the Company has been designated as a Brownfield Site and has been approved for development by the purchaser. As of December 31, 2020 and 2019, no amounts were accrued for any environmental matters. See “Legal Proceedings” in Part I, Item 3 of this Annual Report on Form 10-K.

On December 27, 2017, the U.S. Department of Labor (the “DOL”) filed a lawsuit alleging that the Company had misinterpreted the language of its Company’s 401(k) Plans (collectively, the “Plan”). The DOL does not appear to dispute that the Company reached such interpretation in good faith and 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.

On February 17, 2017, several employees (“Lucas Plaintiffs”) of KapStone Charleston Kraft, LLC filed a lawsuit in South Carolina alleging that they had been seriously burned when they opened a hinged closure and a hot tar-like material spilled out. Among other claims, the Lucas Plaintiffs allege that Sypris Technologies designed and manufactured the closure, that the closure was defective and that those defects had caused or contributed to their injuries. Sypris Technologies’ motion to dismiss for lack of jurisdiction was denied on February 28, 2020. The Company regards these allegations to be without merit and any potential damages to be undeterminable at this time. The Company’s general liability insurer has accepted the defense costs. The Company is continuing to vigorously defend the matter.

**(17) Stock Option and Purchase Plans**

The Company’s stock compensation program provides for the grant of restricted stock (including performance-based restricted stock), unrestricted stock, stock options and stock appreciation rights. A total of 3,476,021 shares were registered for issuance under the 2015 Omnibus Plan. On May 12, 2020, the 2015 Omnibus Plan was replaced with the 2020 Omnibus Plan. A total of 4,596,271 shares were registered for issuance under the 2020 Omnibus Plan. Additionally, awards under the 2010 and 2015 Omnibus Plans that are cancelled without having been fully exercised or vested are available again for new awards under the 2020 Omnibus Plan. The aggregate number of shares available for future grant as of December 31, 2020 and 2019 was 3,598,271 and 1,153,271, respectively.

The 2015 and 2020 Omnibus Plans provide for restrictions which lapse after three years. During the restricted period, which is commensurate with each vesting period, the recipient has the right to receive dividends and voting rights for the shares. Generally, if a recipient leaves the Company before the end of the restricted period or if performance requirements, if any, are not met, the shares will be forfeited.

Under the plans, the Company may grant options to purchase common stock to officers, key employees and non-employee directors. Options may be granted at not less than the market price on the date of grant. Stock option grants under the 2015 and 2020 Omnibus Plans include a five year life along with vesting after three years of service.

Compensation expense is measured based on the fair value at the date of grant and is recognized on a straight-line basis over the vesting period. Fair value for restricted shares is equal to the stock price on the date of grant, while the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing method. The Company uses historical Company and industry data to estimate the expected price volatility, the expected option life and the expected dividend yield. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. Forfeitures are recorded as they occur. Stock based compensation expense of \$426,000 and \$469,000 has been recorded in selling, general and administrative expense in the consolidated statements of operations for the years ended December 31, 2020 and 2019, respectively.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

The following weighted average assumptions were used to estimate the fair value of options granted using the Black-Scholes option-pricing model:

	Year ended December 31,	
	2020	2019
Expected life (years)	4	4.0
Expected volatility	52.6%	53.9%
Risk-free interest rates	0.34%	2.30%
Expected dividend yield	0.0%	0.0%

A summary of the restricted stock activity is as follows:

	Number of Shares	Weighted- average Grant Date Fair Value	Weighted- average Remaining Term	Aggregate Intrinsic Value
Nonvested shares at January 1, 2020	324,500	\$ 1.03		
Granted	0	0		
Vested	(324,500)	1.03		
Forfeited	0	0		
Nonvested shares at December 31, 2020	<u>0</u>	<u>\$ 0</u>	0	<u>\$ 0</u>

The total fair value of shares vested during 2020 and 2019 was \$392,000 and \$533,000, respectively.

The following table summarizes option activity for the year ended December 31, 2020:

	Number of Shares	Weighted- average Exercise Price Per Share	Weighted- average Remaining Term	Aggregate Intrinsic Value
Outstanding at January 1, 2020	2,567,750	\$ 1.26		
Granted	930,000	0.82		
Exercised	(306,500)	0.96		
Forfeited	0	0		
Expired	(445,000)	1.5		
Outstanding at December 31, 2020	<u>2,746,250</u>	<u>\$ 1.10</u>	2.97	<u>1,211,995</u>
Exercisable at December 31, 2020	<u>517,000</u>	<u>\$ 1.04</u>	0.74	<u>250,500</u>

The weighted average grant date fair value based on the Black-Scholes option pricing model for options granted in the years ended December 31, 2020 and 2019 was \$0.33 and \$0.46 per share, respectively. There were 306,500 options exercised in 2020 with an intrinsic value of \$392,000. There were no options exercised in 2019.

As of December 31, 2020, there was \$423,000 of total unrecognized compensation cost related to unvested share-based compensation granted under the plans. That cost is expected to be recognized over a weighted-average period of 1.1 years. The total fair value of option shares vested during the years ended December 31, 2020 and 2019 was \$113,000 and \$318,000, respectively.

**(18) Stockholders' Equity**

As of December 31, 2020 and 2019, 24,850 shares of the Company's preferred stock were designated as Series A Preferred Stock in accordance with the terms of our stockholder rights plan, which expired in October 2011. There are no shares of Series A Preferred Stock currently outstanding, and there are no current plans to issue any such shares.

The holders of our common stock were not entitled to any payment as a result of the expiration of the rights plan and the rights issued thereunder.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Foreign currency translation adjustments, net of tax	\$ (10,847)	\$ (10,623)
Employee benefit related adjustments – U.S., net of tax.	(13,867)	(13,544)
Employee benefit related adjustments – Mexico, net of tax	16	116
Accumulated other comprehensive loss	<u>\$ (24,698)</u>	<u>\$ (24,051)</u>

Changes in each component of accumulated other comprehensive loss consisted of the following:

	<b>Foreign Currency Translation</b>	<b>Defined Benefit Plans</b>	<b>Accumulated Other Comprehensive Loss</b>
Balance at January 1, 2019	\$ (10,967)	\$ (13,875)	\$ (24,842)
Currency translation adjustments, net of tax	344	0	344
Net actuarial loss for the year, net of tax	0	(64)	(64)
Amortization for the year, net of tax	0	511	511
Balance at December 31, 2019	<u>\$ (10,623)</u>	<u>\$ (13,428)</u>	<u>\$ (24,051)</u>
Currency translation adjustments, net of tax	(224)	0	(224)
Net actuarial loss for the year, net of tax	0	(1,054)	(1,054)
Amortization for the year, net of tax	0	631	631
Balance at December 31, 2020	<u>\$ (10,847)</u>	<u>\$ (13,851)</u>	<u>\$ (24,698)</u>

**(19) Income Taxes**

The Company accounts for income taxes under the liability method. Accordingly, deferred income taxes have been provided for temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

The components of income (loss) before taxes are as follows (in thousands):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Domestic	\$ (3,115)	\$ (5,337)
Foreign	1,823	1,384
Total	<u>\$ (1,292)</u>	<u>\$ (3,953)</u>

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

The components of income tax (benefit) expense are as follows (in thousands):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Current:</b>		
Federal	\$ 0	\$ 0
State	(125)	(14)
Foreign	235	270
Total current income tax expense	110	256
<b>Deferred:</b>		
Federal	0	(217)
State	0	(23)
Foreign	(3,070)	(20)
Total deferred income tax (benefit) expense	(3,070)	(260)
Income tax (benefit) expense, net	\$ (2,960)	\$ (4)

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 Income Taxes, Topic 740 (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 believes it will have sufficient future taxable income to realize the deferred tax assets recorded by its Mexican subsidiaries. Therefore, the Company reversed its valuation allowance recorded in prior years against certain Mexican net deferred tax assets and recognized an income tax benefit of \$3,717,000 during the year ended December 31, 2020.

Based on the Company's consideration of all positive and negative evidence, including the future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations, the Company has established a valuation allowance against all U.S. deferred tax assets. 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. tax benefits.

Income tax (benefit) expense for each year is allocated to continuing operations, discontinued operations, extraordinary items, other comprehensive income, the cumulative effects of accounting changes, and other charges or credits recorded directly to shareholders' equity. ASC 740-20-45 *Income Taxes, Intraproduct Tax Allocation, Other Presentation Matters* includes an exception to the general principle of intraperiod tax allocations. The codification source states that the tax effect of pretax income or loss from continuing operations generally should be determined by a computation that considers only the tax effects of items that are included in continuing operations. The exception to that incremental approach is that all items (i.e. other comprehensive income, discontinued operations, etc.) be considered in determining the amount of tax benefit that results from a loss from continuing operations and that benefit should be allocated to continuing operations. That is, when a company has a current period loss from continuing operations, management must consider income recorded in other categories in determining the tax benefit that is allocated to continuing operations. This includes situations in which a company has recorded a full valuation allowance at the beginning and end of the period, and the overall tax provision for the year is zero. The intraperiod tax allocation is performed once the overall tax provision has been computed and allocates that provision to various income statement (continuing operations, discontinued operations), other comprehensive income and balance sheet captions. While the intraperiod tax allocation does not change the overall tax provision, it results in a gross-up of the individual components. Additionally, tax jurisdictions must be considered separately; therefore the allocation to the U.S. and Mexico must be looked at separately.

As the Company experienced a net loss from operations in the U.S. for the year ended December 31, 2019 and other comprehensive income from employee benefit adjustments, the Company has allocated income tax expense against the components of other comprehensive income in 2019 using a 23.3% effective tax rate. Income tax benefit for the year ended December 31, 2019 includes a benefit of \$240,000 due to the required intraperiod tax allocation. Conversely, other comprehensive income for the year ended December 31, 2019 includes income tax expense of \$240,000. There was no intraperiod tax allocation required for the year ended December 31, 2020.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform Act”) was enacted, which significantly changed U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act reduced the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. The Tax Reform Act also provided for a one-time deemed repatriation of post-1986 undistributed foreign subsidiary earnings and profits (“E&P”) through the year ended December 31, 2017. The Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Reform Act require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. The Company is subject to incremental U.S. tax on GILTI income due to expense allocations required by the U.S. foreign tax credit rules. The Company has elected to account for the GILTI tax in the period in which it is incurred, and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements.

The Company files a consolidated federal income tax return which includes all domestic subsidiaries. State income taxes paid in the U.S. during 2020 and 2019 totaled \$13,000 and \$37,000, respectively. State income tax refunds received in the U.S. during 2020 and 2019 totaled \$5,000 and \$51,000, respectively. Foreign income taxes paid during 2020 and 2019 totaled \$206,000 and \$293,000, respectively. There were no foreign refunds received in 2020 and 2019. There were no federal taxes paid in 2020 and 2019. The Company received federal refunds of \$92,000 in 2020 and 2019. At December 31, 2020, the Company had \$140,310,000 of federal net operating loss carryforwards available to offset future federal taxable income. The pre-2018 federal net operating loss carryforwards of \$134,501,000 expire in various amounts from 2026 to 2037. Federal net operating loss carryforwards generated in 2018 and forward will have an unlimited carryforward period as part of the Tax Act. The indefinite lived net operating loss carryforwards as of December 31, 2020 are approximately \$5,809,000.

At December 31, 2020, the Company had \$105,284,000 of state net operating loss carryforwards available to offset future state taxable income, the majority of which relates to Florida (\$57,524,000) and Kentucky (\$47,760,000). The pre-2018 state net operating loss carryforwards totaling approximately \$102,085,000 expire in various amounts from 2026 to 2037. State net operating loss carryforwards generated in 2018 and forward will have an unlimited carryforward. The indefinite lived state net operating loss carryforwards as of December 31, 2020 are approximately \$3,199,000.

The following is a reconciliation of income tax (benefit) expense to that computed by applying the federal statutory rate to income (loss) before income taxes (in thousands):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Federal tax expense at the statutory rate	\$ (271)	\$ (830)
Current year permanent differences	273	257
State income taxes, net of federal tax impact	(166)	(131)
Effect of tax rates of foreign subsidiaries	151	125
Currency translation effect on temporary differences	223	312
Change in valuation allowance	(2,994)	(497)
Intraperiod tax allocation	0	(240)
State NOL carryforwards	(471)	1,446
Other items	295	(446)
Income tax (benefit) expense, net	<u>\$ (2,960)</u>	<u>\$ (4)</u>

The gross deferred tax asset for the Company’s Mexican subsidiaries was \$3,604,000 and \$4,054,000 as of December 31, 2020 and 2019, respectively.

**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Deferred income tax assets and liabilities are as follows (in thousands):

	December 31,	
	2020	2019
<b>Deferred tax assets:</b>		
Compensation and benefit accruals	\$ 386	\$ 359
Inventory valuation	877	866
Federal and state net operating loss carryforwards	33,851	32,470
Deferred revenue	391	975
Accounts receivable allowance	7	8
Depreciation	0	85
Defined benefit pension plan	708	591
Lease liabilities	1,193	1,334
Foreign deferred revenue and other provisions	3,604	4,054
Other	718	661
Total	41,735	41,403
Domestic valuation allowance	(37,015)	(36,217)
Foreign valuation allowance	0	(3,717)
Total deferred tax assets	4,720	1,469
<b>Deferred tax liabilities:</b>		
Depreciation	(114)	0
Right-of-use assets, net	(1,002)	(1,132)
Total deferred tax liabilities	(1,116)	(1,132)
Net deferred tax asset	\$ 3,604	\$ 337

The ASC Income Tax Topic 740 includes guidance for the accounting for uncertainty in income taxes recognized in an enterprise's financials. Specifically, the guidance prescribes a two-step process, which is the recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The total amount of gross unrecognized tax benefits as of December 31, 2020 and 2019 was \$200,000. There were no changes to the unrecognized tax benefit balance during the years ended December 31, 2020 and 2019.

If the Company's positions are sustained by the taxing authority, the entire balance at December 31, 2020 would reduce the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2020 and 2019, the Company does not have an accrual for the payment of tax-related interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (IRS) is not currently examining the Company's U.S. income tax returns for 2017 through 2019, for which the statute has yet to expire. In addition, open tax years related to state and foreign jurisdictions remain subject to examination.

**(20) 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 2,314,000 shares excluded from earnings per share for the year ended December 31, 2020 because the effect of inclusion would be anti-dilutive. All potential common shares were excluded from diluted earnings per share for the year ended December 31, 2019 because the effect of inclusion would be anti-dilutive.



**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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):

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Income (loss) attributable to stockholders:</b>		
Net income (loss) as reported	\$ 1,668	\$ (3,949)
Less distributed and undistributed earnings allocable to restricted award holders	0	0
Net income (loss) allocable to common stockholders	<u>\$ 1,668</u>	<u>\$ (3,949)</u>
<b>Income (loss) per common share attributable to stockholders:</b>		
Basic	\$ 0.08	\$ (0.19)
Diluted	<u>\$ 0.08</u>	<u>\$ (0.19)</u>
Weighted average shares outstanding – basic	21,084	20,865
Weighted average additional shares assuming conversion of potential common shares	2	0
Weighted average shares outstanding – diluted	<u>21,086</u>	<u>20,865</u>

**(21) Segment Information**

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 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 provides circuit card and box build manufacturing, high reliability manufacturing, systems assembly and integration, design for manufacturability and design to specification work to customers in the market for aerospace and defense electronics. There was no intersegment net revenue recognized for any year presented.

The Company includes the unallocated costs of its corporate office, including the employment costs of its senior management team and other corporate personnel, administrative costs and net corporate interest expense incurred at the corporate level under the caption “General, corporate and other” in the table below. Such unallocated costs include those for centralized information technology, finance, legal and human resources support teams, certain professional fees, director fees, corporate office rent, certain self-insurance costs and recoveries, software license fees and various other administrative expenses that are not allocated to our reportable segments. The unallocated assets include cash and cash equivalents maintained in its domestic treasury accounts and the net book value of corporate facilities and related information systems. The unallocated liabilities consist primarily of the related party notes payable. Domestic income taxes are calculated at an entity level and are not allocated to our reportable segments. Corporate capital expenditures and depreciation and amortization include items attributable to the unallocated fixed assets of the corporate office and related information systems.

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

	<b>Year ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net revenue from unaffiliated customers:</b>		
Sypris Technologies	\$ 45,321	\$ 61,683
Sypris Electronics	37,025	26,208
	<u>\$ 82,346</u>	<u>\$ 87,891</u>



**SYPRIS SOLUTIONS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

	December 31,	
	2020	2019
Total liabilities:		
Sypris Technologies	\$ 19,974	\$ 19,989
Sypris Electronics	13,545	17,416
General, corporate and other	12,414	9,220
	<u>\$ 45,933</u>	<u>\$ 46,625</u>

The Company's export sales from the U.S. totaled \$3,423,000 and \$7,239,000 in 2020 and 2019, respectively. Approximately \$29,812,000 and \$40,536,000 of net revenue in 2020 and 2019, respectively, and \$5,819,000 and \$6,669,000 of long lived assets at December 31, 2020 and 2019, respectively, and net assets of \$14,344,000 and \$9,899,000 at December 31, 2020 and 2019 relate to the Company's international operations.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control over Financial Reporting**

The management of Sypris Solutions, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed to provide reasonable assurance to Sypris management and its Board of Directors regarding the preparation and fair presentation of published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to the accuracy of consolidated financial statement preparation and presentation.

Under the supervision and with participation of our management, including the Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of Sypris Solutions, Inc.'s internal control over financial reporting as of December 31, 2020. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on our assessment, we concluded that as of December 31, 2020, Sypris' internal control over financial reporting is effective based on these criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company (non-accelerated filer) to provide only management's report in this annual report.

**Item 9B. Other Information**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Governance of the Company – Committees of the Board of Directors," "Governance of the Company – Audit and Finance Committee," "Proposal One, Election of Directors," and "Executive Officers," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

The Company has adopted a Code of Conduct that applies to all of its directors, officers (including its chief executive officer, chief financial officer, chief accounting officer and any person performing similar functions) and employees. The Company has made the Code of Conduct, and will make any amendments and waivers thereto, available on its website at [www.sypris.com](http://www.sypris.com).

### Item 11. Executive Compensation

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "2020 Director Compensation," "Governance of the Company," "Summary Compensation Table," and "Outstanding Equity Awards at Fiscal Year-End 2020," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Stock Ownership of Certain Beneficial Owners and Management," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

### Equity Compensation Plan Information

The following table provides information as of December 31, 2020 with respect to shares of Sypris common stock that may be issued under our equity compensation plans.

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Stockholders	2,746,250 <sup>(1)</sup>	\$ 1.10	3,598,271 <sup>(2)</sup>
Equity Compensation Plans Not Approved by Stockholders	—	—	—
<b>Total</b>	2,746,250	\$ 1.10	3,598,271

(1) Consists of (a) 1,816,250 outstanding options under the 2015 Omnibus Plan, which plan expired on May 5, 2020 and (b) 930,000 outstanding options under the 2020 Omnibus Plan.

(2) Shares remaining available for issuance under the 2020 Omnibus Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required herein is incorporated by reference from the sections of the Company's Proxy Statement titled "Governance of the Company – Transactions with Related Persons" and "Governance of the Company – Independence," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

**Item 14. Principal Accounting Fees and Services**

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Relationship with Independent Public Accountants," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are included.

2. Exhibits

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#"><u>Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2004 filed on August 3, 2004 (Commission File No. 000-24020))</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed October 31, 2011 (Commission File No. 000-24020))</u></a>
4.1	<a href="#"><u>Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 1998 filed on March 5, 1999 (Commission File No. 000-24020))</u></a>
4.2	<a href="#"><u>Description of the Company's Securities Registered under Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.2 to the Company's Form 10-K filed on March 19, 2020 (Commission File No. 000-24020))</u></a>
10.1	<a href="#"><u>Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of March 12, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-K filed on March, 31, 2015 (Commission File No. 000-24020))</u></a>
10.1.1	<a href="#"><u>Amended Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of June 11, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 18, 2015 (Commission File No. 000-24020))</u></a>
10.1.2	<a href="#"><u>Amended and Restated Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of October 30, 2015 (incorporated by reference to Exhibit 10.2.2 to the Company's Form 10-K filed on March, 30, 2016 (Commission File No. 000-24020))</u></a>
10.1.3	<a href="#"><u>Amended and Restated Promissory Note in favor of Gill Family Capital Management, Inc. dated as of February 25, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on May 18, 2016 (Commission File No. 000-24020))</u></a>
10.1.4	<a href="#"><u>Amended Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of September 30, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 16, 2016 (Commission File No. 000-24020))</u></a>

**Exhibit  
Number**

- 10.1.5 [Amended and Restated Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of November 10, 2017 \(incorporated by reference to Exhibit 10.1.5 to the Company's Form 10-K filed on March, 20, 2018 \(Commission File No. 000-24020\)\).](#)
- 10.1.6 [Amendment to Amended and Restated Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of December 28, 2020.](#)
- 10.1.7 [Security Agreement between Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. and Gill Family Capital Management, Inc., dated as of March 12, 2015 \(incorporated by reference to Exhibit 10.2.1 to the Company's Form 10-K filed on March, 31, 2015 \(Commission File No. 000-24020\)\).](#)
- 10.2 [Promissory Note between BMO Harris Bank N.A. and Sypris Solutions, Inc., dated as of April 30, 2020, executed by Sypris Solutions, Inc. on May 1, 2020 \(incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on May, 6, 2020 \(Commission File No. 000-24020\)\).](#)
- 10.3 [Asset Purchase Agreement between Analog Devices, Inc. and Sypris Electronics, LLC dated as of August 16, 2016 \(incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 16, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.4 [Lease agreement between Promotora y Desarrolladora Pulso Inmobiliario, S.C. and Sypris Technologies Mexico, S. de R.L. de C.V dated January 29, 2016 \(incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed on May 18, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.5 [Lease between Sypris Electronics, LLC and University Business Center I, LLC dated May 3, 2016 regarding 10421 University Center Drive, Tampa, FL property. \(incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 17, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.6\* [Sypris Solutions, Inc., Directors Compensation Program adopted on September 1, 1995 Amended and Restated on January 21, 2016 \(incorporated by reference to Exhibit 10.9 to the Company's Form 10-K filed on March 30, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.7\* [Sypris Solutions, Inc., Directors Compensation Program adopted on September 1, 1995, Amended and Restated on March 14, 2017 \(incorporated by reference to Exhibit 10.26 to the Company's Form 10-K filed on March 28, 2017 \(Commission File No. 000-24020\)\)](#)
- 10.8\* [Sypris Solutions, Inc., Directors Compensation Program adopted on September 1, 1995, Amended and Restated effective on May 12, 2020 \(incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed on August 13, 2020 \(Commission File No. 000-24020\)\).](#)
- 10.9\* [Sypris Solutions, Inc., Directors Compensation Program adopted on September 1, 1995 Amended and Restated on March 9, 2021.](#)
- 10.10\* [Form of Discretionary Director Restricted Stock Award Agreement \(incorporated by reference to Exhibit 10.10 to the Company's Form 10-K filed on March 30, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.11\* [Form of Four Year Discretionary Director Restricted Stock Award Agreement \(incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q filed on November 16, 2016 \(Commission File No. 000-24020\)\).](#)
- 10.12\* [2015 Sypris Omnibus Plan effective as of May 5, 2015 \(incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed on May 19, 2015 \(Commission File No. 333-204299\)\).](#)



<b>Exhibit Number</b>	<b>Description</b>
10.13*	<a href="#">The 2020 Sypris Omnibus Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement filed on April 3, 2020 (Commission File No. 000-24020)).</a>
10.14*	<a href="#">Form of Three Year Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.15 to the Company's Form 10-K filed on March 30, 2016 (Commission File No. 000-24020)).</a>
10.15*	<a href="#">Form of Four Year Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.16 to the Company's Form 10-K filed on March 30, 2016 (Commission File No. 000-24020)).</a>
10.16*	<a href="#">Form of Five Year Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K filed on March 30, 2016 (Commission File No. 000-24020)).</a>
10.17*	<a href="#">Form of Six-Year Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on August 13, 2020 (Commission File No. 000-24020)).</a>
10.18*	<a href="#">Form of Five-Year Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on August 13, 2020 (Commission File No. 000-24020)).</a>
10.19*	<a href="#">Form of Four Year Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q filed on November 16, 2016 (Commission File No. 000-24020)).</a>
10.20*	<a href="#">Form of Executive Long-Term Incentive Award Agreement for Grants of Restricted Stock to Executive Officers (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on November 16, 2016 (Commission File No. 000-24020)).</a>
10.21*	<a href="#">Form of Executive Long-Term Incentive Award Agreement for Grants of Non-Qualified Stock Options to Executive Officers (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed on November 16, 2016 (Commission File No. 000-24020)).</a>
10.22*	<a href="#">Form of Executive Long-Term Incentive Award Agreement for Grants of Non-Qualified Stock Options to Executive Officers (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 13, 2020 (Commission File No. 000-24020)).</a>
10.23*	<a href="#">Form of Five Year Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on May 15, 2018 (Commission File No. 000-24020)).</a>
21	<a href="#">Subsidiaries of the Company.</a>
23	<a href="#">Consent of Crowe LLP</a>
31.1	<a href="#">CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</a>
31.2	<a href="#">CFO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</a>
32	<a href="#">CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.</a>
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

\* Management contract or compensatory plan or arrangement.

#### **Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 18, 2021.

SYPRIS SOLUTIONS, INC.

(Registrant)  
/s/ Jeffrey T. Gill  
\_\_\_\_\_  
(Jeffrey T. Gill)  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 18, 2021:

/s/ Jeffrey T. Gill _____ (Jeffrey T. Gill)	Chairman, President and Chief Executive Officer
/s/ Anthony C. Allen _____ (Anthony C. Allen)	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Rebecca R. Eckert _____ (Rebecca R. Eckert)	Controller (Principal Accounting Officer)
/s/ John F. Brinkley _____ (John F. Brinkley)	Director
/s/ Gary L. Convis _____ (Gary L. Convis)	Director
/s/ William G. Ferko _____ (William G. Ferko)	Director
/s/ R. Scott Gill _____ (R. Scott Gill)	Director
/s/ William L. Healey _____ (William L. Healey)	Director
/s/ Sidney R. Petersen _____ (Sidney R. Petersen)	Director
/s/ Robert Sroka _____ (Robert Sroka)	Director

**AMENDED AND RESTATED PROMISSORY NOTE**

This Amended and Restated Promissory Note represents an amendment and restatement of, and not a novation of, that certain Amended and Restated Promissory Note made by Makers in favor of the Lender dated effective November 10, 2017, as heretofore amended, restated, modified and supplemented from time to time, in the maximum principal amount of \$6,500,000.00.

\$6,500,000.00

Louisville, Kentucky  
December 28, 2020

FOR VALUE RECEIVED, each of the undersigned, **SYPRIS SOLUTIONS, INC.**, a Delaware corporation ("Solutions"), **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation ("Technologies"), **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation and **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company (each a "Maker" and collectively, the "Makers"), hereby jointly and severally promise and agree to pay to the order of **GILL FAMILY CAPITAL MANAGEMENT, INC.**, a Delaware corporation with principal office and place of business at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222 (the "Lender"), the principal sum of up to SIX MILLION FIVE HUNDRED THOUSAND DOLLARS (\$6,500,000.00) (the "Loan"), together with interest thereon as provided below. The terms and provisions of this Amended and Restated Promissory Note (this "Note") are as follows:

1. Calculation of Interest. From the date hereof to and until April 1, 2026, which date shall be the maturity date of this Note (the "Maturity Date"), the outstanding principal balance of this Note shall bear interest at the following rates:

- a. Until March 31, 2019, the outstanding principal balance of this Note shall bear interest at the fixed rate per annum of eight percent (8.00%); and
- b. Beginning on April 1, 2019 and continuing until the Maturity Date, the outstanding principal balance of this Note shall bear interest at a variable rate per annum, adjusted on April 1, 2019 and each succeeding April 1 thereafter to a rate equal to the greater of (i) eight percent (8.00%), or (ii) five hundred (500) basis points above the average of the United States Five (5) Year Treasury Note Rate as published by the Federal Reserve Board over the preceding ninety (90) days. Each change in the variable rate of this Note shall become effective without notice or demand of any kind as of the opening of business on the day such change is stated to occur as provided above.

2. Payment of Principal and Interest. All principal and interest on this Note shall be due and payable as follows: (a) all accrued and unpaid interest shall be due and payable in consecutive quarterly installments commencing on the first business day immediately succeeding each fiscal quarter end for Solutions, to and until the Maturity Date, (b) TWO MILLION FIVE HUNDRED THOUSAND DOLLARS (\$2,500,000.00) of the outstanding principal due under this Note shall be paid on or before April 1, 2022, (c) TWO MILLION DOLLARS (\$2,000,000.00) of the outstanding principal due under this Note shall be paid on or before April 1, 2024, (d) the remaining entire unpaid principal balance of and all accrued and unpaid interest on this Note, together with all other amounts due and owing under this Note, shall be due and payable in full on the Maturity Date, and (e) any accrued and unpaid interest from the year 2020 be paid January 4, 2021. Notwithstanding any statement herein to the contrary, for each scheduled quarterly interest payment date the Makers may, at their sole election by prior written notice to the Lender, elect to defer, for up to eighteen (18) months from such date, the payment of up to sixty percent (60%) of the interest to be paid hereunder on such date, but only with respect to the principal amounts due under Sections 2(b) and 2(c). In such event, the aggregate amount of any such deferred interest shall accrue interest thereon until paid at the same per annum rate applicable to the outstanding principal balance hereof as set forth in Section 1 above. In the event the Makers do not provide such prior written notice of interest payment deferment and Makers then proceed to fail to pay the full amount of interest then due and owing, Lender shall have all rights and remedies available to it under this Note and the Security Instruments as a result of such nonpayment. For the avoidance of doubt, the Makers covenant and agree that the interest payment due on January 4, 2021, shall not be eligible for deferment.

3. Interest Calculated on 30-Day Month. All accrued interest on this Note shall be calculated on the basis of the actual number of days elapsed over twelve (12) assumed months consisting of thirty (30) days each.

4. Default Rate. Commencing five (5) days after written notice from the Lender (by facsimile transmission or otherwise) to the Makers to the effect that any installment of principal of and/or accrued interest on this Note is overdue (provided such notice shall be given no earlier than five (5) days after the due date of any such installment), such overdue installment of principal and/or accrued interest, provided it remains unpaid, shall commence to bear interest at the ten percent (10%) per annum (the "Default Rate"), and such overdue installment of principal and/or accrued interest together with all interest accrued thereon at the rate set forth herein shall continue to be immediately due and payable in full to the Lender. In the event the Lender accelerates the maturity date of this Note due to the occurrence of any Event of Default hereunder, the entire unpaid principal balance of this Note together with all accrued and unpaid interest thereon shall, beginning five (5) days after notice of acceleration of the maturity date of this Note has been given to the Makers, commence to bear interest at the Default Rate, and all such unpaid principal together with all interest accrued and unpaid thereon, including, without limitation, all interest accrued and accruing thereon as provided in this sentence, shall continue to be immediately due and payable in full to the Lender.

5. Place of Payment. All payments of principal and interest on this Note shall be made to the Lender in legal tender of the United States of America at its offices located at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222, or to such other person or such other place as may be designated in writing by the Lender.

6. Security for Note. This Note shall be secured by a first priority security interest in all of the assets of the Makers and any guarantors of this Note, subject to certain exceptions as determined in Lender's reasonable discretion. The security documents executed by Makers and the guarantors in favor of Lender in conjunction with this Note or in the future shall be referred to herein as the "Security Instruments". Notwithstanding the forgoing, the Makers shall be able to take on additional indebtedness for the purchase of assets in the furtherance of the Makers business and grant purchase money security interests in such assets without the consent of the Lender.

7. Representations and Warranties. Each Maker hereby jointly and severally represents and warrants to the Lender, as follows, which representations and warranties shall survive the execution and delivery of this Note and the making of the disbursement of Loan proceeds hereunder:

7.1 Maker's Existence. Each Maker is a duly organized or incorporated and validly existing corporation or limited liability company, as applicable, in good standing under the laws of the State of Delaware and has all requisite authority to own its property and to carry on its business as presently conducted. Each Maker is duly qualified to transact business and is validly existing and in good standing as a foreign entity in every foreign jurisdiction where the failure to so qualify would materially and adversely affect such Maker's business or its properties.

7.2 Authority of Makers. The obtaining of the Loan by each Maker from the Lender and the execution, delivery and performance by each Maker of this Note and the Security Instruments to which it is a party are within the organizational powers of each Maker, have been duly authorized by all of the Directors or Members of such Maker, are not in contravention of the Certificate of Incorporation, Certificate of Formation, Bylaws or Operating Agreement of such Maker, as applicable, or the terms of any indenture, agreement or undertaking to which such Maker is a party or by which it or any of its property is bound, and do not contravene the provisions of, or constitute a default under, or result in the creation of any lien (except as expressly contemplated herein) upon the property of such Maker under any indenture, mortgage, contract or other agreement to which such Maker is a party or by which it or any of its properties is bound. Each Maker is duly qualified to do business as a foreign limited liability company in each state in which it is so required to be qualified.

7.3 Taxes. Each Maker has filed or caused to be filed all federal, state and local tax returns which, to the knowledge of its Members or Directors, are required to be filed, and each Maker has paid or caused to be paid all taxes as shown on such returns, on any assessment received by such Maker. Each Maker has established reserves which are believed to be adequate for the payment of additional taxes for years that have not been audited by the respective tax authorities.

7.4 Enforceability. This Note and the Security Instruments to which any Maker is a party constitute valid and legally binding obligations of each such Maker, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency or similar laws affecting the rights of creditors generally and to general principles of equity, whether asserted in an action at law or in equity.

8. Affirmative Covenants. Each Maker hereby jointly and severally agrees that until the Loan and other secured indebtedness has been paid in full to the Lender and this Note has been terminated, each Maker, shall perform and observe all of the following provisions:

8.1 Financial Statements. Each Maker shall furnish to the Lender all financial statements and other financial information in form and at the times required to be furnished by the Lender.

8.2 Inspection. Each Maker covenants that it will permit the Lender and its employees and agents, at the Lender's expense (unless an Event of Default has occurred hereunder, in which event the same shall be at the expense of said Maker) to examine corporate books and financial records of said Maker, and to discuss the affairs, finances and accounts of the Maker at such reasonable times and as often as the Lender may reasonably request.

8.3 Maker's Existence. Each Maker shall preserve its existence as a limited liability company or corporation, as applicable, under the laws of the state of its respective organization or incorporation.

8.4 Further Assurances. Each Maker and guarantor shall execute and deliver to the Lender all agreements, documents and instruments, shall pay all filing fees and taxes in connection therewith and shall take such further actions as the Lender may reasonably request or as may be necessary or appropriate to effectuate the intent of this Note and the Security Instruments.

8.5 Notice of Default. The Makers shall promptly notify the Lender in writing of the occurrence of any Event of Default, specifying in connection with such notification all actions proposed to be taken to remedy such circumstance.

8.6 Notice of Legal Proceedings. The Makers shall, promptly upon becoming aware of the existence thereof, notify the Lender in writing of the institution of any litigation, legal proceeding, or dispute with any person or tribunal, that might materially and adversely affect the condition, financial or otherwise, or the earnings, affairs, business prospects or properties of any Maker.

8.7 Maintenance of Qualification and Assets. Each Maker shall at all times maintain: (i) its qualification to transact business and good standing as a foreign entity in all jurisdictions where the failure to so qualify would materially and adversely affect the nature of its properties or the conduct of its businesses; and (ii) all franchises, licenses, rights and privileges necessary for the proper conduct of its businesses.

8.8 Payment of Taxes and Claims. Each Maker shall pay all taxes imposed upon it or upon any of its properties or with respect to its franchises, business, income or profits before any material penalty or interest accrues thereon. Each Maker shall also pay all material claims (including without limitation claims for labor, services, materials and supplies) for sums which have or shall become due and payable and which by law have or might become a vendors lien or a mechanics, laborers', materialmen's, statutory or other lien affecting any of its properties; provided, however, that the respective Maker shall not be required to pay any such taxes or claims if (i) the amount, applicability or validity thereof is being contested in good faith by appropriate legal proceedings promptly initiated and diligently conducted and (ii) each Maker shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) adequate with respect thereto.

9. Acceleration; Offset; Special Rights Relating to Collateral. Each of the following events shall constitute an "Event of Default" under this Note: (a) the Makers shall fail to pay the principal of and/or any accrued interest on this Note when due and such failure shall continue for more than five (5) days after such due date; (b) a representation contained herein or in any of the Security Agreements, Mortgages or Security Instruments shall be untrue or any Maker shall violate any of the other terms or covenants contained in this Note or in any of the Security Agreements, Mortgages or Security Instruments and such failure shall continue for a period of thirty (30) days after receipt by such Maker of notice thereof from the Lender; (c) any Maker shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency, receivership, liquidation or similar law, (ii) consent to the institution of, or fail to contravene in a timely and appropriate manner, in any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally, to pay its debts as they become due, or (vii) take any action for the purpose of effecting any of the foregoing; (d) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of said Maker or of a substantial part of the property or assets of said Maker under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency, receivership, liquidation or similar, law or (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official of said Maker, or of a substantial part of the property or assets of said Maker; and any such proceeding or petition shall continue undismissed for sixty (60) consecutive days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for sixty (60) consecutive days; then, and in each such event (other than an event described in subsections (c) or (d) above); or (e) if there occurs any other "Event of Default" as defined in the Security Instruments and the same continues past any applicable grace period. After the occurrence and continuation of any Event of Default, the Lender shall have full power and authority at any time or times to exercise, at its sole option, all or any one or more of the rights and remedies of a secured party under the Uniform Commercial Code of the Commonwealth of Kentucky (the "Kentucky UCC"), the Uniform Commercial Code of the State of Delaware (the "Delaware UCC") and/or all other applicable laws, including without limitation, declare the entire unpaid principal balance of and all accrued and unpaid interest on this Note to be, whereupon the same shall be, immediately due and payable in full to the Lender (unless the Event of Default is of the type referred to in subsection (c) or (d) above, in which event the entire unpaid principal balance of and all accrued and unpaid interest on this Note shall automatically be due and payable in full to the Lender without notice or demand). If any Event of Default shall occur and be continuing, the Lender shall have the right then, or at any time thereafter, to set off against, and appropriate and apply toward the payment of the unpaid principal of and/or accrued and unpaid interest on this Note in such order as the Lender may select in its sole and absolute discretion, whether or not this Note shall then have matured or be due and payable and whether or not the Lender has declared this Note to be in default and immediately due and payable, any and all deposit balances and other sums and indebtedness and other property then held or owed by the Lender to or for the credit or account of the Makers, and in and on all of which the Makers hereby grant the Lender a first priority security interest in and lien on to secure the payment of this Note, all without prior notice to or demand upon the Makers or any other Person, all such prior notices and demands being hereby expressly waived by the Makers. Any requirement of the Kentucky UCC or the Delaware UCC for reasonable notice shall be met if such notice is mailed, postage pre-paid, to the Makers at least five (5) days prior to the time of the event given rise to the requirement of notice. Notice shall be mailed to the address of the Makers as shown on the records of the Lender maintained with respect to the Loan. The Lender shall have no responsibility for the collection or protection of any collateral or any part thereof or to exercise (or give notice to the Makers of) any option, privilege or right with respect to any collateral, all of which are waived by the Makers. The Lender, at its option, may transfer or register all or any part of any collateral into its or its nominee's name without any indication of security interest, without notice in either before or after the maturity of this Note. The Lender may transfer this Note, and deliver any collateral to the transferee, and the transferee shall become vested with all powers and rights given to the Lender with respect to such collateral.

10. Rights Under Security Instruments; Cumulative Rights. Upon the occurrence of any Event of Default, the Lender shall have all of the rights and remedies under this Note, the Security Instruments and at law or in equity. All of the rights and remedies of the Lender upon the occurrence of an Event of Default hereunder shall be cumulative to the greatest extent permitted by law.

11. Indemnity. The Makers shall jointly and severally indemnify and hold harmless the Lender, its successors, assigns, officers, shareholders, agents and employees, from and against any and all claims, actions, suits, proceedings, costs, expenses, damages, fines, penalties and liabilities, including, without limitation, reasonable attorneys' fees and costs, arising out of, connected with or resulting from (a) this Note or any of the Security Instruments, (b) the Lender's preservation or attempted preservation of any of the collateral taken pursuant to any of the Security Instruments, and/or (c) any failure of the security interests and liens granted to the Lender pursuant to the Security Instruments to be or to remain perfected or to have the priority as contemplated herein and in the Security Instrument; provided, however, the Makers shall not have any obligation to indemnify the Lender for any such claims, actions, suits, proceedings, costs, expenses, damages, fines, penalties and/or liabilities to the extent the same have been caused by or have arisen solely and completely from any gross negligence or willful misconduct committed by the Lender. At the Lender's request, the Makers shall, at their own cost and expense, defend or cause to be defended any and all such actions or suits that may be brought against the Lender and, in any event, shall satisfy, pay and discharge any and all judgments, awards, penalties, costs and fines that may be recovered against the Lender in any such action, plus all attorneys' fees and costs related thereto to the extent permitted by applicable law; provided, however, that the Lender shall give the Makers (to the extent the Lender seeks indemnification from the Makers under this section) prompt written notice of any such claim, demand or suit after the Lender has received written notice thereof, and the Lender shall not settle any such claim, demand or suit, if the Lender seeks indemnification therefor from the Makers, without first giving notice to the Makers of the Lender's desire to settle and obtaining the consent of the Makers to the same, which consent the Makers hereby agree not to unreasonably withhold. All obligations of the Makers under this section shall survive the payment of the Note.

12. Invalidity. If any part of this Note shall be adjudged invalid or unenforceable, whether in general or in any particular circumstance, then such partial invalidity or enforcement shall not cause the remainder of this Note to be or to become invalid or unenforceable, and if a provision hereof is held invalid or unenforceable, and if a provision hereof is held invalid or unenforceable in one or more of its applications, the Lender and the Makers hereby agree that said provision shall remain in effect in all valid applications that are severable from the invalid or unenforceable application or applications.

13. Assignment. This Note may not be assigned by any or all of the Makers. This Note and the Security Instruments may be assigned by the Lender. All rights of the Lender hereunder shall inure to the benefit of its successors and assigns, and all obligations, covenants and agreements of the Makers shall bind its successors and assigns, if any.

14. Entire Agreement. This Note and the Security Instruments constitute the entire agreement between the Lender and the Makers with respect to the subject matter hereof.

15. Costs and Expenses. The Makers jointly and severally agree to pay: (a) the reasonable fees of Lender's counsel, including all out-of-pocket expenses incurred by such counsel, including costs incurred on behalf of the Lender in the negotiation, preparation, printing, documentation, review and execution of this Note and the Security Instruments, and (b) all other charges, out-of-pocket costs and expenses incurred by the Lender or Lender's counsel including, without limitation, including all documentary stamp or other tax liabilities, recording fees and costs of lien searches, certified documents and flood zone verifications. All obligations of the Makers under this section shall survive the termination or cancellation of this Note for any reason whatsoever.

16. No Third Party Beneficiaries. All conditions of the obligations of the Lender to disburse the proceeds of the Loan hereunder are imposed solely and exclusively for the benefit of the Lender and its successors and assigns and the Makers, and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that the Lender will refuse to disburse proceeds of the Loan in the absence of strict compliance with any or all of such conditions, and no other Person shall, under any circumstances, be deemed to be beneficiary of such conditions, any or all of which may be freely waived in whole or in part by the Lender at any time in its sole and absolute discretion.

17. Amendments. No amendment, modification, or supplement to this Note or the Security Instruments, or to any other document or instrument executed or issued by any of the parties hereto in connection with the transactions contemplated herein, shall be binding unless executed in writing by all parties hereto or thereto; and this provisions of this Note and the Security Instruments shall not be subject to waiver by any party and shall be strictly enforced.

18. Role of the Lender. Notwithstanding any of the terms or conditions hereof or of the Security Instruments to the contrary, the Lender shall not have, and by its execution and acceptance of this Note hereby expressly disclaims, any obligation or responsibility for the management, conduct or operation of the business and affairs of any of the Makers. Any term or condition hereof, or of any of the Security Instruments, permitting the Lender to take or refrain from taking any action with respect to the Makers or the collateral shall be deemed solely to permit the Lender to audit and review the management, operation and conduct of the business and affairs of the Makers and to maintain and preserve the security given by the Makers to the Lender, for the secured obligations, and may not be relied upon by any other Person. Further, the Lender shall not have, has not assumed, and by its execution and acceptance of this Note and the Security Instruments hereby expressly disclaims, any liability or responsibility for the payment or performance of any indebtedness or obligation of the Makers, and no term or condition hereof, or of any of the Security Instruments, shall be construed otherwise.



19. Subordination. This Note may be subordinated in the future to a commercial credit facility, subject to Lender's consent (which will not be unreasonably withheld) with regard to the terms of such subordination.

20. No Implied Waivers; Time is of the Essence. The failure of the Lender to exercise any of its rights, powers and/or remedies shall not constitute a waiver of the right to exercise the same at that or any other time. All rights and remedies of the Lender for an Event of Default hereunder and/or under the Security Instruments, shall be cumulative to the greatest extent permitted by law. Time shall be of the essence in (i) the payment of all installments of principal of and accrued interest on this Note, and (ii) the performance of the Makers' other obligations hereunder and under the Security Agreements, Mortgages and the Security Instruments.

21. Attorneys' Fees. If there is any Event of Default under this Note and/or the Security Instruments which is not timely cured, and this Note is placed in the hands of any attorney for collection, or is collected through any court, including any bankruptcy court, the Makers promise and agree to pay to the Lender its reasonable attorneys' fees, court costs and other expenses incurred in collecting or attempting to collect or securing or attempting to secure this Note or enforcing the Lender's rights hereunder and under the Security Instruments.

22. Prepayment. This Note may be prepaid at any time, in whole or in part, without penalty or premium. Any prepayment will be applied first to accrued but unpaid interest, second to the principal amount due under Section 2(b), third to the principal amount due under Section 2(c) and fourth to the remaining principal balance due at the Maturity Date.

23. Governing Law; Jurisdiction. This Note and all of the rights and remedies of the holder hereof shall be governed by, and construed in accordance with, the laws of the Commonwealth of Kentucky without regard to conflicts of law principles. THE MAKERS SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF KENTUCKY AND OF ANY KENTUCKY STATE COURT SETTING IN JEFFERSON COUNTY, KENTUCKY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS NOTE, THE SECURITY AGREEMENTS, MORTGAGES OR ANY OF THE OTHER LOAN INSTRUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

24. Waivers. The Makers hereby waive presentment, demand, notice of dishonor, protest, notice of protest and nonpayment, and further waives all exemptions to which it may now or hereafter be entitled to under the laws of this or any other state or of the United States. The Lender shall have the right to grant the Makers any extension of time for payment of this Note or any other indulgence or forbearance whatsoever, and may release any security for the payment of this Note if any, as applicable, in every instance without the consent of the Makers and without in any way affecting the liability of the Makers hereunder and without waiving any rights the Lender may have hereunder or by virtue of the laws of the Commonwealth of Kentucky or any other state or of the United States.

25. Legal Rate of Interest. Nothing herein contained shall be construed or so operate as to require payment of interest at a rate greater than the highest permitted contract rate under applicable law, or to make any payment or to do any act contrary to applicable law. To this end, if during the course of any litigation involving the enforceability of the obligations represented by this Note, a court having jurisdiction of the subject matter or of the parties to said litigation shall determine that either the interest rate as set forth herein, or the effect of said rate in relation to the particular circumstances of default resulting in said litigation, are separately or collectively usurious, then the interest rate set forth herein shall be reduced, or the operation and effect thereof ameliorated, to achieve the highest interest rate or charge which shall not be usurious. As an example of such an amelioration, in the event the indebtedness represented by this Note is declared due by the Lender prior to maturity, and the total amount of interest paid causes interest to exceed the highest rate permitted by law, such interest rate shall be recalculated at the highest rate which shall not be usurious and any excess paid over such recalculated interest rate shall be credited to the unpaid principal of this Note.

26. Captions. The section headings of this Note are inserted herein solely for convenience of reference and shall not affect the construction or interpretation of the provisions hereof.

27. WAIVER OF JURY TRIAL. THE MAKERS HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY (AFTER ACTUAL CONSULTATION OR THE OPPORTUNITY TO HAVE CONSULTATION WITH LEGAL COUNSEL) WAIVE THE RIGHT EACH MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON THIS NOTE, OR ANY OF THE SECURITY INSTRUMENTS, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THE NOTE, THE LOAN OR ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER IN MAKING THE LOAN TO THE MAKERS. THE PROVISIONS OF THIS SECTION MAY ONLY BE MODIFIED BY A WRITTEN INSTRUMENT EXECUTED BY THE MAKERS AND THE LENDER.

[The remainder of this page has intentionally been left blank]

IN WITNESS WHEREOF, the Makers agree to each of the terms set forth above and has executed this Note as of the date first listed above.

**SYPRIS SOLUTIONS, INC.,**

a Delaware corporation

By: /s/ Anthony C. Allen

Title: Vice President, Chief Financial Officer and  
Treasurer

**SYPRIS TECHNOLOGIES, INC.,**

a Delaware corporation

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS TECHNOLOGIES MARION, LLC,**

a Delaware limited liability company

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS TECHNOLOGIES MEXICAN  
HOLDINGS, LLC,** a Delaware limited liability  
company

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS TECHNOLOGIES NORTHERN, INC.,**

a Delaware corporation

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS TECHNOLOGIES SOUTHERN, INC.,**  
a Delaware corporation

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS TECHNOLOGIES INTERNATIONAL,  
INC.,** a Delaware corporation

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

**SYPRIS ELECTRONICS, LLC,**  
a Delaware limited liability company

By: /s/ Anthony C. Allen

Title: Vice President, Treasurer and Assistant Secretary

(the "Makers")

COMMONWEALTH OF )  
KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Chief Financial Officer and Treasurer of **SYPRIS SOLUTIONS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
\_\_\_\_\_  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
\_\_\_\_\_  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
\_\_\_\_\_  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

COMMONWEALTH OF )  
KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 28th day of December 2020, by Anthony C. Allen, as the Vice President, Treasurer and Assistant Secretary of **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher  
NOTARY PUBLIC #580013

[SEAL]

My Commission Expires: July 20, 2021

Sypris Solutions, Inc.

# DIRECTORS COMPENSATION PROGRAM



ADOPTED ON SEPTEMBER 1, 1995

AMENDED AND RESTATED EFFECTIVE AS OF MARCH 9, 2021

## Description of the Program

**Name.** The name of this benefit program shall be the “Directors Compensation Program.”

**Purpose.** The purpose of the Directors Compensation Program is to enable Sypris Solutions, Inc. (the “Company”) to attract, retain and motivate experienced directors by providing compensation that is competitive with compensation offered to directors of other similarly-situated public corporations in the United States.

**Eligibility and Participation.** Only “Eligible Directors,” defined as those members of the Board of Directors of the Company (the “Board”) who are not otherwise employed by the Company, its subsidiaries or any affiliate of the Company in any other capacity, are eligible to participate in the Directors Compensation Program. Any Eligible Director on the Board as of January 21, 2016 (the “Effective Date”) and thereafter shall be eligible for compensation under the Directors Compensation Program.

**Compensation.** Eligible Directors shall be compensated as set forth below:

(a) *Annual Retainer.*

(i) *Amount.* Each Eligible Director shall receive an annual retainer in the amount set forth on Exhibit 1 hereto which may include cash and/or equity grants under the 2020 Sypris Omnibus Plan (the “Annual Retainer”) contingent upon the approval of the shareholders. Service for a partial year will be compensated in cash on a prorated basis as determined by the Committee (“Prorated Annual Retainer”).

(ii) *Quarterly Cash Payment.* The cash portion of the Annual Retainer or the Prorated Annual Retainer, as applicable, shall be earned by the Eligible Directors and paid by the Company in equal quarterly installments for each Eligible Director. The quarterly installments of the Annual Retainer or Prorated Annual Retainer shall be payable, in arrears by checks issued to each Eligible Director no later than the 15th calendar day following the end of each of the Company’s fiscal quarters during which the respective Eligible Director served on the Board.

(iii) *Annual Equity Awards:* The equity portion of the Annual Retainer will be awarded following the date of the annual meeting of stockholders for all continuing directors serving on the Board following the close of the meeting. The Equity Awards will be issued by the Company in equal quarterly installments for each Eligible Director who is serving on the 15th calendar day of May, August, November and February each year or the next business day if such date falls on a weekend or holiday.



(b) *Extraordinary Awards.*

(i) The Committee has the authority to recommend to the Board, grants of individual equity awards for services as a Director, beyond the Annual Retainer in their sole discretion.

**Expense Reimbursement.** Each Eligible Director shall be reimbursed for travel and other expenses incurred in the performance of his or her duties.

**Administration.** The Directors Compensation Program is administered by the Compensation Committee of the Board. The Committee members are selected by the Board and have no specific term of office.

**Resignation from the Board of Directors.** The resignation of any Eligible Director shall cause such director to be ineligible to receive any amount of the Fee installments not yet earned by him or her as of the date of resignation.

**Program Termination or Modification.** The Compensation Committee shall review the Directors Compensation Program on at least an annual basis and may make changes, alterations or modifications to the program which are deemed to be in the Company's best interest. Any change, alteration or modification shall be made by a written instrument consented to by the Board. The Board may similarly terminate the Directors Compensation Program at any time if, in the judgment of the Board, such termination is in the Company's best interest.

IN WITNESS WHEREOF, the Company has caused this Directors Compensation Program to be executed in its name and on its behalf effective as of March 9, 2021.

**SYPRIS SOLUTIONS, INC.**

By: /s/ Jeffrey T. Gill

Jeffrey T. Gill

President and CEO

**SYPRIS SOLUTIONS, INC.  
SUBSIDIARIES OF THE COMPANY**

The Company's subsidiaries as of December 31, 2020 are as follows:

- (1) Sypris Electronics, LLC, a Delaware limited liability company.
- (2) Sypris Technologies, Inc., a Delaware corporation.
- (3) Sypris Technologies Marion, LLC, a Delaware limited liability company.
- (4) Sypris Technologies Mexican Holdings, LLC, a Delaware limited liability company.
- (5) Sypris Technologies Mexico, S. de R.L. de C.V., a Mexican limited liability company.
- (6) Sypris Technologies Toluca, S.A. de C.V., a Mexican corporation.
- (7) Sypris Technologies Northern, Inc., a Delaware corporation.
- (8) Sypris Technologies Southern, Inc., a Delaware corporation.
- (9) Sypris Technologies International, Inc., a Delaware corporation.
- (10) ST Property Holdings, LLC, a Kentucky Limited Liability Company

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements of Sypris Solutions, Inc.:

- (1) Registration Statement (Forms S-8 Nos. 333-07195, 33-94544, 333-07199, 333-52589, 333-62781, 333-52593, 333-77883, 333-87882 and 333-87880) pertaining to the Sypris Solutions, Inc. 1994 Stock Option Plan for Key Employees and the Sypris Solutions, Inc. Independent Directors' Stock Option Plan;
- (2) Registration Statement (Form S-8 No. 333-114982) pertaining to the Sypris Solutions, Inc. 2004 Equity Plan;
- (3) Registration Statement (Form S-8 No. 333-166951) pertaining to the Sypris Solutions, Inc. 2010 Sypris Omnibus Plan; and
- (4) Registration Statement (Form S-8 No. 333-204299) pertaining to the Sypris Solutions, Inc. 2015 Sypris Omnibus Plan;
- (5) Registration Statement (Form S-8 No. 333-238523) pertaining to the Sypris Solutions, Inc. 2020 Sypris Omnibus Plan;

of our report dated March 18, 2021 relating to the consolidated financial statements, appearing in this Annual Report on Form 10-K.

/s/Crowe LLP

Louisville, Kentucky  
March 18, 2021

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

I, Jeffrey T. Gill, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 18, 2021

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 annual report on Form 10-K 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: March 18, 2021

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 Annual Report of Sypris Solutions, Inc. (the Company) on Form 10-K for the period ending December 31, 2020 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: March 18, 2021

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

Date: March 18, 2021

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-K and shall not be considered filed as part of the Form 10-K.