



**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 July 4, 2021  
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 August 1, 2021, the Registrant had 21,712,445 shares of common stock outstanding

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	Three Months Ended		Six Months Ended	
	July 4, 2021	July 5, 2020	July 4, 2021	July 5, 2020
	(Unaudited)		(Unaudited)	
Net revenue	\$ 25,969	\$ 17,153	\$ 45,951	\$ 39,578
Cost of sales	21,660	15,032	39,826	33,732
Gross profit	4,309	2,121	6,125	5,846
Selling, general and administrative	3,416	2,981	6,298	6,429
Operating income (loss)	893	(860)	(173)	(583)
Interest expense, net	211	193	433	420
Other expense (income), net	145	(769)	366	(486)
Forgiveness of PPP loan and related interest	(3,599)	0	(3,599)	0
Income (loss) before taxes	4,136	(284)	2,627	(517)
Income tax expense	313	64	434	136
Net income (loss)	<u>\$ 3,823</u>	<u>\$ (348)</u>	<u>\$ 2,193</u>	<u>\$ (653)</u>
Income (loss) per share:				
Basic	\$ 0.18	\$ (0.02)	\$ 0.10	\$ (0.03)
Diluted	\$ 0.17	\$ (0.02)	\$ 0.10	\$ (0.03)
Weighted average shares outstanding:				
Basic	21,356	21,016	21,475	21,005
Diluted	22,846	21,016	22,979	21,005
Dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>July 5, 2020</b>	<b>July 4, 2021</b>	<b>July 5, 2020</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net income (loss)	\$ 3,823	\$ (348)	\$ 2,193	\$ (653)
Other comprehensive income (loss)				
Foreign currency translation adjustments	355	425	(51)	(1,481)
Comprehensive income (loss)	\$ 4,178	77	\$ 2,142	\$ (2,134)

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

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

	July 4, 2021	December 31, 2020
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,194	\$ 11,606
Accounts receivable, net	10,479	7,234
Inventory, net	23,317	16,236
Other current assets	5,146	4,360
Total current assets	57,136	39,436
Property, plant and equipment, net	11,313	10,161
Operating lease right-of-use assets	5,665	6,103
Other assets	4,552	5,008
Total assets	\$ 78,666	\$ 60,708
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,798	\$ 6,734
Accrued liabilities	17,101	13,409
Operating lease liabilities, current portion	1,013	965
Finance lease obligations, current portion	447	393
Equipment financing obligations, current portion	265	0
Note payable – PPP Loan, current portion	0	1,186
Note payable – related party, current portion	2,500	0
Total current liabilities	35,124	22,687
Operating lease liabilities, net of current portion	5,420	5,941
Finance lease obligations, net of current portion	1,827	1,927
Equipment financing obligations, net of current portion	741	0
Note payable – PPP Loan, net of current portion	0	2,372
Note payable – related party, net of current portion	3,981	6,477
Other liabilities	14,875	6,529
Total liabilities	61,968	45,933
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	0	0
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	0	0
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	0	0
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 21,514,964 shares issued and 21,514,945 outstanding in 2021 and 21,302,194 shares issued and 21,300,958 outstanding in 2020	215	213
Additional paid-in capital	154,804	155,025
Accumulated deficit	(113,572)	(115,765)
Accumulated other comprehensive loss	(24,749)	(24,698)
Treasury stock, 19 and 1,236 shares in 2021 and 2020, respectively	0	0
Total stockholders' equity	16,698	14,775
Total liabilities and stockholders' equity	\$ 78,666	\$ 60,708

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

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

	Six Months Ended	
	July 4, 2021	July 5, 2020
	(Unaudited)	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,193	\$ (653)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,274	1,259
Forgiveness of PPP Loan and related interest	(3,599)	0
Deferred income taxes	266	0
Stock-based compensation expense	163	228
Deferred loan costs recognized	3	7
Net loss (gain) on the sale of assets	11	(958)
Provision for excess and obsolete inventory	65	125
Non-cash lease expense	438	491
Other noncash items	90	100
Contributions to pension plans	(254)	(34)
Changes in operating assets and liabilities:		
Accounts receivable	(3,270)	1,053
Inventory	(7,063)	1,813
Prepaid expenses and other assets	(335)	(457)
Accounts payable	7,218	(2,697)
Accrued and other liabilities	11,406	(1,318)
Net cash provided by (used in) operating activities	8,606	(1,041)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,213)	(833)
Proceeds from sale of assets	10	1,968
Net cash (used in) provided by investing activities	(1,203)	1,135
<b>Cash flows from financing activities:</b>		
Principal payments on finance lease obligations	(211)	(320)
Principal payments on equipment financing obligations	(65)	0
Proceeds from Paycheck Protection Program loan	0	3,558
Indirect repurchase of shares for minimum statutory tax withholdings	(382)	(7)
Net cash (used in) provided by financing activities	(658)	3,231
Effect of exchange rate changes on cash balances	(157)	(610)
Net increase in cash and cash equivalents	6,588	2,715
Cash and cash equivalents at beginning of period	11,606	5,095
Cash and cash equivalents at end of period	\$ 18,194	\$ 7,810
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for finance lease obligations	\$ 168	\$ 0
Capital expenditures purchased through equipment financing obligations	1,070	0

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

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

**Three Months Ended July 4, 2021**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
April 4, 2021 balance	21,436,963	\$ 214	\$ 154,783	\$ (117,395)	\$ (25,104)	\$ 0
Net income	0	0	0	3,823	0	0
Foreign currency translation adjustment	0	0	0	0	355	0
Exercise of stock options	60,482	1	(81)	0	0	0
Noncash compensation	17,500	0	102	0	0	0
Retire treasury stock	0	0	0	0	0	0
July 4, 2021 balance	<u>21,514,945</u>	<u>\$ 215</u>	<u>\$ 154,804</u>	<u>\$ (113,572)</u>	<u>\$ (24,749)</u>	<u>\$ 0</u>

**Three Months Ended July 5, 2020**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
April 5, 2020 balance	21,309,580	\$ 213	\$ 154,789	\$ (117,738)	\$ (25,957)	\$ 0
Net loss	0	0	0	(348)	0	0
Foreign currency translation adjustment	0	0	0	0	425	0
Noncash compensation	60,000	0	134	0	0	0
Retire treasury stock	0	0	0	0	0	0
July 5, 2020 balance	<u>21,369,580</u>	<u>\$ 213</u>	<u>\$ 154,923</u>	<u>\$ (118,086)</u>	<u>\$ (25,532)</u>	<u>\$ 0</u>

**Six Months Ended July 4, 2021**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
January 1, 2021 balance	21,300,958	\$ 213	\$ 155,025	\$ (115,765)	\$ (24,698)	\$ 0
Net income	0	0	0	2,193	0	0
Foreign currency translation adjustment	0	0	0	0	(51)	0
Exercise of stock options	196,487	2	(384)	0	0	0
Noncash compensation	17,500	0	163	0	0	0
Retire treasury stock	0	0	0	0	0	0
July 4, 2021 balance	<u>21,514,945</u>	<u>\$ 215</u>	<u>\$ 154,804</u>	<u>\$ (113,572)</u>	<u>\$ (24,749)</u>	<u>\$ 0</u>

**Six Months Ended July 5, 2020**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock
	Shares	Amount				
January 1, 2020 balance	21,298,426	\$ 213	\$ 154,702	\$ (117,433)	\$ (24,051)	\$ 0
Net loss	0	0	0	(653)	0	0
Foreign currency translation adjustment	0	0	0	0	(1,481)	0
Exercise of stock options	11,154	0	(7)	0	0	0
Noncash compensation	60,000	0	228	0	0	0
Retire treasury stock	0	0	0	0	0	0
July 5, 2020 balance	<u>21,369,580</u>	<u>\$ 213</u>	<u>\$ 154,923</u>	<u>\$ (118,086)</u>	<u>\$ (25,532)</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 11).

**(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, 2020 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, and the COVID-19 pandemic has increased the uncertainty with respect to developing these estimates and assumptions. The COVID-19 pandemic continues to rapidly evolve and the ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. Actual results could differ from these estimates. Actual results for the three and six months ended July 4, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2020 as presented in the Company’s Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the 2021 presentation, which had no impact to the previously reported net loss and stockholder’s equity.

**(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. This guidance, which becomes effective January 1, 2023, is not expected to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes – Simplifying the Accounting for Income Taxes. This guidance is intended to simplify various aspects of income tax accounting including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. This guidance became effective January 1, 2021. Adoption of this guidance requires certain changes to primarily be made prospectively, with some changes to be made retrospectively. The adoption did not have a material impact on the Company’s 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 and personal property, including manufacturing and information technology equipment. These real estate leases have initial terms which range from 10 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 life of the asset.

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

These operating leases are included in "Operating lease right-of-use assets" on the Company's 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 July 4, 2021, total right-of-use assets and operating lease liabilities were approximately \$5,665,000 and \$6,433,000, respectively. As of December 31, 2020, total right-of-use assets and operating lease liabilities were approximately \$6,103,000 and \$6,906,000, respectively.

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

The Company has entered into various short-term operating leases, primarily for office equipment with an initial term of twelve months or less. Lease payments associated with short-term leases are expensed as incurred and are not recorded on the Company's balance sheet. The related lease expense for short-term leases was not material for the three and six months ended July 4, 2021 and July 5, 2020.

The following table presents information related to lease expense for the three and six months ended July 4, 2021 and July 5, 2020 (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>July 5, 2020</b>	<b>July 4, 2021</b>	<b>July 5, 2020</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Finance lease expense:				
Amortization expense	\$ 87	\$ 108	\$ 173	\$ 228
Interest expense	59	72	117	149
Operating lease expense	351	351	702	702
Variable lease expense	76	94	154	162
Total lease expense	<u>\$ 573</u>	<u>\$ 625</u>	<u>\$ 1,146</u>	<u>\$ 1,241</u>

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

	<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>July 5, 2020</b>
<b>(Unaudited)</b>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 764	\$ 659
Operating cash flows from finance leases	117	149
Financing cash flows from finance leases	211	320

The annual future minimum lease payments as of July 4, 2021 are as follows (in thousands):

	<b>Operating Leases</b>	<b>Finance Leases</b>
Next 12 months	\$ 1,484	\$ 656
12 to 24 months	1,501	656
24 to 36 months	1,466	635
36 to 48 months	1,222	581
48 to 60 months	1,062	320
Thereafter	1,253	0
Total lease payments	7,988	2,848
Less imputed interest	(1,555)	(574)
Total	<u>\$ 6,433</u>	<u>\$ 2,274</u>

The following table presents certain information related to lease terms and discount rates for leases as of July 4, 2021 and December 31, 2020:

	<b>July 4, 2021</b>	<b>December 31, 2020</b>
<b>(Unaudited)</b>		
Weighted-average remaining lease term (years):		
Operating leases	5.7	6.2
Finance leases	4.3	4.9
Weighted-average discount rate (percentage):		
Operating leases	8.0	8.0
Finance leases	10.0	10.2

##### (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 is recognized based on the extent of progress towards completion of the performance obligation. We use labor hours incurred as a measure of progress for these contracts because it best depicts the Company's performance of the obligation to the customer, which occurs as we incur labor on our contracts. Under this measure of progress, the extent of progress towards completion is measured based on the ratio of labor hours incurred to date to the total estimated labor hours at completion of the performance obligation.

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

The majority of 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 \$40,473,000 of remaining performance obligations as of July 4, 2021, all of which were long-term Sypris Electronics' contracts. We expect to recognize approximately 52% of our remaining performance obligations as revenue in 2021 and the balance in 2022.

#### *Disaggregation of Revenue*

The following table summarizes revenue from contracts with customers for the three and six months ended July 4, 2021 and July 5, 2020:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>July 5, 2020</b>	<b>July 4, 2021</b>	<b>July 5, 2020</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Sypris Technologies – transferred point in time	\$ 17,139	\$ 7,445	\$ 30,329	\$ 21,162
Sypris Electronics – transferred point in time	2,655	2,138	3,270	4,245
Sypris Electronics – transferred over time	6,175	7,570	12,352	14,171
	<u>\$ 25,969</u>	<u>\$ 17,153</u>	<u>\$ 45,951</u>	<u>\$ 39,578</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 July 4, 2021 and December 31, 2020 were \$1,087,000 and \$1,240,000, respectively, and are included within other current assets in the accompanying consolidated balance sheets.

*Contract liabilities* – Some of the Company's contracts within Sypris Electronics are billed as work progresses in accordance with the contract terms and conditions, either at periodic intervals or upon achievement of certain milestones. Often this results in billing occurring prior to revenue recognition resulting in contract liabilities. Additionally, the Company occasionally receives cash payments from customers in advance of the Company's performance resulting in contract liabilities. These contract liabilities are classified as either current or long-term in the consolidated balance sheet based on the timing of when the Company expects to recognize revenue. As of July 4, 2021, the contract liabilities balance was \$19,474,000, of which \$10,769,000 was included within accrued liabilities and \$8,705,000 was included within other liabilities in the accompanying consolidated balance sheets. As of December 31, 2020, the contract liabilities balance was \$7,339,000, of which \$6,816,000 was included within accrued liabilities and \$523,000 was included within other liabilities in the accompanying consolidated balance sheets. 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 \$1,607,000 and \$3,609,000 during the three and six months ended July 4, 2021, respectively. The Company recognized revenue from contract liabilities of \$2,929,000 and \$4,645,000 during the three and six months ended July 5, 2020, 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) Assets Held for Sale**

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

On April 13, 2020, the Company completed the sale of the Broadway Plant real estate for \$1,700,000. The Company also sold other equipment during 2020 for \$268,000, and recognized net gains of \$958,000 during the six months ended July 5, 2020, which is included in other expense (income), net on the Company’s consolidated income statements. Certain equipment at the Broadway Plant was abandoned as of December 31, 2020. Management continues to market certain other equipment located at its facility in Toluca, Mexico, which has been classified as assets held for sale and included in other current assets as of July 4, 2021 and December 31, 2020.

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

	<u>July 4, 2021</u>	<u>December 31, 2020</u>
	<u>(Unaudited)</u>	
Property, plant and equipment	\$ 1,381	\$ 1,387
Accumulated depreciation	(971)	(975)
Property, plant and equipment, net	<u>\$ 410</u>	<u>\$ 412</u>

**(7) Earnings (Loss) Per Common Share**

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

Our potentially dilutive securities include potential common shares related to our stock options and restricted stock. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted earnings per share excludes the impact of common shares related to our stock options in periods in which the option exercise price is greater than the average market price of our common stock for the period. There were 4,000 potential common shares excluded from diluted earnings per share for the three and six months ended July 4, 2021. For the three and six months ended July 5, 2020, 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) income per common share is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 4, 2021	July 5, 2020	July 4, 2021	July 5, 2020
	(Unaudited)		(Unaudited)	
Income (loss) attributable to stockholders:				
Net income (loss) income as reported	\$ 3,823	\$ (348)	\$ 2,193	\$ (653)
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 income (loss) allocable to common stockholders	<u>\$ 3,823</u>	<u>\$ (348)</u>	<u>\$ 2,193</u>	<u>\$ (653)</u>
Income (loss) per common share attributable to stockholders:				
Basic	\$ 0.18	\$ (0.02)	\$ 0.10	\$ (0.03)
Diluted	\$ 0.17	\$ (0.02)	\$ 0.10	\$ (0.03)
Weighted average shares outstanding – basic	21,356	21,016	21,475	21,005
Weighted average additional shares assuming conversion of potential common shares	1,490	0	1,504	0
Weighted average shares outstanding – diluted	<u>22,846</u>	<u>21,016</u>	<u>22,979</u>	<u>21,005</u>

#### (8) Inventory

Inventory consists of the following (in thousands):

	July 4, 2021	December 31, 2020
	(Unaudited)	
Raw materials	\$ 17,895	\$ 11,118
Work in process	6,006	6,210
Finished goods	1,142	762
Reserve for excess and obsolete inventory	(1,726)	(1,854)
Total	<u>\$ 23,317</u>	<u>\$ 16,236</u>

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

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

	July 4, 2021	December 31, 2020
	(Unaudited)	
Land and land improvements	\$ 43	\$ 43
Buildings and building improvements	7,776	7,747
Machinery, equipment, furniture and fixtures	57,207	55,620
Construction in progress	1,160	609
	66,186	64,019
Accumulated depreciation	(54,873)	(53,858)
	<u>\$ 11,313</u>	<u>\$ 10,161</u>

**(10) Debt**

Debt outstanding consists of the following (in thousands):

	July 4, 2021 <u>(Unaudited)</u>	December 31, 2020 <u></u>
<b>Current:</b>		
Finance lease obligation, current portion	\$ 447	\$ 393
Equipment financing obligations, current portion	265	0
PPP Loan, current portion	0	1,186
Note payable – related party, current portion	2,500	0
Current portion of long term debt and finance lease obligations	<u>\$ 3,212</u>	<u>\$ 1,579</u>
<b>Long Term:</b>		
Finance lease obligation	\$ 1,827	\$ 1,927
Equipment financing obligations	741	0
PPP Loan	0	2,372
Note payable – related party	4,000	6,500
Less unamortized debt issuance and modification costs	(19)	(23)
Long term debt and finance lease obligations net of unamortized debt costs	<u>\$ 6,549</u>	<u>\$ 10,776</u>

*Paycheck Protection Program*

During the second quarter of 2020, the Company secured a \$3,558,000 term loan (the “PPP Loan”) with BMO Harris Bank National Association (“BMO”). Proceeds from the PPP Loan were used to retain workers and maintain payroll and make lease and utility payments. The PPP Loan is evidenced by a promissory note in favor of BMO, as lender, with a principal amount of \$3,558,000 that bears interest at a fixed annual rate of 1.00%. The term of the PPP Loan is two years, with no payments due under the PPP Loan until July 2021, although interest will accrue during the deferment period.

The PPP Loan is unsecured and guaranteed by the U.S. Small Business Administration (the “SBA”). During the fourth quarter of 2020, the Company applied for forgiveness of the PPP Loan, with the amount which may be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Company during the 24-week period beginning upon receipt of funds from the PPP Loan, subject to limitations and calculated in accordance with the terms of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”).

On June 28, 2021, the Company received notice from BMO that BMO had received confirmation from the SBA that the application for forgiveness of the PPP Loan had been approved. The loan forgiveness request in the amount of \$3,558,000 was applied to the Company’s entire outstanding PPP Loan balance with BMO. During the three and six months ended July 4, 2021, the Company recorded a gain on the forgiveness of the PPP Loan and accrued interest in the amount of \$3,599,000.

*Note Payable – Related Party*

The Company has received the benefit of cash infusions from Gill Family Capital Management, Inc. (“GFCM”) in the form of secured promissory note obligations totaling \$6,500,000 in principal as of April 4, 2021 and December 31, 2020. 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 July 4, 2021, our principal commitment under the Note was \$2,500,000 due on April 1, 2022, \$2,000,000 on April 1, 2024 and the balance on April 1, 2026. Interest on the promissory 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 2022 and 2024. During the first quarter of 2020, the Company provided notice to GFCM of its intention to elect to defer the specified portion of the interest payments due beginning on April 6, 2020. All accrued but unpaid interest was paid on January 4, 2021.

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

#### *Finance Lease Obligations*

As of July 4, 2021, the Company had \$2,274,000 outstanding under finance lease obligations for both property and machinery and equipment at its Sypris Technologies locations with maturities through 2025 and a weighted average interest rate of 10.03%.

#### *Equipment Financing Obligations*

As of July 4, 2021, the Company had \$1,006,000 outstanding under equipment financing facilities, with effective interest rates ranging from 5.06% to 8.06% and payments due through 2026.

### **(11) Segment Data**

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

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2021</b>	<b>July 5, 2020</b>	<b>July 4, 2021</b>	<b>July 5, 2020</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Net revenue from unaffiliated customers:</b>				
Sypris Technologies	\$ 17,139	\$ 7,445	\$ 30,329	\$ 21,162
Sypris Electronics	8,830	9,708	15,622	18,416
	<u>\$ 25,969</u>	<u>\$ 17,153</u>	<u>\$ 45,951</u>	<u>\$ 39,578</u>
<b>Gross profit:</b>				
Sypris Technologies	\$ 2,509	\$ 229	\$ 3,680	\$ 2,722
Sypris Electronics	1,800	1,892	2,445	3,124
	<u>\$ 4,309</u>	<u>\$ 2,121</u>	<u>\$ 6,125</u>	<u>\$ 5,846</u>

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 4, 2021</u>	<u>July 5, 2020</u>	<u>July 4, 2021</u>	<u>July 5, 2020</u>
	(Unaudited)		(Unaudited)	
<b>Operating income (loss):</b>				
Sypris Technologies	\$ 1,316	\$ (818)	\$ 1,443	\$ 308
Sypris Electronics	844	1,033	674	1,441
General, corporate and other	(1,267)	(1,075)	(2,290)	(2,332)
	<u>\$ 893</u>	<u>\$ (860)</u>	<u>\$ (173)</u>	<u>\$ (583)</u>
<b>Income (loss) before taxes:</b>				
Sypris Technologies	\$ 1,105	\$ (92)	\$ 941	\$ 667
Sypris Electronics	840	1,025	664	1,424
General, corporate and other	2,191	(1,217)	1,022	(2,608)
	<u>\$ 4,136</u>	<u>\$ (284)</u>	<u>\$ 2,627</u>	<u>\$ (517)</u>
		<u>July 4, 2021</u>	<u>December 31, 2020</u>	
		(Unaudited)		
<b>Total assets:</b>				
Sypris Technologies		\$ 36,407	\$ 31,425	
Sypris Electronics		27,094	18,620	
General, corporate and other		15,165	10,663	
		<u>\$ 78,666</u>	<u>\$ 60,708</u>	
<b>Total liabilities:</b>				
Sypris Technologies		\$ 24,065	\$ 19,974	
Sypris Electronics		29,628	13,545	
General, corporate and other		8,275	12,414	
		<u>\$ 61,968</u>	<u>\$ 45,933</u>	

## (12) 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 July 4, 2021 and December 31, 2020 was \$607,000 and \$638,000, respectively. The Company's warranty expense for the three and six months ended July 4, 2021 and July 5, 2020 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 July 4, 2021 and December 31, 2020, 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 its Company's 401(k) Plans (collectively, the "Plan"). The DOL does not appear to dispute that the Company reached such interpretation in good faith and after consulting with independent ERISA counsel. If the DOL's allegations were upheld by a court, the Company could be required to make additional contributions into the accounts of its Plan participants. The Company regards the DOL's allegations to be without merit and is continuing to vigorously defend the matter.

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

As of July 4, 2021, the Company had outstanding purchase commitments of approximately \$21,445,000, primarily for the acquisition of inventory and manufacturing equipment.

### **(13) 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 2021 and 2020 and for its foreign operations at a statutory rate of 30% in 2021 and 2020. 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.

**(14) Employee Benefit Plans**

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

	Three Months Ended		Six Months Ended	
	July 4, 2021	July 5, 2020	July 4, 2021	July 5, 2020
	(Unaudited)		(Unaudited)	
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost on projected benefit obligation	116	190	387	542
Net amortizations, deferrals and other costs	148	149	306	316
Expected return on plan assets	(136)	(185)	(378)	(456)
Net periodic benefit cost	<u>\$ 129</u>	<u>\$ 155</u>	<u>\$ 317</u>	<u>\$ 404</u>

The net periodic benefit cost of the defined benefit pension plans incurred during the three and six-month periods ended July 4, 2021 and July 5, 2020 are reflected in the following captions in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	July 4, 2021	July 5, 2020	July 4, 2021	July 5, 2020
	(Unaudited)		(Unaudited)	
Service cost:				
Selling, general and administrative expenses	\$ 1	\$ 1	\$ 2	\$ 2
Other net periodic benefit costs:				
Other expense (income), net	128	154	315	402
Total	<u>\$ 129</u>	<u>\$ 155</u>	<u>\$ 317</u>	<u>\$ 404</u>

**(15) 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):

	July 4, 2021	December 31, 2020
	(Unaudited)	
Foreign currency translation adjustments	\$ (10,898)	\$ (10,847)
Employee benefit related adjustments – U.S., net of tax	(13,867)	(13,867)
Employee benefit related adjustments – Mexico, net of tax	16	16
Accumulated other comprehensive loss	<u>\$ (24,749)</u>	<u>\$ (24,698)</u>

**(16) 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 July 4, 2021 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).

**(17) Subsequent Events**

Subsequent to quarter-end, the Company granted 197,500 restricted shares and options to purchase 34,000 shares of our common stock under the 2020 Sypris Omnibus Plan. The restricted shares vest on the third anniversary of the grant date. The options have a five-year term and cliff vest on the third anniversary of the grant date.

## 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.

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

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

We implemented modifications beginning in the second quarter of 2020 to preserve adequate liquidity and ensure that our business continued to operate during this uncertain time. With respect to liquidity, we evaluated and took actions to reduce costs and spending across our organization. This included reducing hiring activities, reducing compensation of our Chairman, President and CEO, certain other senior leadership and corporate personnel and our Board of Directors, and limiting discretionary spending. Many of these reductions remained in effect during the first half of 2021. In addition, under the CARES Act, we have deferred certain payroll taxes into future years. We also reduced spending on capital investment projects in 2020 and managed working capital to preserve liquidity during this crisis. In addition to these activities, during the second quarter of 2020, the Company secured a \$3.6 million term loan with BMO, pursuant to the PPP under the CARES Act. Proceeds from the PPP Loan have been used to retain workers and maintain payroll and make lease and utility payments. On June 28, 2021, the Company received notice from BMO that our application for forgiveness of the PPP Loan had been approved.

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

## *Sypris Technologies Outlook*

Demand in the North American Class 4-8 commercial vehicle market started to recover in the second half of 2020 following an anticipated market decline in the first half that was deepened by the impact of the COVID-19 pandemic. Market conditions have remained favorable through the first half of 2021 for commercial vehicles in addition to the automotive, sporty utility vehicle and off-highway markets served by Sypris Technologies. The outlook for 2021 for the commercial vehicle market indicates stronger demand with production expected to be up 46% over the prior year due to an anticipated improving economic outlook and cyclical growth. Additionally, we believe that the market diversification Sypris Technologies has accomplished over recent years by adding new programs in the automotive, sport-utility and off-highway markets has benefited and will continue to benefit the Company as demand for our products in these markets did not decline as dramatically as demand declined in the Class 8 commercial vehicle market.

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

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

## *Sypris Electronics Outlook*

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

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

The majority of the government aerospace and defense programs that we support require specific components that are sole-sourced to specific suppliers; therefore, the resolution of supplier constraints requires coordination with our customers or the end-users of the products. We have partnered with our customers to qualify alternative components or suppliers and will continue to focus on our supply chain to attempt to mitigate the impact of supply component shortages on our business. While the COVID-19 outbreak did not have a material impact on our supply chain in 2020 or the first half of 2021, electronic component shortages may become a challenge in the second half of 2021 and 2022. We may not be successful in addressing these shortages and other supply chain issues.

During 2020 and the first half of 2021, we announced new program awards for Sypris Electronics, with certain programs continuing into 2022. In addition to contract awards from DoD prime contractors related to weapons systems, electronic warfare and infrared countermeasures in our traditional aerospace and defense markets, we have also been awarded subcontracts related to the communication and navigation markets, which align with our advanced capabilities for delivering products for complex, high cost of failure platforms.

On May 28, 2021, the President of the United States submitted to Congress the President’s fiscal year (FY) 2022 budget request, which proposes \$753 billion for total national defense spending including \$715 billion for the DoD, a 1.6% increase above the FY 2021 enacted amounts for both total national defense and the DoD (a U.S. Government fiscal year starts on October 1 and ends on September 30). This is the first budget over the past decade that is not restricted by the discretionary spending caps under the Budget Control Act of 2011. The budget also proposes to end the use of Overseas Contingency Operations (OCO) as a separate fund to finance overseas operations. In the coming months, Congress will need to approve or revise the President’s FY 2022 budget proposal through enactment of appropriations bills and other policy legislation, which would then require final approval from the President in order for the FY 2022 budget to become law and complete the budget process.

In addition to the FY 2022 budget, the U.S. Government continues to face a variety of fiscal and monetary policy issues, including rising debt levels. The legal limit on U.S. debt, commonly known as the debt ceiling, was reinstated on August 1, 2021, after a two-year suspension. On August 2, 2019, with the passage of the Bipartisan Budget Act of 2019 (BBA-19), Congress suspended the debt ceiling through July 31, 2021, at which time the debt limit was increased to the amount of U.S. Government debt outstanding on that date. If the debt ceiling is not raised or suspended again, the Department of Treasury is expected to employ extraordinary measures to continue financing the U.S. Government while avoiding exceeding the debt limit. It is expected, however, that the U.S. Government will exhaust these available measures in late summer or early fall of 2021, and Congress will need to raise the debt limit in order for the U.S. Government to continue borrowing money. If the debt ceiling is not raised, the U.S. Government may not be able to pay for expenditures or fulfill its funding obligations and there could be significant disruption to all discretionary programs, including discretionary programs in which we participate.

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.

## Results of Operations

The tables below compare our segment and consolidated results for the three and six month periods of operations of 2021 to the three and six month periods of operations of 2020. The tables present the results for each period, the change in those results from 2020 to 2021 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 July 4, 2021 Compared to Three Months Ended July 5, 2020

	Three Months Ended,		Year Over	Year Over	Results as Percentage of	
	July 4, 2021	July 5, 2020	Year Change Favorable (Unfavorable)	Year Percentage Change Favorable (Unfavorable)	July 4, 2021	July 5, 2020
(in thousands, except percentage data)						
<b>Net revenue:</b>						
Sypris Technologies	\$ 17,139	\$ 7,445	\$ 9,694	130.2%	66.0%	43.4%
Sypris Electronics	8,830	9,708	(878)	(9.0)	34.0	56.6
Total	25,969	17,153	8,816	51.4	100.0	100.0
<b>Cost of sales:</b>						
Sypris Technologies	14,630	7,216	(7,414)	(102.7)	85.4	96.9
Sypris Electronics	7,030	7,816	786	10.1	79.6	80.5
Total	21,660	15,032	(6,628)	(44.1)	83.4	87.6
<b>Gross profit:</b>						
Sypris Technologies	2,509	229	2,280	995.6	14.6	3.1
Sypris Electronics	1,800	1,892	(92)	(4.9)	20.4	19.5
Total	4,309	2,121	2,188	103.2	16.6	12.4
Selling, general and administrative	3,416	2,981	(435)	(14.6)	13.2	17.4
Operating income (loss)	893	(860)	1,753	NM	3.4	(5.0)
Interest expense, net	211	193	(18)	(9.3)	0.8	1.1
Other expense (income), net	145	(769)	(914)	NM	0.6	(4.5)
Forgiveness of PPP Loan and related interest	(3,599)	0	3,599	NM	(13.9)	0.0
Income (loss) before taxes	4,136	(284)	4,420	NM	15.9	(1.6)
Income tax expense, net	313	64	(249)	(389.1)	1.2	0.4
Net income (loss)	\$ 3,823	\$ (348)	\$ 4,171	NM	14.7%	(2.0)%

Six Months Ended July 4, 2021 Compared to Six Months Ended July 5, 2020.

	Six Months Ended,		Year Over	Year Over	Results as Percentage of	
	July 4, 2021	July 5, 2020	Change	Percentage	Net Revenue for the Six	
			Favorable (Unfavorable)	Favorable (Unfavorable)	July 4, 2021	July 5, 2020
(in thousands, except percentage data)						
Net revenue:						
Sypris Technologies	\$ 30,329	\$ 21,162	\$ 9,167	43.3%	66.0%	53.5%
Sypris Electronics	15,622	18,416	(2,749)	(15.2)	34.0	46.5
Total	45,951	39,578	6,373	16.1	100.0	100.0
Cost of sales:						
Sypris Technologies	26,649	18,440	(8,209)	(44.5)	87.9	87.1
Sypris Electronics	13,177	15,292	2,115	13.8	84.3	83.0
Total	39,826	33,732	(6,094)	(18.1)	86.7	85.2
Gross profit:						
Sypris Technologies	3,680	2,722	958	35.2	12.1	12.9
Sypris Electronics	2,445	3,124	(679)	(21.7)	15.7	17.0
Total	6,125	5,846	279	4.8	13.3	14.8
Selling, general and administrative	6,298	6,429	131	2.0	13.7	16.2
Operating loss	(173)	(583)	410	70.3	(0.4)	(1.5)
Interest expense, net						
	433	420	(13)	(3.1)	0.9	1.1
Other expense (income), net						
	366	(486)	(852)	NM	0.8	(1.2)
Forgiveness of PPP Loan and related interest						
	(3,599)	-	3,599	NM	(7.8)	-
Income (loss) before taxes						
	2,627	(517)	3,144	NM	5.7	(1.4)
Income tax expense, net						
	434	136	(298)	(219.1)	0.9	0.3
Net income (loss)						
	\$ 2,193	\$ (653)	\$ 2,846	NM	4.8%	(1.7)%

*Net Revenue.* Sypris Technologies derives its revenue from the sale of forged and finished steel components and subassemblies and high-pressure closures and other fabricated products. Net revenue for Sypris Technologies for the three and six-month periods ended July 4, 2021 increased \$9.7 million and \$9.2 million, respectively, from the prior year comparable periods as a result of the rebound in the commercial vehicle market from the impact of the COVID-19 pandemic experienced during the prior year periods. The net revenue increase for the comparable three-month period was attributable to increased sales volumes of \$9.5 million primarily with customers in the commercial vehicle market and increased energy related product sales of \$0.2 million. The net revenue increase for the comparable six-month period was attributable to increased sales volumes of \$10.9 million primarily with customers in the commercial vehicle market, partially offset by decreased energy related product sales of \$1.7 million.

Sypris Electronics derives its revenue primarily from circuit card and full “box build” manufacturing, high reliability manufacturing and systems assembly and integration. Net revenue for Sypris Electronics decreased \$0.9 million and \$2.8 million, respectively, for the three and six months ended July 4, 2021, from the prior year comparable periods. The decrease in revenue for the three and six months ended July 4, 2021 was primarily related to the completion of a program during the prior year. The follow-on to this program has been booked and shipments are expected to resume during the fourth quarter of 2021. Additionally, sales to our customers serving the communications industry decreased as compared to the first half of 2020 due to delayed orders experienced during the first quarter of 2021. Many of these orders were received beginning late in the first quarter and continued in the second quarter of 2021 and are expected to be converted to revenue over the balance of the year.

*Gross Profit.* Sypris Technologies’ gross profit increased \$2.3 million and \$1.0 million for the three and six months ended July 4, 2021, respectively, from the prior year comparable periods. The net increase in volumes contributed to an increase in gross profit of \$4.0 million and \$3.4 million for the three and six months ended July 4, 2021, respectively, from the prior year comparable periods. Partially offsetting this increase was an unfavorable product mix, increased operating supply spend, additional equipment maintenance expenses in support of an expected increase in revenue and unfavorable labor productivity experienced in the first quarter of 2021 as new production workers were being trained.

Sypris Electronics’ gross profit decreased \$0.1 million and \$0.7 million for the three and six months ended July 4, 2021, respectively, from the prior year comparable periods. The decrease in gross profit was primarily a result of the decrease in revenue during the period, which also had a negative impact on overhead absorption, and an unfavorable revenue mix. The order backlog for Sypris Electronics is expected to support a stable revenue rate during the balance of 2021.

*Selling, General and Administrative.* Selling, general and administrative expense increased by \$0.4 million and decreased by \$0.1 million for the three and six month periods ended July 4, 2021, respectively, as compared to the same periods in 2020. The increase in selling general and administrative expense for the three months ended July 4, 2021 is primarily the result of higher employee medical insurance claim expense during the period and an increase in headcount to support the anticipated increase in volumes for Sypris Technologies. Selling, general and administrative expense decreased as a percentage of revenue to 13.2% and 13.7% for the three and six months ended July 4, 2021, respectively from 17.4% and 16.2% for the three and six months ended July 5, 2020, respectively.

*Other Expense (Income), Net.* The Company recognized other expense, net of \$0.1 million and \$0.4 million for the three and six months ended July 4, 2021, respectively. During the three months ended July 4, 2021, the Company recognized pension expense of \$0.1 million. For the six months ended July 4, 2021, the Company recognized foreign exchange related losses of \$0.1 million and pension expense of \$0.3 million.

The Company recognized other income, net of \$0.8 million and \$0.5 million for the three and six months ended July 5, 2020, respectively. During the three months ended July 5, 2020, the Company recognized net gains of \$0.8 million related to the sale of idle assets and foreign exchange related gains of \$0.1 million, partially offset by pension expense of \$0.2 million. For the six months ended July 5, 2020, the Company recognized net gains of \$1.0 million related to the sale of idle assets, partially offset by foreign exchange related losses of \$0.1 million and pension expense of \$0.4 million.

*Forgiveness of PPP loan and related interest.* On June 28, 2021, the Company received notice from BMO that BMO had received confirmation from the SBA that the application for forgiveness of the PPP Loan had been approved. The loan forgiveness request in the amount of \$3.6 million was applied to the Company’s entire outstanding PPP Loan balance with BMO. During the three and six months ended July 4, 2021, the Company recorded a gain on the forgiveness of the PPP Loan and accrued interest in the amount of \$3.6 million.

*Income Taxes.* The Company’s income tax expense for the three and six months ended July 4, 2021 and July 5, 2020 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**

*Paycheck Protection Program.* As described above, the Company secured the PPP Loan under the CARES Act during the second quarter of 2020. Proceeds from the PPP Loan have been used to retain workers and maintain payroll and make lease and utility payments. The PPP Loan is evidenced by a promissory note in favor of BMO, as lender, with a principal amount of \$3.6 million that bears interest at a fixed annual rate of 1.00%. The term of the PPP Loan is two years, with no payments due under the PPP Loan until July 2021, although interest will accrue during the deferment period.

The PPP Loan is unsecured and guaranteed by the SBA. During the fourth quarter of 2020, the Company applied for forgiveness of the PPP Loan, with the amount which may be forgiven equal to the sum of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Company during the 24-week period beginning upon receipt of funds from the PPP Loan, subject to limitations and calculated in accordance with the terms of the CARES Act.

On June 28, 2021, the Company received notice from BMO that BMO had received confirmation from the SBA that the application for forgiveness of the PPP Loan had been approved. The loan forgiveness request in the amount of \$3.6 million was applied to the Company's entire outstanding PPP Loan balance with BMO. During the three and six months ended July 4, 2021, the Company recorded a gain on the forgiveness of the PPP Loan and accrued interest in the amount of \$3.6 million.

*Gill Family Capital Management Note.* The Company has received the benefit of cash infusions from GFCM in the form of secured promissory note obligations totaling \$6.5 million in principal as of July 4, 2021 and December 31, 2020 (the "Note"). GFCM is an entity controlled by the Company's Chairman, President and Chief Executive Officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. As of July 4, 2021, our principal commitment under the Note was \$2.5 million due on April 1, 2022, \$2.0 million 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 2022 and 2024. During the first quarter of 2020, the Company provided notice to GFCM of its intention to elect to defer the specified portion of the interest payments due beginning on April 6, 2020. All accrued but unpaid interest was paid on January 4, 2021.

*Finance Lease Obligations.* As of July 4, 2021, the Company had \$2.3 million outstanding under finance lease obligations for both property and machinery and equipment at its Sypris Technologies locations with maturities through 2025 and a weighted average interest rate of 10.03%.

*Equipment Financing Obligations.* As of July 4, 2021, the Company had \$1.0 million outstanding under equipment financing facilities, with effective interest rates ranging from 5.06% to 8.06% and payments due through 2026.

*Purchase Commitments.* We had purchase commitments totaling approximately \$21.4 million at July 4, 2021, primarily for inventory and manufacturing equipment.

*Cash Balance.* At July 4, 2021, we had approximately \$18.2 million of cash and cash equivalents, of which \$5.3 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 the COVID-19 pandemic and changes in worldwide and U.S. economic conditions (ii) meaningful shortfalls in projected revenue or sales proceeds from underutilized or non-core equipment, (iii) unexpected costs or expenses, and/or (iv) operating difficulties which cause unexpected delays in scheduled shipments, could require us to seek additional funding or force us to make further reductions in spending, extend payment terms with suppliers, liquidate assets where possible and/or suspend or curtail planned programs. Any of these actions could materially harm our business, results of operations and future prospects.

## **Cash Flows**

*Operating Activities.* Net cash provided by operating activities was \$8.6 million in the first six months of 2021 as compared to cash used of \$1.0 million in the same period of 2020. The aggregate increase in accounts receivable in 2021 resulted in a usage of cash of \$3.3 million as a result of the increase in revenue for Sypris Technologies and an early payment by a customer at the end of 2020. The increase in inventory in 2021 resulted in a usage of cash of \$7.1 million. The increase in inventory is primarily in support of new program revenue growth for Sypris Electronics anticipated to begin in the second half of 2021. A significant portion of the inventory receipts were funded through prepayments from customers of Sypris Electronics in 2020 and the first six months of 2021. Additionally, there was an increase in accounts payable during the first six months of 2021, providing a source of cash of \$7.2 million, resulting from a delay in billing by one of Sypris Technologies customers and an increase in the purchase of inventory. Accrued and other liabilities increased during the first six months of 2021, resulting in a source of cash of \$11.4 million, primarily as a result of several substantial prepayments from customers of Sypris Electronics to fund the purchase of specific program inventory, resulting in an increase in contract liabilities.

*Investing Activities.* Net cash used in investing activities was \$1.2 million for the first six months of 2021 as compared to cash provided of \$1.1 million for the first six months of 2020. Net cash used in investing activities for the first six months of 2021 was comprised of capital expenditures of \$1.2 million.



Net cash used in investing activities for the first six months of 2020 included proceeds of \$2.0 million from the sale of idle assets by Sypris Technologies during the period, including the sale of the Broadway Plant, partially offset by capital expenditures of \$0.8 million.

*Financing Activities.* Net cash used in financing activities was \$0.7 million for the first six months of 2021 as compared to cash provided of \$3.2 million for the first six months of 2020. Net cash used in financing activities in the first six months of 2021 included principal payments on finance leases and equipment financing obligations of \$0.3 million and payments of \$0.4 million for minimum statutory tax withholdings on stock based compensation.

Net cash provided by financing activities in the first six months of 2020 included proceeds of \$3.6 million under the PPP Loan, as described above, partially offset by finance lease payments of \$0.3 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, 2020. There have been no significant changes in our critical accounting policies during the six months ended July 4, 2021.

### **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, 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 impact of COVID-19 and economic conditions on our future operations; possible public policy response to the pandemic, including legislation or restrictions that may impact our operations or supply chain; our failure to successfully complete final contract negotiations with regard to our announced contract “orders”, “wins” or “awards”; our failure to successfully win new business; the termination or non-renewal of existing contracts by customers; our failure to achieve and maintain profitability on a timely basis by steadily increasing our revenues from profitable contracts with a diversified group of customers, which would cause us to continue to use existing cash resources or require us to sell assets to fund operating losses; breakdowns, relocations or major repairs of machinery and equipment, especially in our Toluca Plant; volatility of our customers’ forecasts especially in the commercial truck markets and our contractual obligations to meet current scheduling demands and production levels (especially in our Toluca Plant), 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; cost, quality and availability or lead times of raw materials such as steel, component parts (especially electronic components), natural gas or utilities; the cost, quality, timeliness, efficiency and yield of our operations and capital investments, including the impact of tariffs, product recalls or related liabilities, employee training, working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; dependence on, retention or recruitment of key employees and distribution of our human capital; disputes or litigation involving governmental, supplier, customer, employee, creditor, stockholder, product liability, warranty or environmental claims; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; our ability to comply with the requirements of the SBA and maintain forgiveness of all or a portion of our Paycheck Protection Program loan; our inability to develop new or improved products or new markets for our products; 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; other potential weaknesses in internal controls over financial reporting and enterprise risk management; failure to adequately insure or to identify product liability, environmental or other insurable risks; unanticipated or uninsured disasters, public health crises, losses or business risks; unanticipated or uninsured product liability claims; the costs of compliance with our auditing, regulatory or contractual obligations; labor relations; strikes; union negotiations; pension valuation, health care or other benefit costs; costs associated with environmental claims relating to properties previously owned; our inability to patent or otherwise protect our inventions or other intellectual property from potential competitors; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; 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; U.S. government spending on products and services that Sypris Electronics provides, including the timing of budgetary decisions; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; risks of foreign operations; currency exchange rates; war, terrorism, or political uncertainty; cyber security threats and disruptions; inaccurate data about markets, customers or business conditions; our ability to maintain compliance with the Nasdaq listing standards minimum closing bid price; risk related to owning our common stock including increased volatility; 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, 2020.

**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 12 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, 2020. There have been no material changes during the fiscal quarter from the risk factors disclosed in our Annual Report on Form 10-K.

**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**

None.

ITEM 6. EXHIBITS

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.1	<a href="#">Form of Five Year Restricted Stock Award Agreement.</a>
10.2	<a href="#">Form of Executive Long-Term Incentive Award Agreement for Grants of Restricted Stock to Executive Officers.</a>
10.3	<a href="#">Form of Special Retirement Award Agreement for Grants of Non-Qualified Stock Options.</a>
31(i).1	<a href="#">CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</a>
31(i).2	<a href="#">Principal Financial Officer certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.</a>
32	<a href="#">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.</a>
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: August 12, 2021

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

Date: August 12, 2021

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



**Five-Year Restricted Stock Award Agreement**

**RESTRICTED STOCK**

Effective as of **[month/day/year]** (“Grant Date”), contingent on your continued employment as of that date, the Company hereby grants to **[participant name]** certain rights to ownership of up to **[# shares]** Restricted Shares on the terms of this Award Agreement (the “Terms”), the attached Program, and the 2020 Sypris Omnibus Plan (“Plan”) as follows:

<b>Vesting Dates</b>	<b># of Shares Vesting</b>
[4th anniversary of the grant date]	[50% of restricted shares]
[5th anniversary of the grant date]	[50% of restricted shares]

Intending to be legally bound by all such Terms, the Program and the Plan (as amended from time to time), I acknowledge the sole authority of the Committee to interpret the terms of the foregoing, the forfeiture of my rights upon any termination of my employment under such Terms. I have received and had an opportunity to review, with the benefit of any legal counsel of my choosing (any such legal counsel to be retained at my own expense), the Plan, the Program and this Award Agreement.

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**RESTRICTED STOCK TERMS OF AWARDS UNDER  
THE FIVE-YEAR RESTRICTED STOCK PROGRAM ("PROGRAM")  
OF THE 2020 SYPRIS OMNIBUS PLAN ("PLAN")**

1. **AWARDS.** Each Five-Year Program Participant will be eligible to receive an annual Award of Restricted Shares as determined by the Committee.
2. **RESTRICTED SHARES.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.
  - 2.1. **Restricted Share Vesting.** Unless otherwise determined by the Committee, grants of Restricted Shares will vest as follows: 50% of each Award on the fourth anniversary of its Grant Date and 50% of each Award on the fifth anniversary of its Grant Date (each such anniversary, a "Vesting Date") as provided in the applicable Award Agreement, unless forfeited before such Vesting Date.
  - 2.2. **Distribution.** All Restricted Shares will be held by the Company or issued in book entry form until their Vesting Dates. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.
3. **LEAVES OF ABSENCE.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.
4. **TERMINATION.** If employment is terminated for any reason or no reason, each unvested Restricted Share will terminate, expire and be forfeited. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)
5. **ADMINISTRATION.** The Committee shall have complete authority to administer or interpret the Program or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the Program or any Award Agreements (including to establish or amend any rules regarding the Program that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the ELTIP will be final.
6. **Section 83(b) Election.** Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), a Participant may elect to be taxed at the time the Shares are acquired, rather than when such Shares vest, by filing an election with the Internal Revenue Service within thirty (30) days after the Grant Date. **IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS BEHALF. THE PARTICIPANT MUST RELY SOLELY ON HIS OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY 83(b) ELECTION.**

7. **MISCELLANEOUS.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
- 7.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the Program or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
- 7.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, at the Participant's election: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such lapse of restrictions.
- 7.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.



# EXECUTIVE LONG-TERM INCENTIVE AWARD AGREEMENT



## RESTRICTED STOCK

Effective as of **[Date]** (“Grant Date”), contingent on your continued employment as of that date, the Company hereby grants to **[Employee Name]** certain rights to ownership of up to **[# shares]** Restricted Shares on the terms of this Award Agreement (the “Terms”), the attached Program, and the 2020 Sypris Omnibus Plan (“Plan”) as follows:

Vesting Dates	# of Shares Vesting
[3rd anniversary of the grant date]	[100% shares]

Intending to be legally bound by all such Terms, the Program and the Plan (as amended from time to time), I acknowledge the sole authority of the Committee to interpret the terms of the foregoing, the forfeiture of my rights upon any termination of my employment under such Terms. I have received and had an opportunity to review, with the benefit of any legal counsel of my choosing (any such legal counsel to be retained at my own expense), the Plan, the Program and this Award Agreement.

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_  
**Name:** \_\_\_\_\_  
**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_  
**Name:** \_\_\_\_\_

# 2021 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



1. **PURPOSE OF THE PROGRAM.** The Company's Executive Long-Term Incentive Program ("ELTIP" or the "Program") under the 2020 Sypris Omnibus Plan ("Plan") shall be effective for all Awards incorporating these terms to advance the Company's growth and prosperity by providing long-term financial incentives to its key employees, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines.
2. **AWARDS.** Each ELTIP Participant will be eligible to receive an annual Award of Restricted Shares as determined by the Committee.
3. **RESTRICTED SHARES.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.
  - 3.1. **Restricted Share Vesting.** Unless otherwise determined by the Committee, grants of Restricted Shares will vest as follows: 100% of each Award on the third anniversary of its Grant Date (each such anniversary, a "Vesting Date") as provided in the applicable Award Agreement, unless forfeited before such Vesting Date.
  - 3.2. **Distribution.** All Restricted Shares will be held by the Company or issued in book entry form until their Vesting Dates. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.
4. **ANNUAL REVIEW.** The Committee will review the terms and conditions of the ELTIP annually in February of each year. The Committee will also review and approve of the Award to be granted to each Participant for the then current year, taking into consideration the (i) Participant's contribution to the Company, (ii) results of the most recent national compensation survey data, and (iii) Company's performance. Any Awards granted are entirely within the discretion of the Committee and receipt of an Award in one year does not guarantee that you will receive future Awards.
5. **REDUCTION IN JOB RESPONSIBILITIES.** If a Participant's job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the ELTIP with respect to future Awards, unless otherwise determined by the Committee.
6. **LEAVES OF ABSENCE.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.
7. **TERMINATION.** If employment is terminated for any reason or no reason, each unvested Restricted Share will terminate, expire and be forfeited. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)
8. **ADMINISTRATION.** The Committee shall have complete authority to administer or interpret the ELTIP or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the ELTIP or any Award Agreements (including to establish or amend any rules regarding the ELTIP that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the ELTIP will be final.

# 2021 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



9. **Section 83(b) Election.** Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), a Participant may elect to be taxed at the time the Shares are acquired, rather than when such Shares vest, by filing an election with the Internal Revenue Service within thirty (30) days after the Grant Date. **IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS BEHALF. THE PARTICIPANT MUST RELY SOLELY ON HIS OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY 83(b) ELECTION.**
10. **MISCELLANEOUS.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
- 10.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the ELTIP or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
- 10.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, at the Participant's election: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such lapse of restrictions.
- 10.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.



**Non-Qualified Stock Options**

**SPECIAL RETIREMENT AWARD AGREEMENT**

Effective as of [month/day/year] (“Grant Date”), the Company hereby grants to [OPTIONEE NAME] certain rights to purchase up to: [# of options granted] total Shares for [exercise price \$X.XX] per Share until [5<sup>th</sup> anniversary of grant date] (“Expiration Date”) on the Terms of this Agreement, the attached Program, and the 2020 Sypris Omnibus Plan (“Plan”) as follows:

Vesting Date	# of Options	Option Price	Expiration Date
[3 <sup>rd</sup> anniversary of grant date]	[100% options]	[closing price on date of grant]	[5 <sup>th</sup> anniversary of grant date]

Intending to be legally bound by all such Terms, the Program and the Plan (as amended from time to time), I acknowledge the sole authority of the Committee to interpret the terms of the foregoing, the forfeiture of my rights upon any termination of my employment under such Terms and my continuing status as an “at will” employee (subject to termination without cause or notice). I have received and had an opportunity to review, with the benefit of any legal counsel of my choosing (any such legal counsel to be retained at my own expense), the Plan, the Program and this Award Agreement.

SYPRIS SOLUTIONS, INC.

PARTICIPANT

By: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
 Name: [NAME]

## SPECIAL RETIREMENT FIVE-YEAR STOCK OPTION AWARD

1. **PURPOSE OF THE PROGRAM.** The Company's Key Employee Long-Term Incentive Program ("KELTIP" or "Program") under the 2020 Sypris Omnibus Plan ("Plan") shall be effective for all Awards incorporating these terms to provide long-term financial incentives to its key employees, and to further the Company's philosophy of equity ownership by the Company's key employees.
2. **OPTIONS.** Initially, each "Option" is the right to purchase one Share at the Option Price, from its Vesting Date until its Expiration Date or forfeiture (subject to adjustments per the Plan). Options must be exercised with 48 hours advance written notice, unless waived by the Company.
  - 2.1. **Option Price.** "Option Price" means the closing price per Share on the Grant Date. The Option Price is payable to the Company in cash, in Shares previously owned or in Shares otherwise deliverable upon exercise of vested Options, in accordance with applicable Rules.
  - 2.2. **Shares.** Initially, each "Share" is one Share of the Common Stock (subject to adjustments per the Plan). Shares may be certificated upon request, with any legends required by applicable Rules.
  - 2.3. **Option Vesting.** Unless otherwise determined by the Committee, Option Awards will vest 100% on the third anniversary of the Grant Date ("Vesting Date"), unless forfeited before such Vesting Date.
  - 2.4. **Expiration Date.** Each Option's "Expiration Date" will be the fifth anniversary of its Grant Date.
  - 2.5. **Shareholder Rights.** Holders of Options have no rights as a shareholder of the Company until the Option has been exercised and a certificate for Shares underlying such Option has been issued or a book-entry reflecting Share ownership has been made. Except as otherwise provided in the Plan, no adjustments are made for dividends or other rights if the applicable record date occurs before a Participant's stock certificate is issued or a book-entry reflecting Share ownership has been made.
3. **ANNUAL REVIEW.** The Committee will review the terms and conditions of the KELTIP annually. The Committee will also review and approve of the Award to be granted to each Participant for the then current year, taking into consideration the (i) Participant's contribution to the Company, (ii) results of the most recent national compensation survey data, and (iii) the Company's performance. Any Awards granted are entirely within the discretion of the Committee and receipt of an Award in one year does not guarantee that you will receive future Awards.
4. **REDUCTION IN JOB RESPONSIBILITIES.** If a Participant's job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the KELTIP with respect to future Awards, unless otherwise determined by the Committee.
5. **LEAVES OF ABSENCE.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.

## SPECIAL RETIREMENT FIVE-YEAR STOCK OPTION AWARD

6. **TERMINATION.** If employment is terminated for any reason or no reason, each unvested Option will immediately terminate, expire and be forfeited on such termination and each vested Option will terminate, expire and be forfeited on the earlier of: (a) the expiration date in the Award Agreement, (b) thirty days after termination of employment other than due to Participant's death or Disability or Retirement, (c) one year after a Participant's death or termination due to Disability, and (d) six months after a Participant's termination due to Retirement, provided that all of the foregoing shall be administered subject to the Committee's Rules. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.) "Retirement" shall mean the Participant has attained age 55 and completed five years of continuous service to the Company. For purposes of the immediately preceding provision, "service" shall mean the time in which a Participant is employed by the Company and/or an affiliate of the Company but only while the affiliate is owned, controlled or under common control by or with the Company. Notwithstanding the foregoing, if Participant remains in continuous service until **[retirement date ]**, and is not thereafter terminated for Cause, Participant shall continue to vest in the Options in accordance with the vesting schedule set forth herein and such Options, once vested, shall be exercisable until the Expiration Date.
7. **ADMINISTRATION.** The Committee shall have complete authority to administer or interpret the KELTIP or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the KELTIP or any Award Agreements (including to establish or amend any rules regarding the KELTIP that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the KELTIP will be final.
8. **MISCELLANEOUS.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
- 8.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the ELTIP or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
- 8.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, at the Participant's election: (i) cash, (ii) surrender of previously owned Shares of then-equivalent value or (iii) in shares of then equivalent value otherwise deliverable upon exercise of vested Options (whether such Options have been exercised, or vested Options of equivalent value have merely been surrendered to the Company). The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a fair market value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such lapse of restrictions.
- 8.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.

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

I, Jeffrey T. Gill, certify that:

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

Date: August 12, 2021

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

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

I, Anthony C. Allen, certify that:

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

Date: August 12, 2021

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



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

In connection with the Quarterly Report of Sypris Solutions, Inc. (the Company) on Form 10-Q for the period ending July 4, 2021 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions, Inc., that to his knowledge:

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

Date: August 12, 2021

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

Date: August 12, 2021

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

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

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