



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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended October 1, 2023

OR

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

Commission file number: 0-24020

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------|-------------------|---|
| Common Stock | SYPR | Nasdaq |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
 Emerging growth company

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

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

As of November 5, 2023, the Registrant had 22,454,649 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|--------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | <u>October 1, 2023</u> | <u>October 2, 2022</u> | <u>October 1, 2023</u> | <u>October 2, 2022</u> |
| | (Unaudited) | | (Unaudited) | |
| Net revenue | \$ 33,581 | \$ 25,199 | \$ 101,488 | \$ 80,409 |
| Cost of sales | 29,541 | 23,228 | 88,617 | 70,149 |
| Gross profit | 4,040 | 1,971 | 12,871 | 10,260 |
| Selling, general and administrative | 4,170 | 3,574 | 11,619 | 10,700 |
| Operating (loss) income | (130) | (1,603) | 1,252 | (440) |
| Interest expense, net | 127 | 273 | 531 | 784 |
| Other expense, net | 199 | 382 | 783 | 655 |
| Loss before taxes | (456) | (2,258) | (62) | (1,879) |
| Income tax expense (benefit) | 99 | (16) | 455 | 755 |
| Net loss | <u>\$ (555)</u> | <u>\$ (2,242)</u> | <u>\$ (517)</u> | <u>\$ (2,634)</u> |
| Loss per share: | | | | |
| Basic | \$ (0.03) | \$ (0.10) | \$ (0.02) | \$ (0.12) |
| Diluted | \$ (0.03) | \$ (0.10) | \$ (0.02) | \$ (0.12) |
| Weighted average shares outstanding: | | | | |
| Basic | 21,880 | 21,740 | 21,848 | 21,716 |
| Diluted | 21,880 | 21,740 | 21,848 | 21,716 |
| Dividends declared per common share | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |

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

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

| | Three Months Ended | | Nine Months Ended | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Net loss | \$ (555) | \$ (2,242) | \$ (517) | \$ (2,634) |
| Other comprehensive (loss) income | | | | |
| Foreign currency translation adjustments | (581) | (51) | 1,841 | 380 |
| Comprehensive (loss) income | \$ (1,136) | (2,293) | \$ 1,324 | \$ (2,254) |

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

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

| | October 1, 2023 | December 31, 2022 |
|---|----------------------------|------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,409 | \$ 21,648 |
| Accounts receivable, net | 10,777 | 8,064 |
| Inventory, net | 76,669 | 42,133 |
| Other current assets | 9,284 | 8,133 |
| Total current assets | 105,139 | 79,978 |
| Property, plant and equipment, net | 16,659 | 15,532 |
| Operating lease right-of-use assets | 3,584 | 4,251 |
| Other assets | 4,511 | 4,383 |
| Total assets | \$ 129,893 | \$ 104,144 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 25,553 | \$ 17,638 |
| Accrued liabilities | 56,052 | 33,316 |
| Operating lease liabilities, current portion | 1,120 | 1,168 |
| Finance lease obligations, current portion | 1,168 | 1,102 |
| Equipment financing obligations, current portion | 624 | 398 |
| Working capital line of credit | 500 | 0 |
| Note payable – related party, current portion | 0 | 2,500 |
| Total current liabilities | 85,017 | 56,122 |
| Operating lease liabilities, net of current portion | 2,890 | 3,710 |
| Finance lease obligations, net of current portion | 1,834 | 2,536 |
| Equipment financing obligations, net of current portion | 1,429 | 738 |
| Note payable – related party, net of current portion | 3,993 | 3,989 |
| Other liabilities | 13,319 | 17,474 |
| Total liabilities | 108,482 | 84,569 |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued | 0 | 0 |
| Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued | 0 | 0 |
| Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued | 0 | 0 |
| Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 22,465,485 shares issued and 22,454,649 outstanding in 2023 and 22,175,664 shares issued and 22,175,645 outstanding in 2022 | 224 | 221 |
| Additional paid-in capital | 156,044 | 155,535 |
| Accumulated deficit | (115,853) | (115,336) |
| Accumulated other comprehensive loss | (19,004) | (20,845) |
| Treasury stock, 10,835 in 2023 and 19 shares in 2022 | 0 | 0 |
| Total stockholders' equity | 21,411 | 19,575 |
| Total liabilities and stockholders' equity | \$ 129,893 | \$ 104,144 |

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED CASH FLOW STATEMENTS
(in thousands)

| | Nine Months Ended | |
|---|--------------------------|-------------------|
| | October 1, | October 2, |
| | 2023 | 2022 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (517) | \$ -2,634 |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 2,392 | 2,302 |
| Deferred income taxes | (56) | 451 |
| Stock-based compensation expense | 615 | 512 |
| Deferred loan costs recognized | 3 | 4 |
| Net loss on the sale of assets | 0 | 4 |
| Provision for excess and obsolete inventory | (22) | 92 |
| Non-cash lease expense | 667 | 690 |
| Other noncash items | 178 | 82 |
| Contributions to pension plans | (10) | (60) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,845) | (528) |
| Inventory | (34,146) | (5,062) |
| Other current assets | (464) | (2,215) |
| Accounts payable | 7,841 | 3,877 |
| Accrued and other liabilities | 18,195 | 10,780 |
| Net cash (used in) provided by operating activities | <u>(8,169)</u> | <u>8,295</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,890) | (2,811) |
| Proceeds from sale of assets | 0 | 6 |
| Net cash used in investing activities | <u>(1,890)</u> | <u>(2,805)</u> |
| Cash flows from financing activities: | | |
| Proceeds from equipment financing obligations | 210 | 0 |
| Proceeds from working capital line of credit | 500 | 0 |
| Principal payments on finance lease obligations | (845) | (725) |
| Principal payments on equipment financing obligations | (387) | (253) |
| Principal payments on Note payable – related party | (2,500) | 0 |
| Indirect repurchase of shares for minimum statutory tax withholdings | (104) | (40) |
| Net cash used in financing activities | <u>(3,126)</u> | <u>(1,018)</u> |
| Effect of exchange rate changes on cash balances | (54) | 382 |
| Net (decrease) increase in cash and cash equivalents | <u>(13,239)</u> | <u>4,854</u> |
| Cash and cash equivalents at beginning of period | 21,648 | 11,620 |
| Cash and cash equivalents at end of period | <u>\$ 8,409</u> | <u>\$ 16,474</u> |
| Supplemental disclosure of cash flow information: | | |
| Non-cash investing and financing activities: | | |
| Capital expenditures purchased through equipment financing obligations | \$ 1,050 | \$ 280 |

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

Three Months Ended October 1, 2023

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock |
|---|-------------------|---------------|----------------------------------|------------------------|---|-------------------|
| | Shares | Amount | | | | |
| July 2, 2023 balance | 22,414,610 | \$ 224 | \$ 155,860 | \$ (115,298) | \$ (18,423) | \$ 0 |
| Net loss | 0 | 0 | 0 | (555) | 0 | 0 |
| Foreign currency translation adjustment | 0 | 0 | 0 | 0 | (581) | 0 |
| Exercise of stock options | 25,039 | 0 | (22) | 0 | 0 | 0 |
| Noncash compensation | 15,000 | 0 | 206 | 0 | 0 | 0 |
| October 1, 2023 balance | <u>22,454,649</u> | <u>\$ 224</u> | <u>\$ 156,044</u> | <u>\$ (115,853)</u> | <u>\$ (19,004)</u> | <u>\$ 0</u> |

Three Months Ended October 2, 2022

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock |
|---|-------------------|---------------|----------------------------------|------------------------|---|-------------------|
| | Shares | Amount | | | | |
| July 3, 2022 balance | 22,131,983 | \$ 221 | \$ 155,214 | \$ (113,234) | \$ (22,563) | \$ 0 |
| Net loss | 0 | 0 | 0 | (2,242) | 0 | 0 |
| Foreign currency translation adjustment | 0 | 0 | 0 | 0 | (51) | 0 |
| Exercise of stock options | 3,682 | 0 | (3) | 0 | 0 | 0 |
| Noncash compensation | 15,000 | 0 | 163 | 0 | 0 | 0 |
| October 2, 2022 balance | <u>22,150,665</u> | <u>\$ 221</u> | <u>\$ 155,374</u> | <u>\$ (115,476)</u> | <u>\$ (22,614)</u> | <u>\$ 0</u> |

Nine Months Ended October 1, 2023

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock |
|---|-------------------|---------------|----------------------------------|------------------------|---|-------------------|
| | Shares | Amount | | | | |
| January 1, 2023 balance | 22,175,645 | \$ 221 | \$ 155,535 | \$ (115,336) | \$ (20,845) | \$ 0 |
| Net loss | 0 | 0 | 0 | (517) | 0 | 0 |
| Foreign currency translation adjustment | 0 | 0 | 0 | 0 | 1,841 | 0 |
| Issuance of restricted common stock | 160,000 | 2 | (2) | 0 | 0 | 0 |
| Exercise of stock options | 106,504 | 1 | (105) | 0 | 0 | 0 |
| Noncash compensation | 45,000 | 0 | 615 | 0 | 0 | 0 |
| Treasury stock | (32,500) | 0 | 1 | 0 | 0 | 0 |
| October 1, 2023 balance | <u>22,454,649</u> | <u>\$ 224</u> | <u>\$ 156,044</u> | <u>\$ (115,853)</u> | <u>\$ (19,004)</u> | <u>\$ 0</u> |

Nine Months Ended October 2, 2022

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Treasury Stock |
|---|-------------------|---------------|----------------------------------|------------------------|---|-------------------|
| | Shares | Amount | | | | |
| January 1, 2022 balance | 21,864,724 | \$ 218 | \$ 154,904 | \$ (112,842) | \$ (22,994) | \$ 0 |
| Net loss | 0 | 0 | 0 | (2,634) | 0 | 0 |
| Foreign currency translation adjustment | 0 | 0 | 0 | 0 | 380 | 0 |
| Issuance of restricted common stock | 197,500 | 2 | (2) | 0 | 0 | 0 |
| Exercise of stock options | 43,441 | 1 | (40) | 0 | 0 | 0 |
| Noncash compensation | 45,000 | 0 | 512 | 0 | 0 | 0 |
| October 2, 2022 balance | <u>22,150,665</u> | <u>\$ 221</u> | <u>\$ 155,374</u> | <u>\$ (115,476)</u> | <u>\$ (22,614)</u> | <u>\$ 0</u> |

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

(1) Nature of Business

All references to “Sypris,” the “Company,” “we” or “our” include Sypris Solutions, Inc. and its wholly-owned subsidiaries. Sypris is a diversified provider of truck components, oil and gas pipeline components and aerospace and defense electronics. The Company produces a wide range of manufactured products, often under multi-year, sole-source contracts. The Company offers such products through its two business segments, Sypris Technologies, Inc. (“Sypris Technologies”) and Sypris Electronics, LLC (“Sypris Electronics”) (See Note 10).

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, pursuant to such rules and regulations, certain notes and other financial information included in audited financial statements have been condensed or omitted. The December 31, 2022 consolidated balance sheet data was derived from audited statements, but does not include all disclosures required by U.S. GAAP. The Company’s operations are domiciled in the United States (U.S.) and Mexico, and we serve a wide variety of domestic and international customers. All intercompany transactions and accounts have been eliminated.

These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. 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. Actual results for the three and nine months ended October 1, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2022 as presented in the Company’s Annual Report on Form 10-K.

(3) Recent Accounting Pronouncements

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. The Company adopted this guidance on January 1, 2023, which had no material impact on our consolidated financial statements.

(4) Leases

The Company determines if an arrangement is a lease at its inception. The Company has entered into operating leases for real estate. These leases have initial terms which range from 10 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 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 consolidated balance sheets 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 October 1, 2023, total right-of-use assets and operating lease liabilities were approximately \$3,584,000 and \$4,010,000, respectively. As of December 31, 2022, total right-of-use assets and operating lease liabilities were approximately \$4,251,000 and \$4,878,000, respectively.

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

The Company has entered into various short-term operating leases, primarily for office equipment with an initial term of twelve months or less. Lease payments associated with short-term leases are expensed as incurred and are not recorded on the Company's balance sheet. The related lease expense for short-term leases was not material for the three and nine months ended October 1, 2023 and October 2, 2022.

The following table presents information related to lease expense for the three and nine months ended October 1, 2023 and October 2, 2022 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Finance lease expense: | | | | |
| Amortization expense | \$ 191 | \$ 170 | \$ 557 | \$ 490 |
| Interest expense | 69 | 83 | 218 | 261 |
| Operating lease expense | 351 | 351 | 1,052 | 1,052 |
| Variable lease expense | 105 | 84 | 276 | 253 |
| Total lease expense | <u>\$ 716</u> | <u>\$ 688</u> | <u>\$ 2,103</u> | <u>\$ 2,056</u> |

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

| | Nine Months Ended | |
|---|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 1,328 | \$ 1,273 |
| Operating cash flows from finance leases | 218 | 261 |
| Financing cash flows from finance leases | 845 | 725 |

The annual future minimum lease payments as of October 1, 2023 are as follows (in thousands):

| | Operating Leases | Finance Leases |
|-----------------------|---------------------|-------------------|
| Next 12 months | \$ 1,392 | \$ 1,381 |
| 12 to 24 months | 1,226 | 1,317 |
| 24 to 36 months | 960 | 640 |
| 36 to 48 months | 837 | 26 |
| 48 to 60 months | 210 | 0 |
| Thereafter | 0 | 0 |
| Total lease payments | 4,625 | 3,364 |
| Less imputed interest | (615) | (362) |
| Total | <u>\$ 4,010</u> | <u>\$ 3,002</u> |

The following table presents certain information related to lease terms and discount rates for leases as of October 1, 2023 and December 31, 2022:

| | October 1, 2023 | December 31, 2022 |
|--|--------------------|----------------------|
| | (Unaudited) | |
| Weighted-average remaining lease term (years): | | |
| Operating leases | 3.8 | 4.4 |
| Finance leases | 2.3 | 3 |
| Weighted-average discount rate (percentage): | | |
| Operating leases | 8 | 8 |
| Finance leases | 8.6 | 8.5 |

(5) Revenue from Contracts with Customers

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

Some 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 \$88,455,000 of remaining performance obligations as of October 1, 2023, all of which were long-term Sypris Electronics' contracts. We expect to recognize approximately 19% of our remaining performance obligations as revenue in 2023, 78% in 2024 and the balance in 2025.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the three and nine months ended October 1, 2023 and October 2, 2022:

| | Three Months Ended | | Nine Months Ended | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Sypris Technologies – transferred point in time | \$ 19,337 | \$ 16,990 | \$ 58,895 | \$ 52,096 |
| Sypris Electronics – transferred point in time | 4,727 | 2,586 | 14,061 | 6,383 |
| Sypris Electronics – transferred over time | 9,517 | 5,623 | 28,532 | 21,930 |
| | <u>\$ 33,581</u> | <u>\$ 25,199</u> | <u>\$ 101,488</u> | <u>\$ 80,409</u> |

Contract Balances

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

Contract assets – Contract assets include unbilled amounts typically resulting from sales under contracts where revenue is recognized over time and revenue recognized exceeds the amount billed to the customer, and the right to payment is subject to conditions other than the passage of time. Contract assets are generally classified as current assets in the consolidated balance sheet. The balance of contract assets as of October 1, 2023 and December 31, 2022 were \$4,292,000 and \$2,393,000, 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 receives cash payments from customers on certain contracts 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 sheets based on the timing of when the Company expects to recognize revenue. As of October 1, 2023, the contract liabilities balance was \$57,554,000, of which \$49,207,000 was included within accrued liabilities and \$8,347,000 was included within other liabilities in the accompanying consolidated balance sheets. As of December 31, 2022, the contract liabilities balance was \$40,391,000, of which \$27,909,000 was included within accrued liabilities and \$12,482,000 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 \$6,604,000 and \$16,248,000 during the three and nine months ended October 1, 2023, respectively. The Company recognized revenue from contract liabilities of \$3,237,000 and \$10,562,000 during the three and nine months ended October 2, 2022, respectively.

Practical expedients and exemptions

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

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

(6) 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. For the three and nine months ended October 1, 2023 and October 2, 2022, diluted weighted average common shares do not include the impact of any outstanding stock options and unvested compensation-related shares because the effect of these items on diluted net loss would be anti-dilutive.

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Loss attributable to stockholders: | | | | |
| Net loss as reported | \$ (555) | \$ (2,242) | \$ (517) | \$ (2,634) |
| Less distributed and undistributed earnings allocable to restricted award holders | 0 | 0 | 0 | 0 |
| Less dividends declared attributable to restricted award holders | 0 | 0 | 0 | 0 |
| Net loss allocable to common stockholders | <u>\$ (555)</u> | <u>\$ (2,242)</u> | <u>\$ (517)</u> | <u>\$ (2,634)</u> |
| Loss per common share attributable to stockholders: | | | | |
| Basic | \$ (0.03) | \$ (0.10) | \$ (0.02) | \$ (0.12) |
| Diluted | \$ (0.03) | \$ (0.10) | \$ (0.02) | \$ (0.12) |
| Weighted average shares outstanding – basic | 21,880 | 21,740 | 21,848 | 21,716 |
| Weighted average additional shares assuming conversion of potential common shares | 0 | 0 | 0 | 0 |
| Weighted average shares outstanding – diluted | <u>21,880</u> | <u>21,740</u> | <u>21,848</u> | <u>21,716</u> |

(7) Inventory

Inventory consists of the following (in thousands):

| | October 1, 2023 | December 31, 2022 |
|---|--------------------|----------------------|
| | (Unaudited) | |
| Raw materials | \$ 68,698 | \$ 36,612 |
| Work in process | 8,667 | 6,585 |
| Finished goods | 1,178 | 802 |
| Reserve for excess and obsolete inventory | (1,874) | (1,866) |
| Total | <u>\$ 76,669</u> | <u>\$ 42,133</u> |

(8) Property, Plant and Equipment

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

| | <u>October 1, 2023</u> | <u>December 31, 2022</u> |
|--|----------------------------|------------------------------|
| | <u>(Unaudited)</u> | |
| Land and land improvements | \$ 43 | \$ 43 |
| Buildings and building improvements | 8,376 | 8,044 |
| Machinery, equipment, furniture and fixtures | 70,929 | 66,037 |
| Construction in progress | 2,687 | 2,048 |
| | <u>82,035</u> | <u>76,172</u> |
| Accumulated depreciation | (65,376) | (60,640) |
| | <u>\$ 16,659</u> | <u>\$ 15,532</u> |

(9) Debt

Debt outstanding consists of the following (in thousands):

| | <u>October 1, 2023</u> | <u>December 31, 2022</u> |
|--|----------------------------|------------------------------|
| | <u>(Unaudited)</u> | |
| Current: | | |
| Finance lease obligation, current portion | \$ 1,168 | \$ 1,102 |
| Equipment financing obligations, current portion | 624 | 398 |
| Working capital line of credit | 500 | 0 |
| Note payable – related party, current portion | 0 | 2,500 |
| Current portion of long term debt and finance lease obligations | <u>\$ 2,292</u> | <u>\$ 4,000</u> |
| Long Term: | | |
| Finance lease obligation | \$ 1,834 | \$ 2,536 |
| Equipment financing obligations | 1,429 | 738 |
| Note payable – related party | 4,000 | 4,000 |
| Less unamortized debt issuance and modification costs | (7) | (11) |
| Long term debt and finance lease obligations net of unamortized debt costs | <u>\$ 7,256</u> | <u>\$ 7,263</u> |

Note Payable – Related Party

The Company has received the benefit of cash infusions from Gill Family Capital Management, Inc. (“GFCM”) in the form of a secured promissory note (the “Note”), with obligations totaling \$4,000,000 and \$6,500,000 in principal as of October 1, 2023 and December 31, 2022, respectively. GFCM is an entity controlled by the Company’s Chairman, President and Chief Executive Officer, Jeffrey T. Gill, and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. As of October 1, 2023, our principal commitment under the Note was \$2,000,000 due on April 1, 2024 and the balance on April 1, 2026. Interest on the Note is payable quarterly, and the rate is reset on April 1 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, which was 8.8% as of October 1, 2023.

Subsequent to the third quarter ended October 1, 2023, the Company and GFCM amended the Note to, among other things: (i) increase the amount by \$2,500,000 to \$6,500,000, (ii) extend the maturity dates for \$2,000,000 of the obligation to April 1, 2025, \$2,000,000 to April 1, 2026 and the balance to April 1, 2027, (iii) adjust the interest rate beginning on November 10, 2023 and on each April 1 thereafter, to reflect the greater of 8% or 500 basis points above the five-year Treasury note average during the previous 90-day period, and (iv) allow for the deferral of payment for up to 60% of the interest due on the Note to April 1, 2025 (see Note 16).

Obligations under the 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.

Working Capital Line of Credit

During 2023, the Company established a \$500,000 unsecured line of credit with BBVA Mexico in support of working capital needs of our Mexican subsidiary. The term of the line extends through February 2024 and provides for interest at 8.75% per annum. As of October 1, 2023, the Company had \$500,000 outstanding on the line of credit.

Finance Lease Obligations

As of October 1, 2023, the Company had \$3,002,000 outstanding under finance lease obligations for both property and machinery and equipment at its Sypris Technologies locations with maturities through 2026 and a weighted average interest rate of 8.6%.

Equipment Financing Obligations

As of October 1, 2023, the Company had \$2,053,000 million outstanding under equipment financing obligations, with effective interest rates ranging from 4.4% to 8.1% and payments due through 2028. Payments on the Company's equipment financing obligations are due as follows (in thousands):

| | | |
|---------------------------------------|----|--------------|
| Next 12 months | \$ | 744 |
| 12 to 24 months | | 588 |
| 24 to 36 months | | 460 |
| 36 to 48 months | | 358 |
| 48 to 60 months | | 186 |
| Thereafter | | 0 |
| Total payments | | 2,336 |
| Less imputed interest | | (283) |
| Total equipment financing obligations | \$ | <u>2,053</u> |

(10) Segment Data

The Company is organized into two business segments, Sypris Technologies and Sypris Electronics. The segments are each managed separately because of the distinctions between the products, markets, customers, technologies, and workforce skills of the segments. Sypris Technologies 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 period 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):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Net revenue from unaffiliated customers: | | | | |
| Sypris Technologies | \$ 19,337 | \$ 16,990 | \$ 58,895 | \$ 52,096 |
| Sypris Electronics | 14,244 | 8,209 | 42,593 | 28,313 |
| | \$ 33,581 | \$ 25,199 | \$ 101,488 | \$ 80,409 |
| Gross profit: | | | | |
| Sypris Technologies | \$ 1,459 | \$ 1,071 | \$ 6,105 | \$ 6,334 |
| Sypris Electronics | 2,581 | 900 | 6,766 | 3,926 |
| | \$ 4,040 | \$ 1,971 | \$ 12,871 | \$ 10,260 |
| Operating income (loss): | | | | |
| Sypris Technologies | \$ 21 | \$ (361) | \$ 1,720 | \$ 2,243 |
| Sypris Electronics | 1,271 | (56) | 3,417 | 1,280 |
| General, corporate and other | (1,422) | (1,186) | (3,885) | (3,963) |
| | \$ (130) | \$ (1,603) | \$ 1,252 | \$ (440) |
| (Loss) income before taxes: | | | | |
| Sypris Technologies | \$ (235) | \$ (585) | \$ 740 | \$ 1,578 |
| Sypris Electronics | 1,228 | (91) | 3,303 | 1,167 |
| General, corporate and other | (1,449) | (1,582) | (4,105) | (4,624) |
| | \$ (456) | \$ (2,258) | \$ (62) | \$ (1,879) |

| | October 1, 2023 | December 31, 2022 |
|------------------------------|--------------------|----------------------|
| | (Unaudited) | |
| Total assets: | | |
| Sypris Technologies | \$ 42,021 | \$ 36,875 |
| Sypris Electronics | 82,553 | 47,522 |
| General, corporate and other | 5,319 | 19,747 |
| | \$ 129,893 | \$ 104,144 |
| Total liabilities: | | |
| Sypris Technologies | \$ 22,452 | \$ 19,492 |
| Sypris Electronics | 79,843 | 56,073 |
| General, corporate and other | 6,187 | 9,004 |
| | \$ 108,482 | \$ 84,569 |

(11) Commitments and Contingencies

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying consolidated balance sheets as of October 1, 2023 and December 31, 2022 was \$781,000 and \$690,000, respectively. The Company's warranty expense for the three and nine months ended October 1, 2023 and October 2, 2022 was not material.

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

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

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

The Company has various current and previously-owned facilities subject to a variety of environmental regulations. The Company has received certain indemnifications from either companies previously owning these facilities or from purchasers of those facilities. 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 October 1, 2023 and December 31, 2022, no amounts were accrued for any environmental matters.

On December 27, 2017, the U.S. Department of Labor (the "DOL") filed a lawsuit alleging that the Company had misinterpreted the language of the Company's 401(k) Plans (collectively, the "Plan"). The DOL does not dispute that the Company reached such interpretation in good faith and after the Company consulted with independent ERISA counsel. On January 26, 2022, an opinion was issued by the presiding judge indicating that certain of the Plan language in dispute is unambiguous and would therefore limit the Company's right to interpret such language. Following the denial of motions for summary judgment from the Company and the DOL on April 28, 2022, a hearing took place on September 13, 2022 to review issues raised in the Company's motion to amend its answer and its proposed counter claim and general next steps for the litigation proceedings, including settlement considerations. Following the hearing the judge issued an order denying the Company's motion to amend its answer and proposed counter claim and further requested that the parties prepare a joint status report by November 14, 2022 relating to the schedule for the litigation proceedings. While the Company believes that it has affirmative defenses, in an effort to avoid further litigation the Company engaged in settlement discussions with the DOL, and on March 14, 2023, the parties jointly delivered to the court a proposed consent order and judgment containing the terms of a settlement agreement, which the judge entered into the court record on September 28, 2023. The settlement, among other terms, requires the Company to pay a restoration payment of \$575,000 to the Plan, which will be distributed among affected participants of the Plan, assessed a 10% penalty under section 502(l) of ERISA, which allows for the Company to request a good faith waiver upon satisfaction of the settlement, and dismissed individual defendants. The Company recorded a reserve of \$575,000 during the year ended December 31, 2022, and the Company currently estimates the range of possible loss is \$0 to \$58,000 in excess of the amount reserved, representing the potential 10% penalty. The Court retained jurisdiction over the parties for the purposes of enforcing and interpreting the terms of this consent order and judgment.

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. On November 21, 2022, the Company received a demand for settlement presented by the Lucas Plaintiffs, which was rejected. The trial has been set for May 20, 2024. The Company is continuing to vigorously defend the matter and believes that it has affirmative defenses and any potential damages to be undeterminable. As a result, we are currently unable to estimate a loss or range of loss for this matter at this time. The Company's general liability insurer has accepted the defense costs.

In order to reduce manufacturing lead times, the Company enters into agreements with certain suppliers to produce inventory based on the Company's requirements. A significant portion of the Company's purchase commitments arising from these agreements consists of firm and non-cancelable commitments. These purchase commitments totaled \$41,758,000 as of October 1, 2023, of which \$16,455,000 is due in 2023, \$23,810,000 is due in 2024 and \$1,493,000 is due in 2025.

(12) Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company provides for income taxes for its domestic operations at a statutory rate of 21% in 2023 and 2022 and for its foreign operations at a statutory rate of 30% in 2023 and 2022. Reconciling items between the federal statutory rate and the effective tax rate also include the expected usage of federal net operating loss carryforwards, state income taxes, valuation allowances and certain other permanent differences.

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

Based on the Company's consideration of all positive and negative evidence, including 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.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. To the Company's knowledge, the Internal Revenue Service (IRS) is not currently examining the Company's U.S. income tax returns for 2019 through 2021, for which the statute has yet to expire. During the first quarter of 2023, the Company's wholly-owned subsidiary in Mexico received a formal tax assessment notice from Mexico's Federal Tax Administration Service, Servicio de Administracion Tributaria's (the "SAT") pertaining to revenue variances and disallowed deductions related to an audit by the SAT of the 2016 tax year. The tax liability for the variances is \$20,922,000 Mexican pesos, which includes annual adjustments for inflation, interest and penalties and equals approximately \$1,150,000 USD at February 23, 2023. The Mexican subsidiary believes the variances can be substantially eliminated and filed an administrative appeal with the SAT in April 2023 and will further pursue all available legal actions in response to this assessment. No amounts have been accrued, as the Company does not believe a loss is probable. In addition, open tax years related to state and foreign jurisdictions remain subject to examination.

(13) Employee Benefit Plans

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Service cost | \$ 0 | \$ 1 | \$ 1 | \$ 3 |
| Interest cost on projected benefit obligation | 309 | 210 | 927 | 630 |
| Net amortizations, deferrals and other costs | 131 | 140 | 394 | 420 |
| Expected return on plan assets | (176) | (204) | (529) | (613) |
| Net periodic benefit cost | <u>\$ 264</u> | <u>\$ 147</u> | <u>\$ 793</u> | <u>\$ 440</u> |

The net periodic benefit cost of the defined benefit pension plans incurred during the three and nine-month periods ended October 1, 2023 and October 2, 2022 are reflected in the following captions in the accompanying consolidated statements of operations (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | October 1, 2023 | October 2, 2022 |
| | (Unaudited) | | (Unaudited) | |
| Service cost: | | | | |
| Selling, general and administrative expenses | \$ 0 | \$ 1 | \$ 1 | \$ 3 |
| Other net periodic benefit costs: | | | | |
| Other expense, net | 264 | 146 | 793 | 437 |
| Total | \$ 264 | \$ 147 | \$ 794 | \$ 440 |

(14) Accumulated Other Comprehensive Loss

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

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

| | October 1, 2023 | December 31, 2022 |
|---|--------------------|----------------------|
| | (Unaudited) | |
| Foreign currency translation adjustments | \$ (8,617) | \$ (10,458) |
| Employee benefit related adjustments – U.S., net of tax | (10,488) | (10,488) |
| Employee benefit related adjustments – Mexico, net of tax | 101 | 101 |
| Accumulated other comprehensive loss | \$ (19,004) | \$ (20,845) |

(15) 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 October 1, 2023 approximates fair value, and is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments (Level 2).

(16) Subsequent Events

As described in Note 9 above, subsequent to the third quarter ended October 1, 2023, the Company amended the Note to, among other things: (i) increase the amount by \$2,500,000 to \$6,500,000, (ii) extend the maturity dates for \$2,000,000 of the obligation to April 1, 2025, \$2,000,000 to April 1, 2026 and the balance to April 1, 2027, (iii) adjust the interest rate beginning on November 10, 2023 and on each April 1 thereafter, to reflect the greater of 8% or 500 basis points above the five-year Treasury note average during the previous 90-day period, and (iv) allow for the deferral of payment for up to 60% of the interest due on the Note to April 1, 2025.

Obligations under the 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.

Overview

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

We are organized into two business segments, Sypris Technologies and Sypris Electronics. Sypris Technologies, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of forged, machined, welded and heat-treated steel components primarily for the heavy commercial vehicle and high-pressure energy pipeline applications. Sypris Electronics, which is comprised of Sypris Electronics, LLC, generates revenue primarily through circuit card and full "box build" manufacturing, high reliability manufacturing, systems assembly and integration, design for manufacturability and design to specification work.

We focus on those markets where we believe we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry participants that embrace technological innovation and flexibility, coupled with multi-year contractual relationships, as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number, have historically created opportunities to invest in leading-edge processes or technologies to help our customers remain competitive. The productivity and innovation that can result from such investments helps to differentiate us from our competition when it comes to cost, quality, reliability and customer service.

Economic Conditions

Our operations are impacted by global economic conditions, including inflation, supply chain constraints and increased interest rates. While we have taken pricing actions and implemented transformation initiatives that we expect to improve productivity and offset these cost increases, we expect supply chain pressures and inflationary cost increases to continue for the remainder of 2023 and into 2024, which may continue thereafter and could negatively impact our results of operations.

Sypris Technologies Outlook

Conditions have remained relatively stable for the North American Class 4-8 commercial vehicle market in addition to the automotive, sport utility vehicle and off-highway markets also served by Sypris Technologies. During the first nine months of 2023, production of Class 8 trucks in North America increased 17% over the first nine months of 2022. The outlook for 2023 is for continued strong demand for production during the fourth quarter of 2023 and first quarter of 2024 with a significant decrease starting in the second quarter of 2024. While there is growing evidence of a slowing North American economy, 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 the demand cycles for our products in these markets differs from than the Class 8 commercial vehicle market, thereby reducing volatility in our revenue profile.

Reduced travel, business closures, and other economic impacts related to the COVID-19 pandemic suppressed oil and natural gas demand, thereby adversely impacting the oil and gas markets served by our Tube Turns® brand of engineered products. This caused major pipeline developers to significantly scale back near-term capital investments in new pipeline infrastructure, which resulted in reduced demand for our products for the oil and gas markets in early 2022. Sales in this market are dependent on, among other things, the level of worldwide oil and natural gas demand, the price of crude oil and natural gas and capital spending by exploration and production companies and drilling contractors. As production activity increased in the second half of 2022, particularly in liquefied natural gas shipments to Europe, customer demand in this market increased and remained at a higher level into 2023 compared to early 2022. However, the escalating conflict in the Middle East, the war between Russia and Ukraine and renewed recessionary fears has also led to disruption, instability and volatility in global markets and industries that could negatively impact our operations.

We will continue to pursue new business in a wide variety of markets from light automotive to new pressure vessel and pipeline applications to achieve a more balanced portfolio across our customers, markets and products.

Supply chain challenges and delays continued to impact business in 2023. The majority of the government aerospace and defense programs that we support require certain 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 component supply shortages on our business. Electronic component shortages may continue to be a challenge during the remainder of 2023 and 2024. We may not be successful in addressing these shortages and other supply chain issues.

During 2022 and the first nine months of 2023, we announced new program awards and releases for Sypris Electronics, with certain programs continuing into 2025. In addition to contract awards from 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 for manufacturing services to the communication and navigation markets, which require our advanced capabilities for delivering products for complex, high cost of failure platforms.

The President’s Fiscal Year (FY) 2024 budget request was submitted to Congress on March 9, 2023 initiating the FY 2024 defense authorization and appropriations legislative process. The request includes \$886 billion for national defense spending, of which \$842 billion is for the DoD base budget.

On June 3, 2023, the President signed H.R. 3746 The Fiscal Responsibility Act (“FRA”) into law. The legislation suspends the debt ceiling until January 1, 2025, and, among other provisions, caps national defense spending at \$886 billion for FY 2024 (i.e. the President’s budget request level) and \$895 billion for FY 2025. Supplemental funding legislation is not subject to the budget caps. Additionally, the FRA will result in a decrease in government spending for FY 2024 by one percent from FY 2023 enacted levels if Congress does not pass all twelve defense and non-defense discretionary appropriations bills by the end of 2023 and, as a result, a continuing resolution will be in effect on or after January 1, 2024.

On September 30, 2023, the President signed a continuing resolution to continue funding the U.S. government at FY 2023 levels through the earlier of November 17, 2023, or until FY 2024 appropriations bills are enacted. Under the continuing resolution, funding at amounts consistent with appropriated levels for FY 2023 are available, subject to certain restrictions, but new contract and program starts are not authorized. We expect our key programs will continue to be supported and funded under the continuing resolution. However, during periods covered by continuing resolutions, we may experience delays in new awards of our products and services, and those delays may adversely affect our results of operations.

Overall congressional sentiment remains strong for supporting the DOD’s National Defense Strategy and defense spending. However, we anticipate that the federal budget will continue to be subject to debate and compromise shaped by, among other things, heightened political tensions, the global security environment, inflationary pressures and macroeconomic conditions. The result may be shifting funding priorities, which could have material impacts on defense spending broadly, and the effect on individual programs or our results cannot be predicted at this time.

We expect to compete for follow-on business opportunities as a subcontractor on future builds of several existing government programs. However, the federal budget and debt ceiling are expected to continue to be the subject of considerable uncertainty and the impact on demand for our products and services and our business are difficult to predict.

See also the discussion of Congressional budgetary constraints or reallocations risks within “Item 1A, Risk Factors” included in our 2022 Form 10-K.

Results of Operations

The tables below compare our segment and consolidated results for the three and nine month periods of operations of 2023 to the three and nine month periods of operations of 2022. The tables present the results for each period, the change in those results from 2022 to 2023 in both dollars and percentage change and the results for each period as a percentage of net revenue.

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

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

Three Months Ended October 1, 2023 Compared to Three Months Ended October 2, 2022

| | Three Months Ended, | | Year Over | Year Over | Results as Percentage of | |
|--|---------------------|--------------------|--|--|--------------------------|--------------------|
| | October 1, 2023 | October 2, 2022 | Year Change Favorable (Unfavorable) | Year Percentage Change Favorable (Unfavorable) | October 1, 2023 | October 2, 2022 |
| (in thousands, except percentage data) | | | | | | |
| Net revenue: | | | | | | |
| Sypris Technologies | \$ 19,337 | \$ 16,990 | \$ 2,347 | 13.80% | 57.6% | 67.4% |
| Sypris Electronics | 14,244 | 8,209 | 6,035 | 73.5 | 42.4 | 32.6 |
| Total | 33,581 | 25,199 | 8,382 | 33.3 | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Sypris Technologies | 17,878 | 15,919 | (1,959) | (12.0) | 92.5 | 93.7 |
| Sypris Electronics | 11,663 | 7,309 | (4,354) | (59.6) | 81.9 | 89.0 |
| Total | 29,541 | 23,228 | (6,313) | (27.2) | 88.0 | 92.2 |
| Gross profit: | | | | | | |
| Sypris Technologies | 1,459 | 1,071 | 388 | 36.2 | 7.5 | 6.3 |
| Sypris Electronics | 2,581 | 900 | 1,681 | 186.8 | 18.1 | 11.0 |
| Total | 4,040 | 1,971 | 2,069 | 105.0 | 12.0 | 7.8 |
| Selling, general and administrative | 4,170 | 3,574 | (596) | (16.7) | 12.4 | 14.2 |
| Operating loss | (130) | (1,603) | 1,473 | 91.9 | (0.4) | (6.4) |
| Interest expense, net | 127 | 273 | 146 | 53.5 | 0.4 | 1.1 |
| Other expense, net | 199 | 382 | 183 | 47.9 | 0.6 | 1.5 |
| Loss before taxes | (456) | (2,258) | 1,802 | 79.8 | (1.4) | (9.0) |
| Income tax expense (benefit), net | 99 | (16) | (115) | NM | 0.3 | (0.1) |
| Net loss | \$ (555) | \$ (2,242) | \$ 1,687 | 75.2 | (1.7) | (8.9)% |

Nine Months Ended October 1, 2023 Compared to Nine Months Ended October 2, 2022.

| | Nine Months Ended, | | Year Over Year Change | Year Over Year Percentage Change | Results as Percentage of Net Revenue for the Three Months Ended | |
|--|--------------------|--------------------|-----------------------------|---|---|--------------------|
| | October 1, 2023 | October 2, 2022 | Favorable (Unfavorable) | Favorable (Unfavorable) | October 1, 2023 | October 2, 2022 |
| (in thousands, except percentage data) | | | | | | |
| Net revenue : | | | | | | |
| Sypris Technologies | \$ 58,895 | \$ 52,096 | \$ 6,799 | 13.10% | 58.0% | 64.8% |
| Sypris Electronics | 42,593 | 28,313 | 14,280 | 50.4 | 42.0 | 35.2 |
| Total | 101,488 | 80,409 | 21,079 | 26.2 | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Sypris Technologies | 52,790 | 45,762 | (7,028) | (15.4) | 89.6 | 87.8 |
| Sypris Electronics | 35,827 | 24,387 | (11,440) | (46.9) | 84.1 | 86.1 |
| Total | 88,617 | 70,149 | (18,468) | (26.3) | 87.3 | 87.2 |
| Gross profit: | | | | | | |
| Sypris Technologies | 6,105 | 6,334 | (229) | (3.6) | 10.4 | 12.2 |
| Sypris Electronics | 6,766 | 3,926 | 2,840 | 72.3 | 15.9 | 13.9 |
| Total | 12,871 | 10,260 | 2,611 | 25.4 | 12.7 | 12.8 |
| Selling, general and administrative | 11,619 | 10,700 | (919) | (8.6) | 11.4 | 13.3 |
| Operating income (loss) | 1,252 | (440) | 1,692 | NM | 1.2 | (0.5) |
| Interest expense, net | 531 | 784 | 253 | 32.3 | 0.5 | 1.0 |
| Other expense, net | 783 | 655 | (128) | (19.5) | 0.8 | 0.8 |
| Loss before taxes | (62) | (1,879) | 1,817 | 96.7 | (0.1) | (2.3) |
| Income tax expense, net | 455 | 755 | 300 | 39.7 | 0.4 | 0.9 |
| Net loss | \$ (517) | \$ (2,634) | \$ 2,117 | 80.4 | (0.5)% | (3.3)% |

Net Revenue. Sypris Technologies derives its revenue from the sale of forged and finished steel components and subassemblies and high-pressure closures and other fabricated products. Net revenue for Sypris Technologies for the three and nine-month periods ended October 1, 2023 increased \$2.3 million and \$6.8 million, respectively, from the prior year comparable periods. The net revenue increase for the quarter was primarily attributable to increased sales volumes of \$0.7 million attributable to the commercial vehicle market, \$0.5 million from the automotive, sport utility vehicle and off-highway markets and \$1.1 million in energy product sales. The net revenue increase for the nine months ended October 1, 2023 was primarily attributable to increased sales volumes of \$2.0 million attributable to the commercial vehicle market, \$1.2 million from the automotive, sport utility vehicle and off-highway markets and \$3.6 million in energy product sales.

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 \$6.0 million and \$14.3 million, respectively, for the three and nine months ended October 1, 2023, from the prior year comparable periods. The increase in revenue for the three and nine months ended October 1, 2023 was primarily related to an increase in sales to customers serving the communications market and the ramping of production during the year for two follow-on programs. Additionally, material availability improved compared to the prior year periods, which resulted in an increase in sales.

Gross Profit. Sypris Technologies’ gross profit increased \$0.4 million and decreased \$0.2 million for the three and nine months ended October 1, 2023, respectively, from the prior year comparable periods. The three and nine months ended October 1, 2023 were negatively impacted by foreign exchange rates for our Mexican subsidiary, resulting in a decrease in gross profit of \$0.8 million and \$1.8 million, respectively.

Sypris Electronics’ gross profit increased \$1.7 million and \$2.8 million for the three and nine months ended October 1, 2023, respectively, from the prior year comparable periods. The increase in gross profit for the three and nine months ended October 1, 2023 was primarily a result of the increase in revenue which also had a positive impact on overhead absorption. Additionally, material costs on a high-volume program were lower during the current year as a result of improved purchasing efforts. The order backlog for Sypris Electronics is expected to support a stable revenue rate during the balance of 2023.

Selling, General and Administrative. Selling, general and administrative expense increased by \$0.6 million and \$0.9 million for the three and nine month periods ended October 1, 2023, respectively, as compared to the same periods in 2022, primarily as a result of an increase in headcount to support the increase in volumes for Sypris Electronics and increased insurance costs. Selling, general and administrative expense decreased as a percentage of revenue to 12.4% and 11.4% for the three and nine months ended October 1, 2023, respectively, from 14.2% and 13.3% for the three and nine months ended October 2, 2022, respectively.

Income Taxes. The Company's income tax expense for the three and nine months ended October 1, 2023 and October 2, 2022 consists primarily of foreign income taxes on its Mexican subsidiaries.

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 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.

Liquidity, Capital Resources

Cash Balance. As of October 1, 2023, we had approximately \$8.4 million of cash and cash equivalents, of which \$4.8 million was held in jurisdictions outside of the U.S. that, if repatriated, could result in withholding taxes.

We have projected that our cash and cash equivalents will be sufficient to allow us to continue operations for the next 12 months. Significant changes from our current forecasts, including, but not limited to: (i) the impact of changes in worldwide and U.S. economic conditions (ii) meaningful shortfalls in projected revenue, (iii) unexpected costs or expenses, (iv) operating difficulties which cause unexpected delays in scheduled shipments, (v) an inability to balance material receipts with production requirements, (vi) changes in supplier terms and/or (vii) inflation, could require us to seek additional funding or force us to make 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.

Material Cash Requirements

Gill Family Capital Management Note. The Company has received the benefit of cash infusions from Gill Family Capital Management, Inc. ("GFCM") in the form of a secured promissory note (the "Note"), with obligations totaling \$4.0 million and \$6.5 million in principal as of October 1, 2023 and December 31, 2022, respectively. GFCM is an entity controlled by the Company's Chairman, President and Chief Executive Officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. As of October 1, 2023, our principal commitment under the Note was \$2.0 million due on April 1, 2024 and the balance on April 1, 2026. Interest on the Note is reset on April 1 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 2024.

Subsequent to the third quarter ended October 1, 2023, the Company and GFCM amended the Note to, among other things: (i) increase the amount by \$2.5 million to \$6.5 million, (ii) extend the maturity dates for \$2.0 million of the obligation to April 1, 2025, \$2.0 million to April 1, 2026 and the balance to April 1, 2027 (iii) adjust the interest rate beginning on November 10, 2023 and on each April 1 thereafter, to reflect the greater of 8% or 500 basis points above the five-year Treasury note average during the previous 90-day period, and (iv) allow for the deferral of payment for up to 60% of the interest due on the Note to April 1, 2025 (see Note 16 "Subsequent Events" to the consolidated financial statements in this Form 10-Q).

Working Capital Line of Credit. During 2023, the Company established a \$0.5 million unsecured line of credit with BBVA Mexico in support of working capital needs of our Mexican subsidiary. The term of the line extends through February 2024 and provides for interest at 8.75% per annum. As of October 1, 2023, the Company had \$0.5 million outstanding on the line of credit.

Finance Lease Obligations. As of October 1, 2023, the Company had \$3.0 million outstanding under finance lease obligations for both property and machinery and equipment at its Sypris Technologies locations with maturities through 2026 and a weighted average interest rate of 8.6%.

Equipment Financing Obligations. As of October 1, 2023, the Company had \$2.1 million outstanding under equipment financing facilities, with fixed interest rates ranging from 4.4% to 8.1% and payments due through 2028.

Purchase Commitments. We had purchase commitments totaling approximately \$41.8 million at October 1, 2023, primarily for inventory and manufacturing equipment, which are due through 2025.

Cash Flows

Operating Activities. Net cash used in operating activities was \$8.2 million in the first nine months of 2023 as compared to cash provided of \$8.3 million in the same period of 2022. The aggregate increase in accounts receivable in 2023 resulted in a usage of cash of \$2.8 million as a result of the increase in revenue for Sypris Technologies and Sypris Electronics over the prior year comparable period. The increase in inventory in 2023 resulted in a usage of cash of \$34.1 million. The increase in inventory is primarily in support of new program revenue growth for Sypris Electronics. A significant portion of the inventory receipts were funded through prepayments from customers of Sypris Electronics in 2022 and 2023, which are recorded as contract liabilities and are the primary component of the \$18.2 million the increase in accrued and other liabilities during the first nine months of 2023. Accounts payable also increased during the first nine months of 2023, primarily associated with the inventory additions, providing a source of cash of \$7.8 million.

Investing Activities. Net cash used in investing activities was comprised of capital expenditures of \$1.9 million for the first nine months of 2023 as compared to \$2.8 million for the first nine months of 2022.

Financing Activities. Net cash used in financing activities was \$3.1 million for the first nine months of 2023 as compared to \$1.0 million for the first nine months of 2022. Net cash used in financing activities in the first nine months of 2023 included principal payments of \$2.5 million on the Note, principal payments on finance leases and equipment financing obligation of \$1.2 million and payments of \$0.1 million for minimum statutory tax withholdings on stock based compensation. Net cash used in financing activities in the first nine months of 2022 included principal payments on finance leases and equipment financing obligations of \$1.0 million.

Critical Accounting Policies

See the information concerning our critical accounting policies included under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There have been no significant changes in our critical accounting policies during the nine months ended October 1, 2023.

Forward-looking Statements

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

A number of significant factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; 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; risks of foreign operations, including foreign currency exchange rate risk exposure, which could impact our operating results; cost, quality and availability or lead times of raw materials such as steel, component parts (especially electronic components), natural gas or utilities including increased cost relating to inflation; dependence on, retention or recruitment of key employees and highly skilled personnel and distribution of our human capital; the cost and availability of full-time accounting personnel with technical accounting knowledge to execute, review and approve all aspects of the financial statement close and reporting process; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including the impact of inflation, tariffs, product recalls or related liabilities, employee training, working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; volatility of our customers' forecasts and our contractual obligations to meet current scheduling demands and production levels, which may 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; our failure to successfully complete final contract negotiations with regard to our announced contract "orders", "wins" or "awards"; significant delays or reductions due to a prolonged continuing resolution or U.S. government shutdown reducing the spending on products and services that Sypris Electronics provides; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; the termination or non-renewal of existing contracts by customers; the costs and supply of insurance on acceptable terms and with adequate coverage; the costs of compliance with our auditing, regulatory or contractual obligations; pension valuation, health care or other benefit costs; our reliance on revenues from customers in the oil and gas and automotive markets, with increasing consumer pressure for reductions in environmental impacts attributed to greenhouse gas emissions and increased vehicle fuel economy; our failure to successfully win new business or develop new or improved products or new markets for our products; war, geopolitical conflict, terrorism, or political uncertainty, or disruptions resulting from the Russia-Ukraine war or the Israel and Gaza conflict, including arising out of international sanctions, foreign currency fluctuations and other economic impacts; 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; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability, warranty or environmental claims; failure to adequately insure or to identify product liability, environmental or other insurable risks; unanticipated or uninsured product liability claims, disasters, public health crises, losses or business risks; labor relations; strikes; union negotiations; costs associated with environmental claims relating to properties previously owned; our inability to patent or otherwise protect our inventions or other intellectual property rights from potential competitors or fully exploit such rights which could materially affect our ability to compete in our chosen markets; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; cyber security threats and disruptions, including ransomware attacks on our systems and the systems of third-party vendors and other parties with which we conduct business, all of which may become more pronounced in the event of geopolitical conflicts and other uncertainties, such as the conflict in Ukraine; our ability to maintain compliance with the Nasdaq listing standards minimum closing bid price; risks related to owning our common stock, including increased volatility; possible public policy response to a public health emergency, including U. S or foreign government legislation or restrictions that may impact our operations or supply chain; or unknown risks and uncertainties and the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to provide the quantitative and qualitative disclosures about market risk specified in Item 305 of Regulation S-K.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and our Principal Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) *Changes in internal controls.* There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 11 to the consolidated financial statements in this Quarterly Report on Form 10-Q is incorporated by reference into this Item 1.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements," in this Quarterly Report on Form 10-Q, and in Part I — Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There have been no material changes during the fiscal quarter from the risk factors disclosed in our Annual Report on Form 10-K other than with respect to the risk factor discussed below.

Fluctuations in foreign currency exchange rates have increased, and could continue to increase, our operating costs.

We have manufacturing operations located in Mexico. Excluding the cost of steel used in production, a significant portion of our operating expenses are denominated in the Mexican Peso. Currency exchange rates fluctuate daily as a result of a number of factors, including changes in a country's political and economic policies. Volatility in the currencies of our entities and the United States dollar, as well as inflationary costs, could seriously harm our business, operating results and financial condition. The primary impact of currency exchange fluctuations is on the cash, payables and expenses of our Mexican operating entities. The Company does not currently hedge our Mexican Peso denominated expenses. Unexpected losses have occurred from increases in the value of the Mexican Peso relative to the United States dollar and further unexpected losses could occur, which could be material to our business, financial results, or operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Stockholder Proposals for the 2024 Annual Meeting

Under the Company's Amended and Restated Bylaws, the new deadline for submission of stockholder proposals or stockholder nominees for the Board of Directors at the Company's annual meeting is no later than 60 days and no earlier than 90 days prior to the first anniversary of the preceding year's annual meeting or the tenth day after publication of the date of the meeting is first made by the Company (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the stockholder must be delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public disclosure of the date of such meeting is first made by the Company). Stockholders wishing to make such a submission for the Company's 2024 Annual Meeting of Stockholders must do so no later than March 12, 2024 and no earlier than February 11, 2024.

As previously disclosed in the Company's proxy statement for the Company's 2023 annual meeting of stockholders, the deadline for submission of stockholder proposals for inclusion in the Company's proxy statement and form of proxy for the Company's 2024 annual meeting is no later than March 10, 2024.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-----------------------|--|
| 3.1 | <u>Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed November 9, 2023 (Commission File No. 000-24020))</u> |
| 10.1 | <u>Amended and Restated Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Technologies Marion, LLC, Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of, dated November 10, 2023 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 14, 2023 (Commission File No. 000-24020))</u> . |
| 31(i).1 | <u>CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</u> |
| 31(i).2 | <u>Principal Financial Officer certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</u> |
| 32 | <u>CEO and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.</u> |
| 101.INS | Inline XBRL Instance Document (the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document). |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). |

SIGNATURES

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

SYPRIS SOLUTIONS, INC.
(Registrant)

Date: November 15, 2023

By: /s/ Richard L. Davis
(Richard L. Davis)
Vice President & Chief Financial Officer

Date: November 15, 2023

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

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

I, Jeffrey T. Gill, certify that:

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

Date: November 15, 2023

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

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

I, Richard L. Davis, certify that:

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

Date: November 15, 2023

By: /s/ Richard L. Davis
Richard L. Davis
Vice President & Chief Financial Officer

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

In connection with the Quarterly Report of Sypris Solutions, Inc. (the Company) on Form 10-Q for the period ending October 1, 2023 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: November 15, 2023

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

Date: November 15, 2023

By: /s/ Richard L. Davis
Richard L. Davis
Vice President & Chief Financial Officer

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

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