SYPRIS

Providing Customers with Solutions

Sypris Solutions

Annual Report 2000

Sypris Solutions is a diversified provider of technology-based outsource services and specialized industrial products. The Company performs a wide range of manufacturing and technical services, typically under long-term contract with major corporations. We also manufacture and sell complex data storage systems, magnetic instruments, current sensors and a variety of other industrial products. Our mission is to become the leading supply chain partner in each of our technically sophisticated niche markets.

Financial Highlights

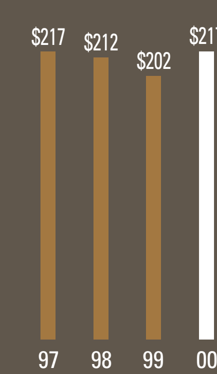
Years ended December 31	2000	1999	1998	1997
(in thousands, except for per share data)				
Income Statement Data:				
Net revenue	**$ 216,571**	$ 202,130	$ 211,625	$ 217,355
Gross profit	**40,313**	44,949	47,923	32,135
Operating income	**5,477**	14,166	12,851	1,785
Net income	**3,184**	9,556	7,446	5,344
Per Share Data:				
Net income:				
Basic	**$ 0.33**	$ 1.00	$ 0.79	$ 0.50
Diluted	**$ 0.32**	$ 0.97	$ 0.76	$ 0.48

December 31	2000	1999	1998	1997
(in thousands)				
Balance Sheet Data:				
Working capital	**$ 58,602**	$ 53,705	$ 32,121	$ 35,123
Total assets	**179,122**	148,564	121,119	120,608
Total debt	**65,000**	54,400	28,583	31,340
Total shareholders' equity	**64,205**	60,820	49,359	27,728

See accompanying Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Contents

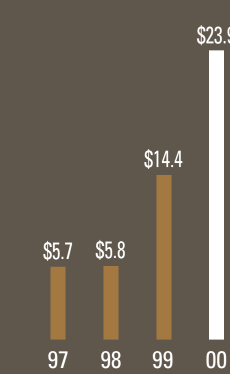
Net Revenue
(in millions)



Diluted Earnings Per Share

Order Backlog
(in millions)

Capital Investment
(in millions)



Book Value Per Share

fellow shareholders

We began the year 2000 in terrific shape. Record backlog and strong earnings combined with a number of significant new business development opportunities to support a very positive outlook for the coming year.

The trend toward outsourcing continued to grow and spread across a progressively wider range of industries. An increasing number of original equipment manufacturers embraced the use of supply chain specialists to increase flexibility, reduce costs and improve responsiveness to the needs of their customers.

By all measures, Sypris was well positioned to benefit from these factors during 2000, since approximately 80 percent of our revenue is derived from providing some form of manufacturing or technical service to others.

Unfortunately, this was not to be the case. Shortages in the supply of electronic components, the steep decline in the production of heavy-duty trucks and higher-than-planned consolidation costs and related production inefficiencies in our data systems business had a material effect on the Company's financial performance for the year.

The impact of these events was further magnified by the need to increase our investment in people, systems and technology to support upcoming contractual commitments. Program logic control engineers, automated equipment, a variety of robotics, and advanced planning and scheduling systems had to be secured and installed to meet the future production requirements of these new agreements despite the negative effect on short-term earnings.

As a result, while revenue increased 7 percent to $217 million from $202 million for the prior year, earnings declined to $0.32 per share from $0.97 per share in 1999. The decline in earnings would have been more pronounced had it not been for the recognition of certain tax credits and the reduction of a deferred tax valuation allowance.

We are pleased to report, however, that we were much more successful in a number of other areas, the result of which has been to strengthen the Company for the future.

To begin with, the growth of the Company's backlog accelerated during 2000, increasing 27 percent to a record $161 million from $127 million in 1999. The double-digit increase was driven primarily by the continued growth in demand for our manufacturing services.

Shareholders' equity increased to $64 million from $61 million at year-end 1999 and book value per share increased to $6.43 from $6.17 at the end of 1999.

Capital investment increased substantially during the year, reaching almost $24 million, as the Company invested in the advanced technology and production capability required to meet the needs of newly awarded long-term manufacturing agreements. Shipments associated with much of this investment are not expected to begin until late 2001, but once at full production, are expected to contribute in a meaningful way to both revenue and earnings.

During the year, Sypris was awarded a number of important long-term manufacturing and service agreements, including the following:

- A five-year agreement with ArvinMeritor to forge and machine heavy-duty truck axles. Estimated contract value: $120 million.
- Five new contracts with Raytheon to provide circuit card assemblies for a variety of programs. Estimated contract value: $24 million.
- A multi-year agreement with Boeing to supply circuit card assemblies for use in the Brimstone missile guidance system. Estimated contract value: $23 million.
- A two-year agreement with Eldec to supply fully tested integrated circuits for use in commercial avionics power supplies. Estimated contract value: $5 million.
- A contract with Northrop Grumman to supply electronic circuit boards for use in certain smart weapons. Estimated contract value: $3 million.
- Two contracts with Litton to supply circuit card assemblies for use in portable, lightweight laser rangefinders and integrated guidance systems. Estimated contract value: $3 million.
- An agreement with Honeywell to provide circuit card assemblies for use in the digital flight control computers of F-16 jet fighters. Estimated contract value: $2 million.

The successful pursuit of multi-year, sole source agreements is an important part of our strategy to increase the reliability of our Company's future financial results. The award of these and other similar agreements represents a significant milestone in these ongoing efforts.

During the year, we also entered into an agreement with i2 Technologies to install finite capacity planning and advanced scheduling systems at certain of our manufacturing operations. We believe this investment will further enhance our ability to offer our customers state-of-the-art manufacturing services.

The pursuit of synergistic acquisitions remains a key component of our strategy to build a larger, stronger business. At the close of 1999, we announced the completion of the purchase of the Mobile Calibration and Repair Service division of Lucent Technologies. We are pleased to report that the integration of the division has gone extremely well and its performance has exceeded our expectations.

As we look to the future, we expect the near-term financial results of the Company will continue to reflect the effects of the component parts shortage and the downturn in the heavy-duty truck market. Higher component costs, production inefficiencies and expenses related to the under absorption of overhead are expected to continue to place pressure on margins and earnings.

Longer-term, however, we believe the pressures from these external events will abate and our proven success in booking long-term agreements, combined with the results of our significant investment in people, systems and technology, will bear fruit in the form of vastly improved financial results.

In the very near future, we will be changing the name of our subsidiaries to incorporate the Sypris brand name and logo. Bell Technologies will become Sypris Test & Measurement, Group Technologies will become Sypris Electronics, Metrum-Datatape will become Sypris Data Systems and Tube Turns will become Sypris Technologies. We believe that the use of the Sypris name by all subsidiaries will improve our brand recognition with customers, suppliers, employees and investors. The change is expected to be complete by January 2002.

In closing, we want to thank our employees for their dedication and hard work over this past year. The achievements of 2000 would not have been possible without their commitment. We also want to thank our customers for the opportunity to serve them. We are dedicated to providing each of them with an ever-increasing competitive advantage.

We sincerely appreciate your investment in Sypris Solutions and encourage you to contact us. We would be pleased to answer your questions and look forward to your comments.

Jeffrey T. Gill
President & CEO

Robert E. Gill
Chairman

Business has never been more competitive.

Global over-capacity, rapid technological change, record low unemployment, intense international competition and unforgiving capital markets have combined to place unrelenting pressure on margins.

And along comes the Internet. The Web is turning established business models upside down, creating tremendous uncertainty at a time when decisiveness has never been of greater importance.

Sypris Solutions is here to help.

Our job is to provide customers with solutions to succeed in this rapidly changing business environment.

How? By investing in leading edge production capacity to provide them with a **competitive advantage**. By supporting their needs for **service**, even in the most remote of locations. By applying **advanced technology** to drive down the cost, increase the capability and extend the life of their existing systems. And by becoming an **integral partner**, one that consistently and reliably addresses their mission-critical needs.

Over the next several pages, the leaders of our business will illustrate some of the ways in which we are providing customers with solutions.

SYPRIS

How are we investing to create a competitive advantage for our customers?

We believe that competitive advantage should be measured in terms of cost, quality, speed and flexibility.

At Sypris, we are committed to making the investments required to improve the competitive advantage of each of our customers. These investments can take many forms, but our recent commitment to support two of our major customers serves as an excellent illustration.

Sypris has been a major provider of truck axles for years through its Tube Turns Technologies subsidiary. The operation was efficient and competitive, but with our customers facing increasingly intense competition in the automotive parts industry, they needed our help.

We stepped up to the plate early in the year 2000. In return for long-term manufacturing agreements, we committed to invest approximately $45 million to create one of the most advanced forging and machining operations for the production of truck axles in North America.

The equipment list was long and extensive. We invested in the addition of 24 new robots, three new automated forging presses, two new cold extrusion presses, four new induction heating units, three new in-line shear systems and two new fully automated machining cells.

We invested in the professionals who were necessary to expand our technical expertise and capability. Machining engineers, program logic control engineers, forging engineers, and metallurgists were hired from around the country to complement this state-of-the-art operation.

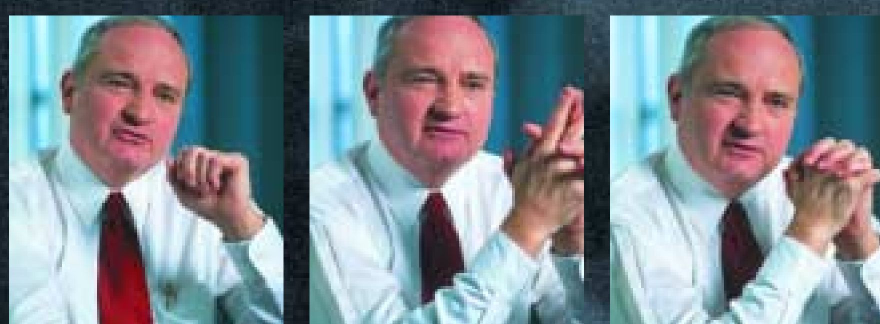
And we invested in finite capacity planning and scheduling systems from i2 Technologies to provide us with the ability to plan, control and change production schedules quickly and efficiently to meet the increasingly dynamic needs of our customers.

The productive utilization of the new equipment is not scheduled to begin until the second half of 2001, but the importance of our willingness to invest in technology, people and systems in support of their needs has not been lost on our customers. For example:

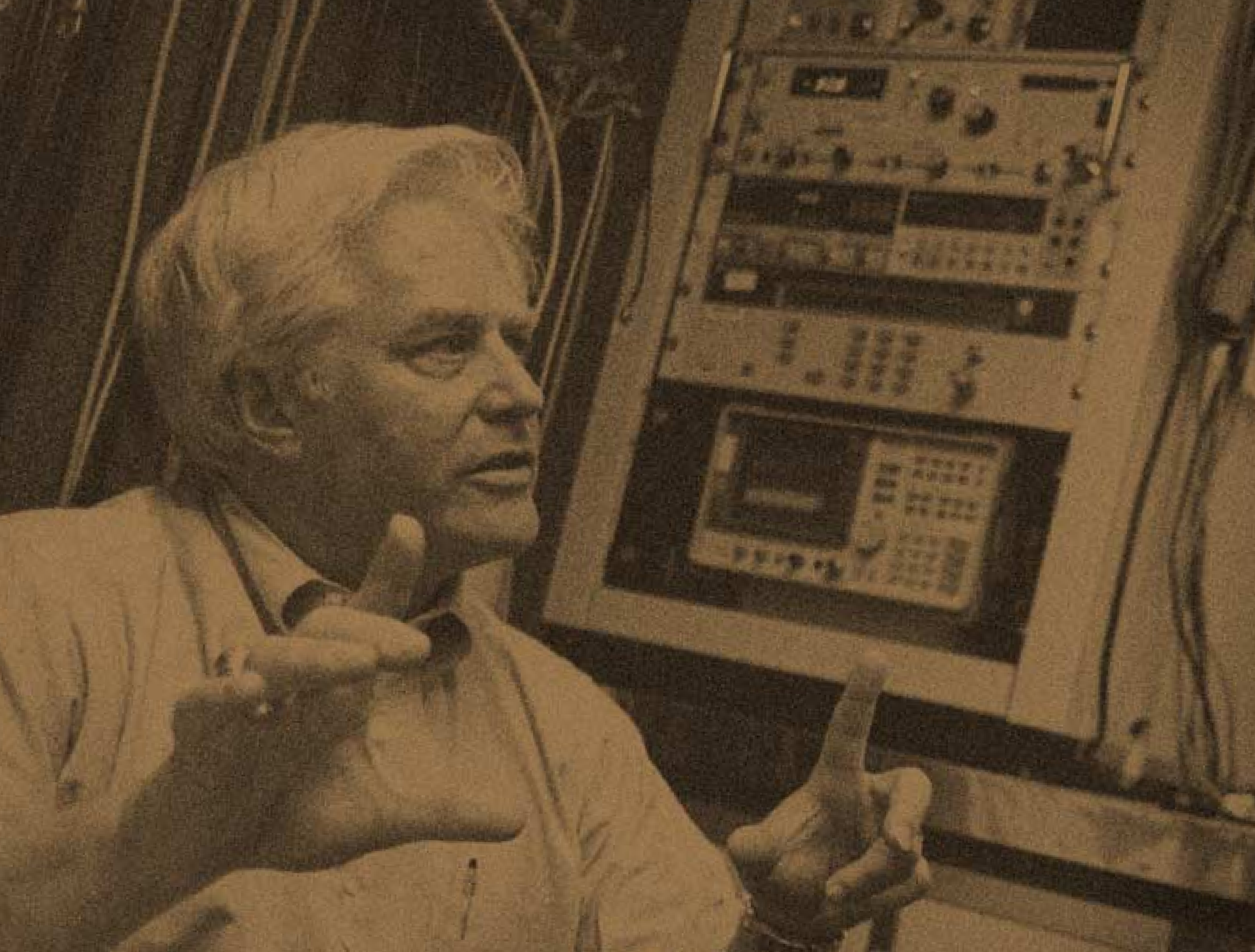
- The new equipment is expected to increase productivity by a factor of 2 to 1 for some operations to as much as 7 to 1 for the finish machining of axles. The resulting cost-savings are expected to be substantial.
- The equipment and the cells are highly flexible and can be reconfigured quickly, therefore reducing set up times and the cost associated with the changeover of production for new parts.
- The location of forging and machining operations at a single site is expected to lower the total cost of the product further by reducing transportation and handling charges, cycle times and working capital.
- Our technical experts have collaborated with our customers to identify process changes that are expected to reduce the material content and improve the yields on a number of their products.

When fully operational later in 2001, our customers will reap the competitive advantage associated with these new capabilities and will no longer be reliant upon or have to support older, less efficient technology. Perhaps just as importantly, these new capabilities can be leveraged for the benefit of future customers as well.

This is just one example of our commitment to grow with and invest in the support of our customers. By providing each of them with a distinct competitive advantage in terms of cost, quality, speed and flexibility, we believe that Sypris can and will continue to prosper for many years to come.



Jack Kramer
President and CEO
Tube Turns Technologies



Some customers have mission-critical charters that take them to the far reaches of the globe. For customers such as these, the ability to meet their service requirements on a cost-effective, timely basis takes on an added dimension.

The National Weather Service, the Federal Aviation Administration and AT&T represent three such customers.

The National Weather Service operates 119 advanced warning weather service radar stations in 45 states, the Caribbean and Guam. Many of these stations are located on isolated mountaintops, such as Francis Peak, Utah and contain equipment of immense sophistication, including NEXRAD and Doppler radar systems.

The National Weather Service needs an economical means for making certain that the test and measurement equipment of its field technicians is correctly calibrated and certified without having to remove the equipment from the field. The risk associated with missing a potential storm warning is simply unacceptable.

Sypris satisfies this need through its Bell Technologies subsidiary. Bell operates the most advanced fleet of self-contained, temperature controlled, ISO certified mobile calibration laboratories in the country. Through our investment in these mobile labs, we are able to service the needs of the National Weather Service at its remote locations without having to remove mission-critical equipment from the field.

The Federal Aviation Administration has a similar set of unique requirements. The FAA operates flight control radar systems at over 400 airports in the United States, the Caribbean and the South Pacific.

The challenge is to calibrate and certify the accuracy of the test and measurement equipment that is used to maintain the air traffic and control tower radar and directional beacons at each of these airports, whether they are located in Southern California, the Alaskan tundra, the Kansas plains, or the island of Samoa.

We meet this challenge through the use of our mobile calibration service capabilities and as a result, the FAA is spared the need to invest in redundant test, measurement and diagnostic equipment at each of these 400 locations.

The explosive growth in telecommunications, data and wireless networks has been well documented, but how do companies such as AT&T keep up with the maintenance requirements of these systems?

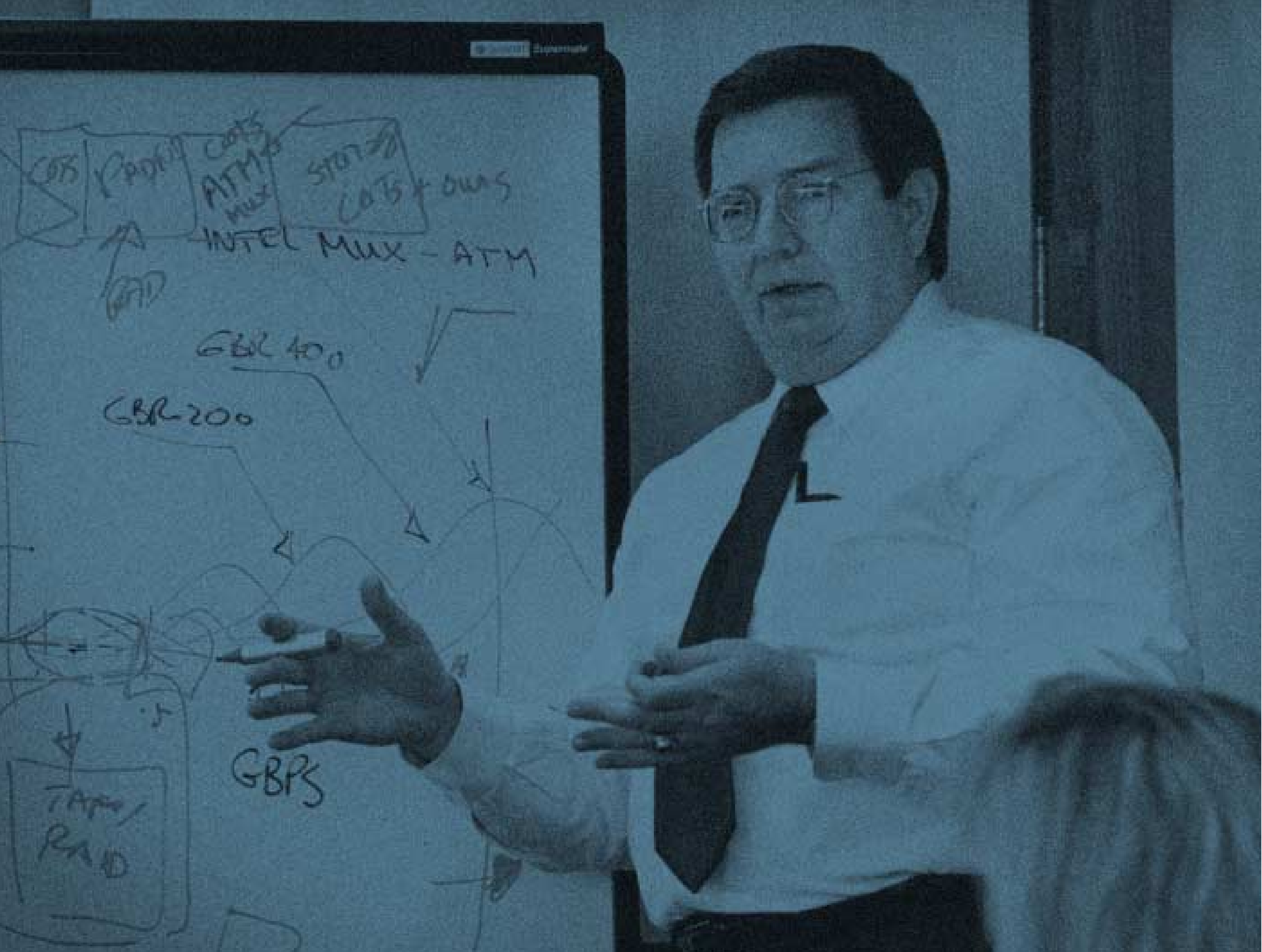
The answer is through the use of services provided by Sypris Solutions. We fulfill the calibration requirements of AT&T at over 600 of its central and field switching stations located in the United States and overseas, as well as the needs of many of its domestic cellular transmission stations.

In addition to our fleet of 15 mobile calibration laboratories, Sypris operates 17 separate calibration and repair laboratories located throughout the United States, manages the on-site service requirements for customers such as Bose, Square-D and Delphi, and maintains its own independent primary standards lab that is traceable to the National Institute of Standards and Technology.

We are committed to do whatever is necessary to meet the service needs of our customers on a cost-effective basis. By using our unique fleet of advanced mobile calibration laboratories, we are able to meet the mission-critical readiness requirements of our customers - even in some of the most remote regions of the world.

H. L. Singer
President and CEO
Bell Technologies

What are we doing to support the unique service needs of our customers?



Technology plays an increasingly important role in our society today and its applications can take many forms. But technology, especially proprietary technology, can also create unnecessary roadblocks that result in prohibitive service and migration costs.

Our customers in the intelligence, missile and aircraft test range markets are being confronted with just such a situation. These customers have invested heavily over the years in expensive, proprietary systems to gather, analyze and store highly sensitive data.

The challenges with these systems today are numerous. The life cycle costs (maintenance, parts and spares) are extremely high, the speed at which the systems record data is falling behind current transfer rates, gaining access to stored data is expensive and time consuming, and data cannot be shared on networks or between systems of different manufacturers.

Sypris has been a leader in the development and maintenance of advanced data acquisition and storage systems for over 40 years through our Metrum-Datatape subsidiary. Our products, systems and software are used to gather sonar data from submarines, test data from aircraft, biological data from space flights, performance data from missiles and a variety of data from intelligence networks.

We are guided by three principles in our development of technologically advanced solutions for use by our customers:

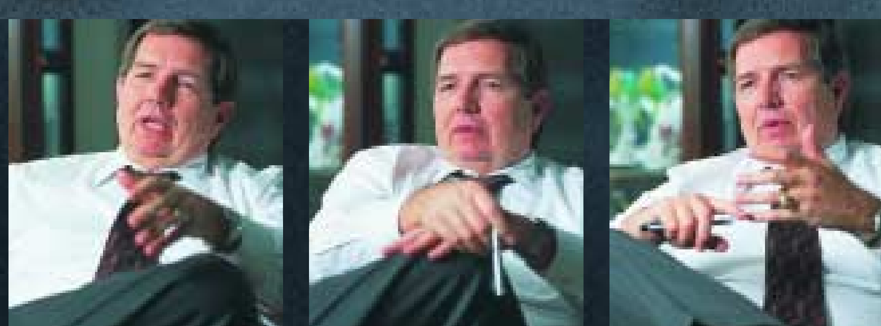
- *Best of Breed.* The solution must incorporate components, peripherals and software that reflect the best technology available, regardless of manufacturer.
- *Open and Flexible.* The solution must utilize a common platform and be interoperable, available in a variety of configurations and easily upgradeable.
- *Ease of Implementation.* The solution must be able to be installed or implemented quickly and efficiently with minimal interruption to existing service, while meeting ever-increasing demands for faster data rates.

We are currently developing a family of high data rate products based upon commercially available technology for use by our missile and aircraft test range customers. These products will be able to be incorporated with their existing proprietary systems, regardless of manufacturer, and will be able to store analog and digital information in a digital format.

The potential benefits to our customers are significant. They will be able to convert all existing tape libraries into digital formats, thereby saving money on maintenance and storage. They will be able to share all existing and future data over networks and they will be able to parse the data for analysis, thereby saving precious time. They will be able to keep their existing systems in place and will be able to upgrade easily and inexpensively in the future.

Our customers in the intelligence field face similar issues with regard to life cycle costs and they too will benefit greatly from the ability to store, analyze and share data as a result of its having been digitized economically. For these customers, however, we are leveraging this advanced technology to satisfy their requirements for data rates well in excess of 1 Giga bit per second. The cost savings are expected to be significant when compared to existing proprietary solutions.

We believe that the ability to extend the life and increase the capability of our customers' existing investments in data systems will be crucial to their future success. By doing so with commercially available technology, we are able to provide them with cost-effective, open solutions that can be implemented quickly, efficiently and with minimal interruption to existing service.



G. Darrell Robertson
President and CEO
Metrum-Datatape

How are we using technology to benefit our customers?

What are we doing to become an integral partner with our customers?

The needs of our aerospace, defense and national security customers are unique in that the price of failure can often involve great expense, human life or both. Reliability therefore is of paramount importance.

What does it take to become an integral partner with a company or agency that participates in these markets? Quite simply, it requires the ability to consistently deliver a product or service as contracted and within the prescribed framework of rigorous procedures, extensive testing, exacting documentation and tight security.

At Sypris, we have a 35-year history of consistently meeting the demanding requirements of these customers through our Group Technologies subsidiary. We understand the needs of and have the certifications required to meet the restrictions imposed by these frameworks, including those required by such diverse agencies as NASA and the National Security Agency.

Our customers include Boeing, Honeywell, Lam Research, Litton, Lockheed Martin, Northrop Grumman and Raytheon. We currently manufacture complex circuit cards and high level assemblies for use in a variety of applications, including satellite communications systems, missile guidance systems, commercial avionics, ruggedized hand-held computers and secure communications products.

For example, the circuit card assemblies that are used in missile guidance systems must undergo rigorous environmental testing to insure that they will not fail under circumstances involving extreme temperature, humidity, vibration, altitude and nuclear survivability. The components in these applications must be able to withstand an environment that is up to ten times the severity experienced by that of a jet fighter.

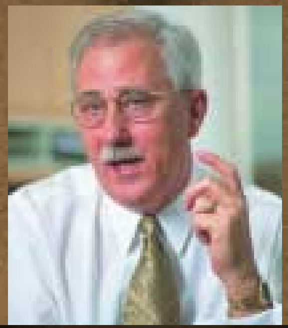
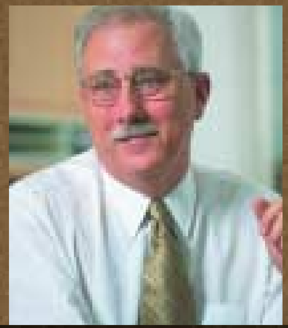
We make the electronics for the special cameras that are used on Space Shuttle missions and we supply the electronic assemblies that are used in the exacting environments of semiconductor processing equipment.

We employ 124 engineers, close to half of whom are dedicated solely to the development of advanced encryption software for use in national security applications. In many instances, special security access is required for these professionals to accomplish this mission-critical task.

We have designed and currently manufacture a line of secure voice and data encryption devices that deliver the highest technically available solutions for network security. The National Security Agency has endorsed the use of these products, but only by companies and agencies that have the appropriate level of security clearance.

We are using our certified computer security analysts to participate in the development of a patternless intrusion detection system for use in network security. If successful, such a system will provide an administrator with a computerized view of the network and the ability to move around visually through the network to detect an intrusion. The additional application of signature protocol will even enable the name of the intruder to be identified.

The potential costs associated with the failure of a satellite, the avionics of a commercial aircraft or the guidance system of a tactical air-to-air missile are extremely high, as are the costs associated with a breach of network security. The process of developing, manufacturing and delivering reliable components, subassemblies and software for use in these applications is absolutely essential.

James G. Cocke
President and CEO
Group Technologies

Richard L. Davis
Senior Vice President

Anthony C. Allen
Vice President & Controller

David D. Johnson
Vice President & CFO

How are we using solutions to drive our future growth?

The word solution is defined as the act or process of solving a problem. We believe that our long-term success is and will continue to be dependent upon our ability to help solve the problems and issues faced by our customers in a manner that improves their chances of success. Quickly, efficiently and cost effectively.

There are a number of other initiatives we have underway that will have a direct impact on our ability to deliver increasingly effective solutions for our customers in the future.

We are in the process of establishing a customer Web site that will enable our calibration and repair customers to verify equipment records, manage assets, schedule repairs, pay bills and maintain certification records on-line. The site, when completed during 2001, will greatly improve the efficiency and reduce the cost associated with the management and certification of our customers' equipment.

We are in the process of developing and implementing Web-based systems that will enable us to increase the efficiency and reduce the cost of doing business, including the processing of schedules, purchase orders, invoices and payments.

And while doing all of the above, we will not lose sight of the basics. We must and will become ever more responsive and flexible to the needs of our customers, including the capability to deliver products and services more cost-effectively, in a shorter period of time and with the high degree of reliability that our customers require.

We are committed to creating an ever-increasing competitive advantage for our customers. If we continue to do so with a single-minded focus on the development of solutions, we are confident that Sypris will remain successful for many years to come.

Solutions at a Glance

Manufacturing Services

Electronic

Integrated design and engineering services, component selection, sourcing and procurement, automated assembly, design and implementation of product testing, systems assembly, and repair and warranty services.

Applications and Uses

Electronic assemblies and subsystems for use in missile guidance systems, commercial avionics, satellite communications systems, ruggedized hand-held computers, semiconductor processing equipment, and secure communications networks and products.

Select Customers

BAE, Boeing, FBI, Honeywell, Lam Research, Litton Industries, Lockheed Martin, National Security Agency, Northrop Grumman, Raytheon, Rockwell and U.S. Army.

Industrial

Automated forging, machining, induction hardening, cold extrusion and heat treating services.

Applications and Uses

Heavy-duty truck axles, light-duty truck and automotive axles, jet engine shafts and construction vehicle components.

Select Customers

ArvinMeritor, Caterpillar, John Deere, Pratt & Whitney and Teledyne Technologies.

Technical Services

Calibration and Repair

Wireless communication test equipment, control tower radar and direction beacon test equipment, digital oscilloscopes, microwave equipment and fiber optic measuring equipment.

Applications and Uses

Maintenance of cellular communications systems, air traffic control systems, broadband telecommunication systems and quality certification programs in manufacturing operations.

Select Customers

AT&T, Bose, Delphi Automotive, FAA, Intel, Lucent Technologies, National Weather Service, Raytheon and Square-D.

Component Testing

RF, microwave and mixed signal component testing, environmental testing, dynamics testing and failure analysis.

Applications and Uses

Semiconductor manufacturing, aerospace and satellite systems.

Select Customers

Boeing, EFTC, Eldec, Honeywell, Lockheed Martin, NASA, Raytheon and Texas Instruments.

Engineering Services

Encryption software design services and contract design services.

Applications and Uses

Network and communications security.

Select Customers

National Security Agency and U.S. Army.

Products

Data Systems

Digital and analog recorders, multiplexers, storage systems and touch screen control software.

Applications and Uses

Collection of sonar data from submarines, test data from aircraft, biological data from space flights, performance data from missiles and voice data from intelligence networks.

Select Customers

Government of Israel, Johnson Space Center, Lockheed Martin, National Security Agency, Raytheon, U.S. Air Force, and U.S. Navy.

Magnetics

Hall generators, current sensors, autoprobes and gaussmeters.

Applications and Uses

Current measurement applications in locomotives, mass transit systems, elevators, automotive diagnostic systems and laboratory diagnostic systems.

Select Customers

Adtranz, Agilent, Artesyn, Bombardier, General Motors, Genie, IBM, Lockheed Martin, Miltope, Snap-on and Toyo.

Specialty

High-pressure closures, transition joints and insulated joints.

Applications and Uses

Pipeline and chemical systems in the energy and chemical industries.

Select Customers

Chevron, Exxon and Shell Oil.

SYPRIS

Financial Review

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Results of Operations

The following table sets forth certain data from the Company's consolidated income statements for the years ended December 31, 2000, 1999 and 1998, expressed as a percentage of net revenue:

Years ended December 31	2000	1999	1998
Net revenue	100.0%	100.0%	100.0%
Cost of sales	81.4%	77.8%	77.4%
Gross profit	18.6%	22.2%	22.6%
Selling, general and administrative expense	12.4%	11.5%	13.3%
Research and development	1.6%	3.2%	2.8%
Amortization of intangible assets	0.7%	0.5%	0.4%
Special charges	1.4%	—	—
Operating income	2.5%	7.0%	6.1%
Net income	1.5%	4.7%	3.5%

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net revenue totaled $216.6 million in 2000, an increase of $14.5 million, or 7.1%, from $202.1 million in 1999. The Electronics Group's net revenue in 2000 was $182.1 million, an increase of $17.2 million or 10.4% from $164.9 million in 1999. The Industrial Group's net revenue in 2000 was $34.5 million, a decrease of $2.7 million, or 7.3%, from $37.2 million in 1999. The Company's book-to-bill ratio during 2000 was 1.15 to 1, resulting in an increase in backlog of $33.8 million to $160.8 million at December 31, 2000. Backlog for the Electronics Group and the Industrial Group at December 31, 2000 was $143.2 million and $17.6 million, respectively.

The Electronics Group's $17.2 million increase in net revenue was generated primarily from new contracts for manufacturing services and the expansion of calibration services resulting from an acquisition completed in the fourth quarter of 1999. Production on several new manufacturing service contracts, mainly with defense and aerospace customers, began to ramp-up during 2000, generating a $16.2 million increase in revenue. The majority of the Electronics Group's backlog consists of manufacturing service contracts and shipments on these contracts are expected to increase during 2001. The acquired calibration business added a fleet of mobile calibration labs to the Electronics Group's service capabilities and accounted for an $8.4 million increase in revenue during 2000. The increase in service revenue was partially offset by a $6.5 million decrease in product revenue due to reduced sales quantities for certain product offerings. Demand for the Electronics Group's data storage products began to decline in 1999 and continued to decline throughout 2000. The reduced level of demand reflects an overall market decline and increased competition arising from technological advancements in the market. Market conditions for data storage products are expected to stabilize during 2001 and sales volumes are expected to approximate the levels of 2000. Other outsource services and product sales for the Electronics Group accounted for a net $0.9 million decrease in net revenue during 2000.

The Industrial Group's $2.7 million decrease in net revenue was primarily due to a decline in outsource services provided to customers in the heavy-duty truck market. Market conditions in North America for heavy-duty truck production were negatively impacted by oil prices, interest rates and an excess inventory of new and used trucks, resulting in an overall market decrease of approximately 40%. This reduced the volume of forged truck axles provided under manufacturing service agreements by the Industrial Group and accounted for a $4.0 million decrease in net revenue, the majority of which occurred during the second half of 2000. The Company expects demand in the heavy-duty truck market to remain weak during 2001, however, further significant declines in demand are not anticipated. Revenue derived from manufacturing services in other markets served by the Industrial Group increased by $0.5 million and fabricated product sales increased by $0.8 million. During 1999 and 2000, the Industrial Group invested approximately $22.6 million to expand its forging capacity and add new machining capabilities. The Industrial Group expects to invest approximately $24 million during 2001 to complete this capital program. Manufacturing service agreements are in place or are being negotiated for substantially all of the additional capacity. The Industrial Group expects to begin production on certain new machining equipment in the second quarter of 2001, with the majority of new production anticipated to begin in the fourth quarter of 2001.

Gross profit totaled $40.3 million in 2000, or 18.6% of net revenue, as compared to $44.9 million, or 22.2% of net revenue in 1999. The Electronics Group's gross profit in 2000 was $36.3 million, or 19.9% of net revenue, as compared to $37.9 million, or 23.0% of net revenue in 1999. The Industrial Group's gross profit in 2000 was $4.0 million, or 11.7% of net revenue, as compared to $7.0 million, or 19.0% of net revenue in 1999. The factors impacting gross profit are discussed immediately below for each segment.

The Electronics Group's $1.6 million decrease in gross profit in 2000 was primarily due to unfavorable volume and cost variances on data storage products and unfavorable cost variances on manufacturing service contracts. Volume declines for data storage products, related underabsorbed overhead costs and manufacturing inefficiencies arising from the transfer of production following the consolidation of two facilities during the first half of 2000 contributed to a $5.0 million decline in gross profit. This reduction was substantially offset by increased gross profit from the growth in the manufacturing and calibration service revenue. The additional volume generated increased gross profit of $4.4 million, however, this increase was offset by a $1.0 million unfavorable cost variance associated with the following three primary factors. First, shortages and extended lead times for the purchase of certain electronic components resulted in manufacturing inefficiencies due to the unpredictability of scheduling receipts of allocated components from vendors. Component supply levels were low throughout 2000, however, the availability of certain components began to improve during the fourth quarter. While management believes that a sufficient supply of components will be available to enable it to substantially meet its customer delivery schedules for the next twelve months, the Company's results of operations or financial position could be negatively impacted by these component market conditions. Second, the number of new program start-ups increased substantially during 2000 as compared to the prior year. Manufacturing inefficiencies on new programs generally result in lower gross margins during the start-up phase and margins typically improve as the programs mature. And third, additional costs incurred to make the necessary investments in people, equipment and processes to support the record level of backlog also reduced gross profit in 2000. Management expects the factors affecting gross profit in 2000 will begin to lessen during the first half of 2001, as manufacturing efficiency improves on new programs and shipments on contracts in backlog begin to accelerate.

The Industrial Group's $3.0 million decrease in gross profit was primarily due to the downturn of the heavy-duty truck market. The reduction in demand and corresponding impact on shipments occurred as the organizational infrastructure to support future growth plans was being developed. The increased cost structure associated with the additional people and systems required to meet future contractual requirements and the underabsorption of overhead due to the volume decline resulted in low gross margin levels, particularly during the second half of 2000. The Company expects gross profit will continue to be adversely effected as the truck market demand is not expected to increase during 2001.

Selling, general and administrative expense in 2000 was $26.9 million, or 12.4% of net revenue, as compared to $23.4 million, or 11.5% of net revenue in 1999. The increase in selling, general and administrative expense was attributable primarily to the Electronics Group, which reported an increase of $2.9 million. Investments by the Company in organizational infrastructure as discussed above also include certain selling, general and administrative expenses, the majority of which are within the Electronics Group. Selling expenses incurred for marketing and bid and proposal activities during 2000 exceeded prior year amounts and were a contributing factor to the increased orders and net revenue in 2000.

Research and development expense in 2000 was $3.6 million, or 1.6% of net revenue, as compared to $6.4 million, or 3.2% of net revenue in 1999. This decrease was attributable to the Electronics Group, and relates to the quantity and timing of new product releases for the data acquisition, storage and analysis product lines and the utilization of strategic alliances with suppliers for product development.

Amortization of intangible assets in 2000 was $1.4 million, an increase of $0.4 million, or 45.6% compared to $1.0 million in 1999. This increase resulted from the amortization of goodwill recorded in connection with the December 1999 calibration business acquisition by the Electronics Group.

Special charges of $2.9 million were recognized during 2000 for activities related to the consolidation of certain operations within the Electronics Group. Operations for the Electronics Group's data acquisition, storage and analysis product lines have been conducted at two facilities since the November 1997 acquisition that expanded this business. Although several consolidation actions were implemented immediately following this acquisition, management identified potential cost savings that could be realized through the elimination of redundant manufacturing operations and staffing of functional areas between the two facilities. The consolidation activities were substantially completed during the first nine months of 2000. The special charges incurred for these activities include workforce reductions, facilities rearrangement and relocation expenses, and employment costs related to the transfer of production.

Interest expense in 2000 was $4.0 million, an increase of $2.3 million, or 133%, from $1.7 million in 1999. The increase in interest expense was primarily due to an increase in the weighted average debt outstanding coupled with an increase in interest rates. The Company's weighted average debt outstanding more than doubled to approximately $58.7 million in 2000 from approximately $28.4 million in 1999. This increase resulted primarily from the December 1999 acquisition by the Electronics Group, working capital funding related to the increase in revenue and order backlog and capital expenditures during 1999 and 2000 to support the Company's new business opportunities. The weighted average interest rate for 2000 was approximately 8.3% as compared to approximately 6.1% for the prior year. The year-to-year rate change includes an increase in the margin paid on outstanding borrowings of approximately 100 basis points under the terms of the Company's credit agreement with a syndicate of banks (the "Credit Agreement"), as amended in October 1999 and November 2000.

An income tax benefit of approximately $1.4 million was recognized during 2000 as compared to income tax expense of $3.1 million during 1999. The tax benefit during 2000 was primarily due to a $3.0 million reduction in the Company's valuation allowance on deferred tax assets. Certain issues related to the Company's consolidated federal taxable income were resolved during 2000, which gave rise to the elimination of the valuation allowance for deferred tax assets related to federal income tax temporary differences. The Company also recognized a tax benefit during 2000 of approximately $0.3 million for research and development tax credits. The provision for income taxes in 1999 included a reduction in the valuation allowance on deferred tax assets of $1.9 million and a benefit for research and development tax credits of $0.6 million.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net revenue totaled $202.1 million in 1999, a decrease of $9.5 million, or 4.5%, from $211.6 million in 1998. Net revenue for the Electronics Group in 1999 was $164.9 million, a decrease of $9.5 million or 5.4% from $174.4 million in 1998 and net revenue for the Industrial Group in 1999 was $37.2 million, unchanged from 1998. The $9.5 million decrease in the Electronics Group's net revenue for 1999 was primarily a result of reduced demand for certain product offerings. During the fourth quarter of 1999, a portion of the government program funding related to these products was delayed due to the timing of the federal budget approval process and certain other program spending was suspended prior to year-end due to year 2000 concerns. The decrease in net revenue for product sales in the fourth quarter of 1999 was offset by an increase in net revenue for manufacturing services, which experienced increased sales volume during the second half of 1999. The Electronics Group's net revenue for the first half of 1999 was $15.8 million below the first half of 1998. However, net revenue increased in the third and fourth quarters of 1999 by $1.3 million and $5.0 million, respectively, over the comparative prior year quarters. The growth that occurred during the second half of 1999 was primarily the result of management's business development efforts in manufacturing services that began during 1998, specifically the transition from low-margin contracts to new business opportunities aimed at improving profitability. The Electronics Group's backlog increased from $76.7 million to $95.2 million to $107.7 million at December 31, 1997, 1998 and 1999, respectively. The backlog at December 31, 1999 also consisted of higher margin contracts than those in place during 1998. The Industrial Group continued to increase shipments of truck axles during 1999, thereby offsetting declines in other forged product lines provided to customers in the aerospace industry and foreign markets of the oil and gas industry.

Gross profit totaled $44.9 million in 1999, a decrease of $3.0 million, or 6.3%, from $47.9 million in 1998. Gross profit for the Electronics Group was $37.9 million in 1999, a decrease of $3.5 million, or 8.5%, from $41.4 million in 1998 and gross profit for the Industrial Group was $7.0 million in 1999, an increase of $0.5 million, or 8.5%, from $6.5 million in 1998. The $3.5 million decrease in the Electronics Group's gross profit is comprised of a $4.7 million decrease primarily due to the decline in product sales described above, which was partially offset by a $1.2 million increase primarily due to the improved performance of manufacturing services. Operational and financial control improvements over manufacturing services reflects management's actions to improve profitability by focusing on specific manufacturing and service opportunities in which the Company offers value-added solutions under a competitive cost structure. Additionally, the Electronics Group's revenue mix for 1999 as compared to 1998 consisted of a higher percentage of manufacturing services revenue and a lower percentage of product sales, primarily due to revenue mix changes during the fourth quarter of 1999. Since the margins on manufacturing services are typically lower than product sales, the Electronics Group's gross profit percentage decreased to 23.0% in 1999 from 23.7% in 1998. The $0.5 million increase in the Industrial Group's gross profit was primarily due to manufacturing efficiencies in the production of forged truck axles and the increased capacity utilization and cost reductions on certain programs. The productivity and utilization improvements resulted in an increase in the Industrial Group's gross profit percentage to 19.0% in 1999 from 17.5% in 1998.

Selling, general and administrative expense totaled $23.4 million in 1999, a decrease of $4.8 million, or 17.1%, from $28.2 million in 1998. The consolidation of certain functional activities was the primary cause of the decrease in the year-to-year comparison. Workforce reductions in certain operations associated with the decrease in revenue and a strategic decision to align costs with the revenue base resulted in a decrease of approximately $0.5 million. Other contributing factors included a reduction in selling expense attributable to the decrease in net revenue and adjustments to the Company's estimated liability for the sale of certain assets of the Electronics Group in June 1997, for which a final settlement agreement was reached during the second quarter of 1999. Also included in 1998 were legal, accounting and other professional fees and other costs totaling approximately $0.4 million associated with the Reorganization which were nonrecurring.

Research and development expense totaled $6.4 million in 1999, an increase of $0.5 million, or 7.9%, from $5.9 million in 1998. This increase was generated by the Electronics Group, and reflected management's continued support and investment in the data acquisition, storage and analysis product lines.

Amortization of intangible assets totaled $1.0 million in 1999 and in 1998. The amortization was primarily attributable to goodwill recorded in connection with the Reorganization.

Interest expense totaled $1.7 million in 1999, an increase of $0.4 million, from $1.3 million in 1998. Average outstanding debt for 1999 exceeded 1998 primarily due to working capital investments and capital expenditures. The weighted average interest rate was higher in 1999 than in 1998 due to increased rates and a pricing adjustment on the refinancing completed early in the fourth quarter of 1999.

The provision for income taxes totaled $3.1 million in 1999, a decrease of $1.2 million, from $4.3 million in 1998. The Company's effective tax rate in 1999 was 24.5% as compared to 36.7% in 1998. During the fourth quarter of 1999, the Company recognized a tax benefit of approximately $0.6 million related to a claim for research and development credits attributable to prior years. The provision for income taxes during 1999 also reflected a reduction in the valuation allowance on deferred tax assets of $1.9 million as compared to $0.9 million in 1998.

Liquidity, Capital Resources and Financial Condition

Net cash provided by operating activities was $8.1 million for 2000 as compared to net cash used in operating activities of $2.1 million for 1999. Operating results for 2000 accounted for $10.7 million of cash flow, which was partially offset by a $2.6 million investment in working capital. Accounts receivable and accounts payable increased by $8.1 million and $9.3 million, respectively, commensurate with the growth in the Electronics Group's service revenue. The increase in accounts receivable also reflects the low volume of shipments immediately prior to December 31, 1999, principally related to Year 2000 issues and related concerns by customers. During 2000, inventory increased by $4.2 million in the Electronics Group and decreased by $2.2 million in the Industrial Group. The increase in the Electronics Group's inventory was primarily attributable to start-up programs for manufacturing services, electronic component shortages and expected shipments on certain contracts scheduled in the first half of 2001. The decrease in the Industrial Group's inventory was primarily due to reduced demand in the heavy-duty truck market.

Net cash used in investing activities was $14.9 million for 2000 as compared to $26.4 million for 1999. The Company had increased levels of capital expenditures in 2000 in both the Electronics Group and the Industrial Group, which totaled $8.0 million and $15.5 million, respectively. Capital expenditures for the Electronics Group were principally comprised of facilities improvements and manufacturing, assembly and test equipment. The Industrial Group's capital expenditures included facilities improvements and new forging and machining equipment to increase and expand the range of production capabilities. During 2000, the Company also sold certain manufacturing equipment and concurrently leased the equipment back under operating lease agreements with terms ranging from five to nine years. Proceeds from the sale and leaseback of the related assets totaled $9.3 million. During 1999, the Company completed the acquisition of the assets of two businesses for an aggregate purchase price of $11.6 million.

Net cash provided by financing activities was $11.1 million during 2000 as compared to $26.5 million during 1999. The Company's debt outstanding under its Credit Agreement increased $10.6 million during 2000, primarily to fund capital expenditures. The Company's net borrowings increased $25.8 million during 1999 primarily to fund two acquisitions and capital expenditures.

Under the terms of the Credit Agreement between the Company and its lenders, the Company had total availability for borrowings and letters of credit under its revolving credit facility of $35.0 million at December 31, 2000, which, when combined with the cash balance of $14.7 million, provides for total cash and borrowing capacity of $49.7 million. Maximum borrowings on the revolving credit facility are $100.0 million, subject to a $15.0 million limit for letters of credit. Borrowings under the Credit Agreement may be used to finance working capital requirements, eligible acquisitions as defined in the Credit Agreement and for general corporate purposes, including capital expenditures.

The Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified ratios and minimum levels of net worth. The terms of the Credit Agreement were last amended as of February 2001 to modify certain financial ratios and include collateral security, with substantially all other terms and conditions of the Credit Agreement remaining in effect as set forth in the original document. As a result of the February 2001 amendment, the Company was in compliance with all covenants associated with the Credit Agreement as of December 31, 2000 and expects to remain in compliance for the remaining term of the Credit Agreement.

The Company's principal commitments at December 31, 2000 consisted of repayments of borrowings under the Credit Agreement and obligations under operating leases for certain of its real property and equipment. The Company also had purchase commitments for manufacturing equipment totaling approximately $11.4 million at December 31, 2000.

The Company believes sufficient resources will be available to satisfy the Company's cash requirements for at least the next twelve months. Cash requirements for periods beyond the next twelve months depend on the Company's profitability, its ability to manage working capital requirements and its rate of growth. If the Company's working capital and capital expenditure requirements exceed expected levels during 2001 or in the foreseeable future, it may require additional external sources of capital.

Market Risk

The Company had no holdings of derivative financial or commodity instruments at December 31, 2000. The Company is exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. All borrowings under the Company's Credit Agreement bear interest at a variable rate based on the prime rate, the London Interbank Offered Rate, or certain alternative short-term rates. An increase in interest rates of 100 basis points would result in additional interest expense of approximately $0.6 million on an annualized basis, based upon the Company's debt outstanding at December 31, 2000. Substantially all of the Company's business is transacted in U.S. dollars. Accordingly, foreign exchange rate fluctuations have never had a significant impact on the Company, and they are not expected to in the foreseeable future.

Consolidated Income Statements

Years ended December 31	2000	1999	1998
(in thousands, except for per share data)			
NET REVENUE			
Outsource services	$ 168,216	$ 150,139	$ 146,706
Products	48,355	51,991	64,919
Total net revenue	216,571	202,130	211,625
COST OF SALES			
Outsource services	145,059	127,153	126,894
Products	31,199	30,028	36,808
Total cost of sales	176,258	157,181	163,702
Gross profit	40,313	44,949	47,923
Selling, general and administrative expense	26,881	23,388	28,169
Research and development	3,574	6,409	5,940
Amortization of intangible assets	1,436	986	963
Special charges	2,945	—	—
Operating income	5,477	14,166	12,851
Interest expense, net	4,035	1,730	1,298
Other income, net	(344)	(219)	(204)
Income before income taxes	1,786	12,655	11,757
Income tax (benefit) expense	(1,398)	3,099	4,311
Net income	$ 3,184	$ 9,556	$ 7,446
Net income per common share:			
Basic	$ 0.33	$ 1.00	$ 0.79
Diluted	$ 0.32	$ 0.97	$ 0.76
Shares used in computing per common share amounts:			
Basic	9,671	9,515	9,438
Diluted	9,964	9,861	9,793

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

Consolidated Balance Sheets

December 31	2000	1999
(in thousands, except for share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,674	$ 10,406
Accounts receivable, net	31,896	23,793
Inventory, net	51,055	49,462
Other current assets	7,695	4,279
Total current assets	105,320	87,940
Property, plant and equipment, net	54,317	40,192
Intangible assets, net	17,154	18,038
Other assets	2,331	2,394
Total assets	$ 179,122	$ 148,564
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25,670	$ 11,022
Accrued liabilities	18,548	17,813
Current portion of long-term debt	2,500	5,400
Total current liabilities	46,718	34,235
Long-term debt	62,500	49,000
Other liabilities	5,699	4,509
Total liabilities	114,917	87,744
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 1,000,000 shares authorized; no shares issued	—	—
Common stock, non-voting, par value $.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value $.01 per share, 20,000,000 shares authorized; 9,709,669 and 9,589,214 shares issued and outstanding in 2000 and 1999, respectively	97	96
Additional paid-in capital	24,401	23,921
Retained earnings	40,060	36,876
Accumulated other comprehensive income (loss)	(353)	(73)
Total shareholders' equity	64,205	60,820
Total liabilities and shareholders' equity	$ 179,122	$ 148,564

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

Consolidated Statements of Cash Flows

Years ended December 31	2000	1999	1998
(in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,184	$ 9,556	$ 7,446
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,351	7,582	6,909
Deferred income taxes	(2,478)	(645)	989
Provision for excess and obsolete inventory	453	446	851
Provision for doubtful accounts	18	(129)	135
Other noncash charges (credits)	202	133	(258)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(8,121)	2,619	1,727
Inventory	(2,046)	(11,277)	4,245
Other assets	(344)	(1,704)	(1,138)
Accounts payable	9,274	(1,997)	(1,855)
Accrued and other liabilities	(1,361)	(6,652)	(8,081)
Net cash provided by (used in) operating activities	8,132	(2,068)	10,970
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(23,886)	(14,443)	(5,845)
Proceeds from sale of assets	9,292	14	380
Purchase of the net assets of acquired entities	—	(11,642)	—
Changes in nonoperating assets and liabilities	(351)	(343)	(364)
Net cash used in investing activities	(14,945)	(26,414)	(5,829)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in debt under revolving credit agreements	10,600	28,280	720
Payments on long-term debt	—	(2,463)	(3,284)
Proceeds from issuance of common stock	481	684	40
Payments for redemption of common stock in subsidiaries, net	—	—	(66)
Net cash provided by (used in) financing activities	11,081	26,501	(2,590)
Net increase (decrease) in cash and cash equivalents	4,268	(1,981)	2,551
Cash and cash equivalents at beginning of year	10,406	12,387	9,836
Cash and cash equivalents at end of year	$ 14,674	$ 10,406	$ 12,387

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

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Paid-In Capital	Earnings	Income (Loss)	Shareholders' Equity
(in thousands, except for share data)						
Balance at January 1, 1998	314,196	$ 7,892	$ —	$ 19,836	$ —	$ 27,728
Net income	—	—	—	7,446	—	7,446
Adjustment in minimum pension liability	—	—	—	—	(1,294)	(1,294)
Comprehensive income (loss)	—	—	—	7,446	(1,294)	6,152
Issuance of shares for conversion of GFP no par value common stock to Sypris $.01 par value common stock	8,027,813	(7,808)	7,808	—	—	—
Issuance of shares for conversion of redeemable common stock to Sypris $.01 par value common stock	205,074	2	661	38	—	701
Issuance of shares for acquisition of minority interests in subsidiaries	893,822	9	3,560	—	—	3,569
Excess of fair value of common stock issued over net assets acquired	—	—	11,169	—	—	11,169
Exercise of stock options	9,688	—	40	—	—	40
BALANCE AT DECEMBER 31, 1998	9,450,593	95	23,238	27,320	(1,294)	49,359
Net income	—	—	—	9,556	—	9,556
Adjustment in minimum pension liability	—	—	—	—	1,221	1,221
Comprehensive income	—	—	—	9,556	1,221	10,777
Issuance of shares under Employee Stock Purchase Plan	15,600	—	99	—	—	99
Exercise of stock options	123,021	1	584	—	—	585
BALANCE AT DECEMBER 31, 1999	9,589,214	96	23,921	36,876	(73)	60,820
Net income	—	—	—	3,184	—	3,184
Adjustment in minimum pension liability	—	—	—	—	(280)	(280)
Comprehensive income (loss)	—	—	—	3,184	(280)	2,904
Issuance of shares under Employee Stock Purchase Plan	35,290	—	273	—	—	273
Exercise of stock options	85,165	1	207	—	—	208
BALANCE AT DECEMBER 31, 2000	9,709,669	$ 97	$ 24,401	$ 40,060	$ (353)	$ 64,205

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

Note 1. Organization and Significant Accounting Policies

CONSOLIDATION POLICY

The accompanying consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, "Sypris" or the "Company"), Bell Technologies, Inc. ("Bell"), Group Technologies Corporation ("GroupTech"), Metrum-Datatape, Inc. ("Metrum-Datatape"), and Tube Turns Technologies, Inc. ("Tube Turns"). All significant intercompany accounts and transactions have been eliminated.

NATURE OF BUSINESS

Sypris is a diversified provider of technology-based outsource services and specialized industrial products. The Company performs a wide range of manufacturing and technical services, typically under long-term contracts with major manufacturers. The Company also manufactures and sells complex data storage systems, magnetic instruments, current sensors, high-pressure closures and a variety of other industrial products.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

INVENTORY

Contract inventory is stated at actual production costs, reduced by the cost of units for which revenue has been recognized. Gross contract inventory is considered work in process. Progress payments under long-term contracts are specified in the contracts as a percentage of cost and are liquidated as contract items are completed and shipped. Other inventory is stated at the lower of cost or market. The first-in, first-out method was used for determining the cost of inventory excluding contract inventory and certain other inventory, which was determined using the last-in, first-out method (see Note 5).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated on the basis of cost. Depreciation of property, plant and equipment is generally computed using the straight-line method over their estimated economic lives. For land improvements, buildings and building improvements, the estimated economic life is generally 40 years. Estimated economic lives range from three to twelve years for machinery, equipment, furniture and fixtures. Leasehold improvements are amortized over the respective lease term using the straight-line method. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major renewals and improvements are capitalized.

Interest cost is capitalized for qualifying assets during the period in which the asset is being installed and prepared for its intended use. Capitalized interest cost is amortized on the same basis as the related depreciation. Capitalized interest for the year ended December 31, 2000 was $910,000.

INTANGIBLE ASSETS

Costs in excess of net assets of businesses acquired ("goodwill"), patents, product drawings and similar intangible assets are amortized over their estimated economic lives. Goodwill is being amortized over a period of fifteen years (see Notes 2 and 7). Other intangible assets are being amortized over periods ranging from five to fifteen years, using the straight-line method.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates long-lived assets, including goodwill, for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company's management to believe that the cost of one of its assets may be impaired, the Company will evaluate the extent to which that cost is recoverable by comparing the future undiscounted cash flows estimated to be associated with that asset to the asset's carrying amount and write down that carrying amount to market value, or discounted cash flow value, to the extent necessary.

REVENUE RECOGNITION

A portion of the Company's business is conducted under long-term, fixed-price contracts with aerospace and defense companies and agencies of the U.S. Government. Contract revenue is included in the consolidated income statements as units are completed and shipped using the units of delivery, percentage of completion method of accounting. The costs attributed to contract revenue are based upon the estimated average costs of all units to be shipped. The cumulative average costs of units shipped to date is adjusted through current operations as estimates of future costs to complete change (see "Contract Accounting" below).

Revenue recognized under the percentage of completion method of accounting totaled $105,535,000, $90,819,000 and $56,867,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Substantially all such amounts were accounted for under the units of delivery method. All other revenue is recognized as product is shipped and title passes, or when services are rendered.

CONTRACT ACCOUNTING

For long-term contracts, the Company capitalizes in inventory direct material, direct labor and factory overhead as incurred. The Company also capitalizes certain general and administrative costs for estimating and bidding on contracts awarded (of which approximately $210,000 remained in inventory at December 31, 2000 and 1999). Selling costs are expensed as incurred. Costs to complete long-term contracts are estimated on a monthly basis. Estimated margins at completion are applied to cumulative contract revenue to arrive at costs charged to operations.

Accounting for long-term contracts under the percentage of completion method involves substantial estimation processes, including determining the estimated cost to complete a contract. As contracts may require performance over several accounting periods, formal detailed cost-to-complete estimates are performed and updated monthly via performance reports. Management's estimates of costs-to-complete change due to internal and external factors, such as labor rate and efficiency variances, revised estimates of warranty costs, estimated future material prices and customer specification and testing requirement changes. Changes in estimated costs are reflected in gross profit in the period in which they are known. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. Provisions for losses on firm fixed-priced contracts totaled $1,701,000, $807,000 and $907,000 in 2000, 1999 and 1998, respectively.

PRODUCT WARRANTY COSTS

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The accrued liability for warranty costs is included in the caption "Accrued liabilities" in the accompanying consolidated balance sheets.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's customer base consists of various departments or agencies of the U.S. Government, aerospace and defense companies under contract with the U.S. Government and a number of customers in diverse industries across geographic areas. At December 31, 2000, the Company did not have significant credit risk concentrations. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral on its commercial accounts receivable. Credit losses are provided for in the financial statements and consistently have been within management's expectations.

The Company recognized revenue from contracts with the U.S. Government and its agencies of approximately $45,467,000, $53,244,000 and $47,178,000 during the years ended December 31, 2000, 1999 and 1998, respectively. The Company's single largest customer for the year ended December 31, 2000 was Raytheon Company, which represented approximately 15% of the Company's total net revenue. No other single customer accounted for more than 10% of the Company's total net revenue for the years ended December 31, 2000, 1999 or 1998.

STOCK BASED COMPENSATION

Stock options are granted under various stock compensation programs to employees and independent directors (see Note 13). The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25").

ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 was subsequently amended by two other statements and is required to be adopted in years beginning after June 15, 2000. Because of the Company's minimal use of derivatives, SFAS 133 did not have a material impact on the Company's consolidated financial statements when it was adopted by the Company effective January 1, 2001.

RECLASSIFICATIONS

Certain amounts in the Company's 1999 and 1998 consolidated financial statements have been reclassified to conform with the 2000 presentation.

Note 2. Acquisitions and Mergers

During 1999, the Company completed two transactions in which it acquired the assets of the related businesses. The transactions were accounted for as purchases, in which the combined purchase price of $11,642,000 was allocated based on the fair values of assets acquired, with the excess amount allocated to goodwill, which totaled $6,607,000. The results of operations of the acquired businesses have been included in the consolidated financial statements since the respective acquisition dates. The acquisitions were financed by the Company's Credit Agreement (see Note 9).

Sypris was organized in 1997 and began business on March 30, 1998 with the completion of the merger of Group Financial Partners, Inc. ("GFP") and two of its subsidiaries, Bell and Tube Turns, with and into GroupTech, a Nasdaq-traded company in which GFP owned an approximate 80% interest. Effective immediately thereafter, GroupTech was merged with and into Sypris. As a result of these and other transactions (collectively referred to herein as the "Reorganization"), Sypris became the holding company for Bell, GroupTech, Tube Turns and Metrum-Datatape, a wholly-owned subsidiary of GFP prior to the Reorganization, and succeeded to the listing of GroupTech on the Nasdaq Stock Market under the new symbol SYPR.

The Reorganization was accounted for as a downstream merger, in which the merger of GFP and GroupTech was accounted for as a purchase of the minority interests of GroupTech. The issuance of shares in exchange for the redeemable common stock held by the Bell and Tube Turns minority shareholders was accounted for as a purchase, and accordingly, the excess of the fair value of the common stock issued over the fair market value of the proportional share of the net assets of Bell and Tube Turns was allocated to the assets and liabilities of Bell and Tube Turns and the excess was allocated to goodwill, which totaled $6,118,000.

Note 3. Special Charges

Special charges of $2,945,000 were recognized during the year ended December 31, 2000 for activities related to the consolidation of certain operations within the Electronics Group. The special charges incurred and paid during 2000 include workforce reductions, related severance and other benefit costs of $1,211,000, facilities rearrangement and relocation costs of $480,000, and employment costs related to the transfer of production of $1,254,000. The workforce reductions resulted in the termination of 48 employees involved in manufacturing, engineering, sales and administrative activities during 2000.

Note 4. Accounts Receivable

Accounts receivable consists of the following (in thousands):

December 31	2000	1999
Commercial	$ 26,262	$ 18,419
U.S. Government	6,313	6,044
	32,575	24,463
Allowance for doubtful accounts	(679)	(670)
	$ 31,896	$ 23,793

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 2000 and 1999, of $4,864,000 and $4,282,000, respectively.

Note 5. Inventory

Inventory consists of the following (in thousands):

December 31	2000	1999
Raw materials	$ 13,567	$ 12,640
Work in process	8,388	9,649
Finished goods	1,632	1,673
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	45,542	29,637
Progress payments related to long-term contracts and programs	(14,011)	(1,038)
LIFO reserve	(1,059)	(430)
Reserve for excess and obsolete inventory	(3,004)	(2,669)
	$ 51,055	$ 49,462

The preceding amounts include inventory valued under the last-in, first-out ("LIFO") method totaling $5,365,000 and $7,582,000 at December 31, 2000 and 1999, respectively, which approximates replacement cost.

Note 6. Property, Plant and Equipment

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

December 31	2000	1999
Land and land improvements	$ 1,032	$ 1,024
Buildings and building improvements	14,979	13,392
Machinery, equipment, furniture and fixtures	77,901	70,173
Construction in progress	18,561	6,327
	112,473	90,916
Accumulated depreciation	(58,156)	(50,724)
	$ 54,317	$ 40,192

Depreciation expense totaled $7,906,000, $6,526,000 and $5,934,000 for the years ended December 31, 2000, 1999 and 1998, respectively. At December 31, 2000, $5,372,000 and $2,093,000 was included in accounts payable and accrued liabilities, respectively, for capital expenditures.

Note 7. Intangible Assets

Intangible assets consists of the following (in thousands):

December 31	2000	1999
Costs in excess of net assets of businesses acquired	$ 18,418	$ 18,462
Other	3,107	2,954
	21,525	21,416
Accumulated amortization	(4,371)	(3,378)
	$ 17,154	$ 18,038

Amortization expense totaled $1,445,000, $1,056,000 and $975,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Note 8. Accrued Liabilities

Accrued liabilities consists of the following (in thousands):

December 31	2000	1999
Employee benefit plan accruals	$ 4,770	$ 5,007
Salaries, wages and incentives	2,921	3,694
Other	10,857	9,112
	$ 18,548	$ 17,813

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

Note 9. Long-Term Debt

The Company has a credit agreement with a syndicate of banks (the "Credit Agreement") that was entered into in October 1999 and amended as of November 2000 and February 2001. The Credit Agreement provides for a revolving credit facility with an aggregate commitment of $100,000,000 through January 2005. Under the terms of the Credit Agreement, interest rates are determined at the time of borrowing and are based on the London Interbank Offered Rate plus a margin of 1.0% to 3.25%; or the greater of the prime rate or the federal funds rate plus 0.5%, plus a margin up to 0.75%. The Company also pays a fee of 0.2% to 0.5% on the unused portion of the aggregate commitment. The margins applied to the respective interest rates and the commitment fee are adjusted quarterly and are based on the Company's ratio of funded debt to earnings before interest, taxes, depreciation and amortization. The weighted average interest rate for outstanding borrowings at December 31, 2000 was 9.3%. The effective average interest rates for borrowings during the years ended December 31, 2000 and 1999 were 8.3% and 6.1%, respectively. Current maturities of long-term debt at December 31, 2000 and 1999 represent amounts due under a short-term borrowing arrangement included in the Credit Agreement. Standby letters of credit up to a maximum of $15,000,000 may be issued under the Credit Agreement and no amounts were outstanding at December 31, 2000 and 1999.

The Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charge and leverage ratios and minimum levels of net worth. The Credit Agreement is secured by substantially all assets of the Company, including but not limited to accounts receivable, inventory, equipment and real estate, and is also guaranteed by the subsidiaries of the Company. The asset collateralization requirement may be eliminated after June 2002 in the event the Company achieves certain financial ratios and remains in compliance with all covenants.

The Credit Agreement was last amended as of February 2001 to modify certain financial ratios and include collateral security, with substantially all other terms and conditions of the Credit Agreement remaining in effect as set forth in the original document. As a result of the February 2001 amendment, the Company was in compliance with all covenants associated with the Credit Agreement as of December 31, 2000 and expects to remain in compliance for the remaining term of the Credit Agreement.

Interest incurred during the years ended December 31, 2000, 1999 and 1998 totaled $5,260,000, $1,725,000 and $1,645,000, respectively. Interest paid during the years ended December 31, 2000, 1999 and 1998 totaled $5,063,000, $1,629,000 and $1,664,000, respectively.

Note 10. Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding at December 31, 2000 and 1999 under the Credit Agreement approximates fair value because borrowings are for terms less than six months and have rates that reflect currently available terms and conditions for similar debt.

Note 11. Employee Benefit Plans

The Company sponsors noncontributory defined benefit pension plans (the "Pension Plans") covering certain employees of Tube Turns. The Pension Plans covering salaried and management employees provide pension benefits that are based on the employees' highest five-year average compensation within ten years before retirement. The Pension Plans covering hourly employees and union members generally provide benefits at stated amounts for each year of service. The Company's funding policy is to make the minimum annual contributions required by the applicable regulations. The Pension Plans' assets are primarily invested in equity securities and fixed income securities. The Company recorded a decrease of $280,000 and an increase of $1,221,000 to its minimum pension liability during 2000 and 1999, respectively. No tax effect was recorded related to these adjustments.

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

Years ended December 31	2000	1999	1998
Service cost benefits earned during the period	$ 180	$ 181	$ 163
Interest cost of projected benefit obligation	1,409	1,283	1,312
Net amortizations and deferrals	(189)	554	474
Actual return on plan assets	(927)	(1,480)	(1,321)
	$ 473	$ 538	$ 628

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

December 31	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 17,859	$ 19,185
Service cost	180	181
Interest cost	1,409	1,283
Plan amendments	798	—
Actuarial loss (gain)	131	(1,549)
Benefits paid	(1,281)	(1,241)
Benefit obligation at end of year	$ 19,096	$ 17,859
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 14,329	$ 13,146
Actual return on plan assets	927	1,480
Company contributions	1,181	944
Benefits paid	(1,281)	(1,241)
Fair value of plan assets at end of year	$ 15,156	$ 14,329
Funded status of the plans:		
Benefit obligation at end of year	$ 19,096	$ 17,859
Fair value of plan assets at end of year	15,156	14,329
Funded status of plan (underfunded)	(3,940)	(3,530)
Unrecognized actuarial gain	(260)	(821)
Unrecognized prior service cost	1,166	608
Net liability recognized	$ (3,034)	$ (3,743)
Balance sheet liabilities (assets):		
Accrued benefit liability	$ 4,510	$ 4,379
Intangible asset	(1,123)	(563)
Accumulated other comprehensive income (loss)	(353)	(73)
Net amount recognized	$ 3,034	$ 3,743
Assumptions at year end:		
Discount rate used in determining present values	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
Expected long-term rate of return on plan assets	9.50%	8.50%

The Company sponsors a defined contribution plan (the "Defined Contribution Plan") for substantially all employees of the Company. The Defined Contribution Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Defined Contribution Plan allows the Company to match participant contributions and provides discretionary contributions as approved by the Company's Board of Directors. Contributions to the Defined Contribution Plan in 2000, 1999 and 1998 totaled $3,459,000, $2,996,000 and $2,661,000, respectively.

During 1999 and 1998, the Company had partially self-insured medical plans (the "Medical Plans") covering certain employees. Beginning January 1, 2000, the Company expanded the coverage to cover substantially all employees. The number of employees participating in the Medical Plans was approximately 1,300 at December 31, 2000 as compared to approximately 600 at December 31, 1999. The Medical Plans limit the Company's annual obligations to fund claims to specified amounts per participant and in the aggregate. The Company is adequately insured for amounts in excess of these limits. Employees are responsible for payment of a portion of the premiums. During 2000, 1999 and 1998, the Company charged $4,456,000, $2,802,000 and $2,407,000, respectively, to operations related to reinsurance premiums, medical claims incurred and estimated, and administrative costs for the Medical Plans. Claims paid during 2000, 1999 and 1998 did not exceed the aggregate limits.

Note 12. Commitments and Contingencies

The Company leases certain of its real property and certain equipment, vehicles and computer hardware under operating leases with terms ranging from month-to-month to ten years and which contain various renewal and rent escalation clauses. Future minimum annual lease commitments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2000 are as follows (in thousands):

Years ending December 31	
2001	$ 5,107
2002	4,686
2003	4,124
2004	3,187
2005	2,781
2006 and thereafter	5,410
	$ 25,295

Rent expense for the years ended December 31, 2000, 1999 and 1998 totaled $3,650,000, $3,858,000 and $4,701,000, respectively.

The Company entered into agreements for the sale and leaseback of certain specific manufacturing and testing equipment during 2000. The terms of the operating leases range from five to nine years and the Company has the option to purchase the equipment at the expiration of the respective lease at a fixed price based upon the equipment's estimated residual value.

Proceeds from the sale and leaseback transactions during 2000 were $9,251,000 and the transactions resulted in a deferred loss of $351,000 that will be amortized over the term of the respective leases. Future minimum annual lease commitments related to these leases are included in the above schedule.

As of December 31, 2000, the Company had outstanding purchase commitments of approximately $11,416,000, primarily for the acquisition of manufacturing equipment, including certain equipment to be financed under an operating lease agreement that becomes effective when the equipment is placed in service in 2001.

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

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

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.

Note 13. Stock Option and Purchase Plans

The Company has certain stock compensation plans under which options to purchase common stock may be granted to officers, key employees and non-employee directors. Options may be granted at not less than the market price on the date of grant. Options are exercisable in whole or in part up to two years after the date of grant and ending ten years after the date of grant. The following table summarizes option activity for the three years ended December 31, 2000:

	Shares	Exercise Price Range	Weighted Average Exercise Price
Options assumed pursuant to the Reorganization effective March 30, 1998	871,987	$ 1.72 - 31.00	$ 5.33
Granted	379,214	7.00 - 9.13	8.68
Exercised	(9,688)	2.76 - 4.36	4.16
Forfeited	(13,125)	3.52 - 15.76	7.36
Balance at December 31, 1998	1,228,388	1.72 - 31.00	6.35
Granted	226,352	5.94 - 9.63	7.75
Exercised	(123,021)	2.76 - 6.68	4.75
Forfeited	(19,259)	2.96 - 11.00	8.26
Balance at December 31, 1999	1,312,460	1.72 - 31.00	6.71
Granted	518,746	6.56 - 10.50	9.52
Exercised	(114,246)	2.76 - 8.75	4.08
Forfeited	(163,223)	4.24 - 10.50	7.20
Balance at December 31, 2000	1,553,737	$ 1.72 - 31.00	$ 7.79

The following table summarizes certain weighted average data for options outstanding and currently exercisable at December 31, 2000:

	Outstanding			Exercisable	
Exercise Price Range	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Shares	Weighted Average Exercise Price
$ 1.72	156,648	$ 1.72	1.7	156,648	$ 1.72
$ 2.76 - $ 4.12	42,782	3.34	4.2	42,782	3.34
$ 4.24 - $ 6.24	118,505	4.90	5.2	99,261	4.91
$ 6.56 - $ 10.00	1,015,534	8.46	6.3	432,514	8.41
$ 10.06 - $ 15.76	206,161	10.79	6.6	40,811	12.21
$ 16.12 - $ 23.00	10,003	18.16	5.4	10,003	18.16
$ 25.52 - $ 31.00	4,104	28.86	4.1	4,104	28.86
Total	1,553,737	$ 7.79	5.7	786,123	$ 6.78

The Company's stock compensation program also provides for the grant of performance-based stock options to key employees. The terms and conditions of the performance-based option grants provide for the determination of the exercise price and the beginning of the vesting period to occur when the fair market value of the Company's common stock achieves certain targeted price levels. Performance-based options to purchase 108,000 shares, 16,000 shares and 380,000 shares of common stock were granted during 2000, 1999 and 1998, respectively. Performance-based options to purchase 112,000 shares of common stock were forfeited in 2000. None of the targeted price levels of the performance-based options were achieved during 2000, 1999 or 1998 and, accordingly, these options are excluded from disclosures of options outstanding at December 31, 2000, 1999 and 1998. The aggregate number of shares of common stock reserved for issuance under the Company's stock compensation programs as of December 31, 2000 was 3,000,000. The aggregate number of shares available for future grant as of December 31, 2000 was 899,566.

The Company applies APB 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and net income per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value for options granted by the Company during 2000, 1999 and 1998 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

Years ended December 31	2000	1999	1998
Expected life (years)	6	6	6
Expected volatility	70.30%	75.50%	94.20%
Risk-free interest rates	4.98%	6.30%	5.68%
Expected dividend yield	—	—	—

The weighted average Black-Scholes value of options granted under the stock option plans during 2000, 1999 and 1998 was $7.05, $5.50 and $6.91, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except for per share data):

Years ended December 31	2000	1999	1998
Pro forma net income	$ 2,086	$ 8,533	$ 5,989
Pro forma net income per common share:			
Basic	$ 0.22	$ 0.90	$ 0.63
Diluted	$ 0.21	$ 0.87	$ 0.61

Effective February 1, 1999, the Company adopted a stock purchase plan to provide substantially all employees who have satisfied the eligibility requirements the opportunity to purchase shares of the Company's common stock on a compensation deduction basis. The purchase price is the lower of 85% of the fair market value of the common stock on the first or last business day of the purchase period. Payroll deductions may not exceed $6,000 for any six-month cycle. The stock purchase plan expires January 31, 2006. At December 31, 2000 and 1999, there were 249,110 shares and 284,400 shares, respectively, available for purchase under the plan. During 2000 and 1999, a total of 35,290 shares and 15,600 shares, respectively, were issued under the plan.

Note 14. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Accordingly, deferred income taxes have been provided for temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the financial statements.

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

Years ended December 31	2000	1999	1998
Current:			
Federal	$ 969	$ 3,386	$ 2,844
State	102	320	441
Other	9	38	37
	1,080	3,744	3,322
Deferred:			
Federal	(2,351)	(630)	1,011
State	(127)	(15)	(22)
	(2,478)	(645)	989
	$ (1,398)	$ 3,099	$ 4,311

The Company files a consolidated federal income tax return which includes all subsidiaries. Income taxes paid during 2000, 1999 and 1998 totaled $1,347,000, $2,136,000 and $5,329,000, respectively. During 2000, the Company received $2,102,000 in federal income tax refunds.

At December 31, 2000, the Company had $17,771,000 of state net operating loss carryforwards available to offset future taxable income. Such carryforwards reflect income tax losses incurred which will expire on December 31 of the following years (in thousands):

December 31	
2008	$ 2,386
2009	8,362
2010	560
2011	5,999
2017	464
	$ 17,771

The following is a reconciliation of income tax (benefit) expense to that computed by applying the federal statutory rate of 34% to income before income taxes (in thousands):

Years ended December 31	2000	1999	1998
Federal tax at the statutory rate	$ 607	$ 4,303	$ 3,997
State income taxes, net of federal tax benefit	153	236	291
Change in valuation allowance for deferred tax asset	(3,008)	(1,891)	(882)
Research and development tax credit	(262)	(544)	—
Non-deductible expenses	240	135	166
Other	872	860	739
	$ (1,398)	$ 3,099	$ 4,311

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

December 31	2000	1999
Deferred tax assets:		
Compensation and benefit accruals	$ 1,108	$ 992
Inventory valuation	673	969
State net operating loss carryforwards	977	977
Contract provisions	796	577
Accounts receivable allowance	255	250
Defined benefit pension plan	995	985
Other	327	424
	5,131	5,174
Valuation allowance	(977)	(3,985)
	4,154	1,189
Deferred tax liabilities:		
Depreciation	(1,981)	(1,494)
Net deferred tax asset (liability)	$ 2,173	$ (305)

The valuation allowance for deferred tax assets decreased by $3,008,000, $1,891,000 and $882,000 in 2000, 1999 and 1998, respectively. The majority of the decrease in the valuation allowance in 2000 was recorded during the fourth quarter to reflect adjustments to the Company's effective tax rate based upon income before income taxes as reported for the fourth quarter and year ended December 31, 2000. At December 31, 2000, the valuation allowance of $977,000 relates to state tax net operating loss ("NOL") carryforwards. The utilization of the state NOL carryforwards is uncertain because it is unlikely the losses will be utilized within the carryforward periods prescribed by the applicable taxing jurisdiction based upon the Company's current filing status. Management believes it is more likely than not that the Company's future earnings will be sufficient to ensure the realization of deferred tax assets for federal and state purposes, excluding the state NOL carryforward.

Note 15. Net Income Per Common Share

Basic income per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted income per common share is calculated by using the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options. For the period prior to the Reorganization on March 30, 1998, shares used in computing basic and diluted income per common share include the outstanding shares of Sypris common stock as of that date and the dilution associated with common stock options issued prior to that date.

The following table presents information necessary to calculate net income per common share (in thousands, except for per share data):

Years ended December 31	2000	1999	1998
Shares outstanding:			
Weighted average shares outstanding	9,671	9,515	9,438
Effect of dilutive employee stock options	293	346	355
Adjusted weighted average shares outstanding and assumed conversions	9,964	9,861	9,793
Net income applicable to common stock	$ 3,184	$ 9,556	$ 7,446
Net income per common share:			
Basic	$ 0.33	$ 1.00	$ 0.79
Diluted	$ 0.32	$ 0.97	$ 0.76

Note 16. Segment Information

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial Group. The segments are each managed separately because of the distinctions between the products, services, markets, customers, technologies and workforce skills of the segments. The Electronics Group provides a wide range of manufacturing and technical services for a diversified customer base as an outsource service provider. The Electronics Group also manufactures complex data storage systems, magnetic instruments, current sensors and other electronic products. The Industrial Group provides manufacturing services for a variety of customers that outsource forged and finished steel components and subassemblies. The Industrial Group also manufactures high-pressure closures and other fabricated products. Revenue derived from outsource services in 2000 for the Electronics Group and the Industrial Group accounted for 66% and 12% of total net revenue, respectively. There was no intersegment net revenue recognized for all years presented. The following table presents financial information for the reportable segments of the Company (in thousands):

Years ended December 31	2000	1999	1998
Net revenue from unaffiliated customers:			
Electronics Group	$ 182,126	$ 164,963	$ 174,396
Industrial Group	34,445	37,167	37,229
	$ 216,571	$ 202,130	$ 211,625
Gross profit:			
Electronics Group	$ 36,272	$ 37,873	$ 41,400
Industrial Group	4,041	7,076	6,523
	$ 40,313	$ 44,949	$ 47,923
Operating income:			
Electronics Group	$ 6,935	$ 12,005	$ 11,207
Industrial Group	1,648	4,930	4,329
General, corporate and other	(3,106)	(2,769)	(2,685)
	$ 5,477	$ 14,166	$ 12,851
Total assets:			
Electronics Group	$ 124,523	$ 106,229	$ 90,174
Industrial Group	37,851	26,714	18,905
General, corporate and other	16,748	15,621	12,040
	$ 179,122	$ 148,564	$ 121,119
Depreciation and amortization:			
Electronics Group	$ 8,037	$ 6,551	$ 5,933
Industrial Group	1,109	902	825
General, corporate and other	205	129	151
	$ 9,351	$ 7,582	$ 6,909
Capital expenditures:			
Electronics Group	$ 7,971	$ 6,327	$ 4,598
Industrial Group	15,546	7,134	1,185
General, corporate and other	369	982	62
	$ 23,886	$ 14,443	$ 5,845

The Company attributes net revenue to countries based upon the location of its operations. Export sales from the United States totaled $25,250,000, $30,061,000 and $25,551,000 in 2000, 1999 and 1998, respectively.

Note 17. Quarterly Financial Information (Unaudited)

The following is an analysis of certain items in the consolidated income statements by quarter for the years ended December 31, 2000 and 1999 (in thousands, except for per share data):

	2000				1999			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net revenue	$ 50,697	$ 52,118	$ 53,887	$ 59,869	$ 44,898	$ 49,331	$ 48,291	$ 59,610
Gross profit	10,754	11,353	9,090	9,116	9,720	11,734	12,041	11,454
Operating income	1,182	2,739	707	849	2,432	3,704	4,364	3,666
Net income	179	1,368	90	1,547	1,533	2,459	2,763	2,801
Net income per common share:								
Basic	$ 0.02	$ 0.14	$ 0.01	$ 0.16	$ 0.16	$ 0.26	$ 0.29	$ 0.29
Diluted	$ 0.02	$ 0.14	$ 0.01	$ 0.16	$ 0.16	$ 0.25	$ 0.28	$ 0.28

Report of Independent Auditors

Board of Directors and Shareholders
Sypris Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sypris Solutions, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Louisville, Kentucky
February 16, 2001

Financial Summary

Years ended December 31 *(in thousands, except for per share data)*	2000	1999	1998	1997	1996
INCOME STATEMENT DATA					
Net revenue	$ 216,571	$ 202,130	$ 211,625	$ 217,355	$ 308,598
Gross profit	40,313	44,949	47,923	32,135	30,383
Operating income	5,477	14,166	12,851	1,785	513
Income (loss) from continuing operations	3,184	9,556	7,446	1,527	(2,536)
Discontinued operations, net of tax	—	—	—	3,817	3,457
Net income	3,184	9,556	7,446	5,344	921
PER SHARE DATA					
Income (loss) from continuing operations:					
Basic	$ 0.33	$ 1.00	$ 0.79	$ 0.09	$ (0.45)
Diluted	$ 0.32	$ 0.97	$ 0.76	$ 0.09	$ (0.43)
Net income (loss):					
Basic	$ 0.33	$ 1.00	$ 0.79	$ 0.50	$ (0.08)
Diluted	$ 0.32	$ 0.97	$ 0.76	$ 0.48	$ (0.08)

December 31 *(in thousands)*	2000	1999	1998	1997	1996
BALANCE SHEET DATA					
Working capital	$ 58,602	$ 53,705	$ 32,121	$ 35,123	$ 6,337
Total assets	179,122	148,564	121,119	120,608	132,960
Total debt	65,000	54,400	28,583	31,340	46,597
Total shareholders' equity	64,205	60,820	49,359	27,728	22,384

See accompanying Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Corporate Directory

Board of Directors

ROBERT E. GILL (1†)
Chairman of the Board

JEFFREY T. GILL (1)
President & CEO

HENRY F. FRIGON (1,2†)
Chairman
CARSTAR, Inc.

R. SCOTT GILL (1)
Associate
Koenig & Strey, Inc.

WILLIAM L. HEALEY (2,3)
Private Investor & Consultant

ROGER W. JOHNSON (3†,4)
Private Investor, Consultant
& Educator

SIDNEY R. PETERSEN (2,4†)
Retired Chairman & CEO
Getty Oil, Inc.

ROBERT SROKA (3,4)
Managing Partner
Lighthouse Holdings, LLC

(1) Member of Executive Committee
(2) Member of Compensation Committee
(3) Member of Audit and Finance Committee
(4) Member of Nominating and Governance Committee
(5) Executive Officer
† Committee Chairman

Corporate Officers

ROBERT E. GILL (5)
Chairman of the Board

JEFFREY T. GILL (5)
President & CEO

DAVID D. JOHNSON (5)
Vice President, CFO
& Treasurer

RICHARD L. DAVIS (5)
Senior Vice President
& Secretary

ANTHONY C. ALLEN (5)
Vice President, Controller
& Assistant Secretary

Subsidiary Officers

CYNTHIA Y. BELAK
Vice President of Finance
Metrum-Datatape Inc.

JAMES G. COCKE (5)
Vice President;
President & CEO
Group Technologies Corporation

STEPHEN W. ISLAS
Vice President
Metrum-Datatape Inc.

STUART W. JONES
Vice President of Finance
Bell Technologies Inc.

JOHN M. KRAMER (5)
Vice President;
President & CEO
Tube Turns Technologies Inc.

RAYMOND E. MINTER
Vice President of Business
Development
Group Technologies Corporation

G. DARRELL ROBERTSON (5)
Vice President;
President & CEO
Metrum-Datatape Inc.

HENRY L. SINGER II (5)
Vice President;
President & CEO
Bell Technologies Inc.

NORMAN E. ZELESKY
Vice President of Finance
Tube Turns Technologies Inc.

Company Locations

ALABAMA

Metrum-Datatape Inc.
3322 S. Memorial Pky.
Huntsville, AL 35801
Phone: (256) 881-2231

ARIZONA

Bell Technologies Inc.
2320 West Peoria Ave.
Building D-133
Phoenix, AZ 85029
Phone: (602) 395-5900

CALIFORNIA

Bell Technologies Inc.
440 N. Bernardo Ave.
Mountain View, CA 94043
Phone: (650) 969-5500

Bell Technologies Inc.
2102 Ringwood Ave.
San Jose, CA 95131
Phone: (408) 954-8050

Bell Technologies Inc.
16340 Roscoe Blvd., Suite 100
Van Nuys, CA 91406
Phone: (818) 830-9111

Metrum-Datatape Inc.
Corporate Headquarters
605 East Huntington Dr.
Monrovia, CA 91016
Phone: (626) 358-9500

COLORADO

Metrum-Datatape Inc.
4800 East Dry Creek Road
Littleton, CO 80122
Phone: (303) 773-4700

Bell Technologies Inc.
4800 East Dry Creek Road
Littleton, CO 80122
Phone: (303) 773-4616

FLORIDA

Bell Technologies Inc.
Corporate Headquarters
6120 Hanging Moss Road
Orlando, FL 32807
Phone: (407) 678-6900

Group Technologies Corporation
Corporate Headquarters
10901 Malcolm McKinley Dr.
Tampa, FL 33612
Phone: (813) 972-6000

Metrum-Datatape Inc.
8 Eighth Street
Shalimar, FL 32579
Phone: (850) 651-5158

GEORGIA

Bell Technologies Inc.
1000 Cobb Place Blvd.
Building 200, Suite 240
Kennesaw, GA 30144
Phone: (770) 795-8092

ILLINOIS

Bell Technologies Inc.
2055 Army Trail Road
Suite 108
Addison, IL 60101
Phone: (630) 620-5800

KENTUCKY

Sypris Solutions Inc.
Corporate Headquarters
101 Bullitt Lane, Suite 450
Louisville, KY 40222
Phone: (502) 329-2000

Tube Turns Technologies Inc.
Corporate Headquarters
2820 West Broadway
Louisville, KY 40211
Phone: (502) 774-6011

MARYLAND

Bell Technologies Inc.
1321A Mercedes Drive
Hanover, MD 21076
Phone: (410) 850-5056

Metrum-Datatape Inc.
9020 Junction Drive
Annapolis Junction, MD 20701
Phone: (301) 470-0110

MASSACHUSETTS

Bell Technologies Inc.
53 Second Avenue
Burlington, MA 01803
Phone: (781) 272-9050

Bell Technologies Inc.
34 Simarano Drive
Marlborough, MA 01752
Phone: (508) 786-9633

MICHIGAN

Bell Technologies Inc.
24301 Catherine Industrial Road
Suite 116
Novi, MI 48375
Phone: (248) 305-5200

NEW JERSEY

Bell Technologies Inc.
650 Liberty Avenue
Union, NJ 07083
Phone: (908) 688-9779

Bell Technologies Inc.
1133 Route 23 South
Wayne, NJ 07470
Phone: (973) 628-1363

NEW YORK

Bell Technologies Inc.
c/o Delphi Harrison
200 Upper Mountain Road
Building 6, Plant Q
Lockport, NY 14094
Phone: (716) 438-4584

OHIO

Bell Technologies Inc.
925 Keynote Circle
Brooklyn Heights, OH 44131
Phone: (216) 741-7040

Bell Technologies Inc.
3162 Presidential Drive
Fairborn, OH 45234
Phone: (937) 427-3444

PENNSYLVANIA

Bell Technologies Inc.
389 Wolf Camp Road
Fair Hope, PA 15538
Phone: (814) 267-5408

SOUTH CAROLINA

Bell Technologies Inc.
c/o Square D
8821 Garners Ferry Road
Columbia, SC 29209
Phone: (803) 695-7874

Bell Technologies Inc.
c/o Bose Facility
2000 Carolina Pines Drive
Blythewood, SC 29016
Phone: (803) 714-8397

TENNESSEE

Bell Technologies Inc.
305 Seaboard Lane, Suite 318
Franklin, TN 37067
Phone: (615) 771-2421

TEXAS

Bell Technologies Inc.
906 Trinity Drive, Suite H
Mission, TX 78572
Phone: (956) 585-6566

Bell Technologies Inc.
258 East Arapaho, Suite 150
Richardson, TX 75081
Phone: (972) 231-4443

Metrum-Datatape Inc.
5500-B Will Ruth Drive
El Paso, TX 79924
Phone: (915) 757-2547

Tube Turns Technologies Inc.
9801 Westheimer Drive
Suite 302
Houston, TX 77042
Phone: (713) 917-6878

Common Stock Information

The Company's common stock is traded on The Nasdaq Stock Market under the symbol "SYPR." The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock as reported by The Nasdaq Stock Market.

	High	Low
Year ended December 31, 1999:		
First Quarter	$ 8.250	$ 6.375
Second Quarter	$ 9.750	$ 6.875
Third Quarter	$ 11.000	$ 9.000
Fourth Quarter	$ 10.250	$ 8.625
Year ended December 31, 2000:		
First Quarter	$ 11.000	$ 8.875
Second Quarter	$ 10.750	$ 8.625
Third Quarter	$ 10.625	$ 8.625
Fourth Quarter	$ 8.750	$ 6.188

As of February 5, 2001, there were 1,014 holders of record of the Company's common stock.

The Company has historically not declared or paid any cash dividend on its common stock. The Company presently intends to retain all of its earnings for the future operation and growth of its business and does not intend to pay cash dividends in the foreseeable future. The payment of cash dividends in the future will be dependent upon the Company's results of operations, earnings, capital requirements, contractual restrictions and other factors considered relevant by the Board of Directors.

Investor Information

CORPORATE ADDRESS

Sypris Solutions Inc.
101 Bullitt Lane
Suite 450
Louisville, KY 40222
Phone: (502) 329-2000
Fax: (502) 329-2050

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, May 1, 2001, at 10:00 a.m. at 101 Bullitt Lane, Lower Level Seminar Room, Louisville, Kentucky.

FOR MORE INFORMATION

To learn more about Sypris Solutions Inc., visit our site on the World Wide Web at www.sypris.com.

FORWARD LOOKING STATEMENTS

This document contains various forward-looking statements. Statements in this document that are not historical are forward-looking statements. Such statements are subject to various risks and uncertainties that could cause actual results to vary materially from those stated. Such risks and uncertainties include: economic conditions in various regions, product and price competition, raw material prices, technology changes, patent issues, litigation results, legal and regulatory developments and other risks and uncertainties described in documents filed with the Securities and Exchange Commission.

INVESTOR MATERIALS

The Sypris Web page – www.sypris.com – is your entry point for a vast array of information about Sypris, including its products, financial information, real-time stock quotes, links to each of its subsidiary operations and other useful information.

For investor information, including additional annual reports, 10-Ks, 10-Qs or any other financial literature, please contact Carroll A. Dunavent at (502) 329-2000.

SYPRIS ON NASDAQ

The Common Stock of Sypris trades on The Nasdaq Stock Market under the symbol SYPR.

TRANSFER AGENT

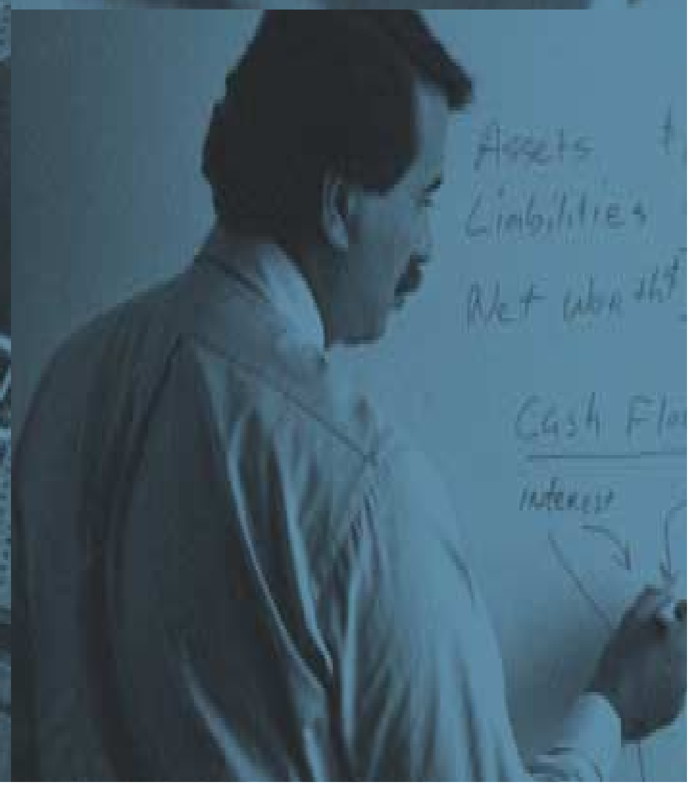
First Chicago Trust Company of New York, a division of Equiserve
P.O. Box 2500
Jersey City, NJ 07303
Phone: (800) 317-4445
Fax: (201) 222-4151
www.equiserve.com

INDEPENDENT AUDITORS

Ernst & Young LLP
400 West Market Street
Suite 2100
Louisville, KY 40202
Phone: (502) 585-1400
Fax: (502) 584-4221

CORPORATE COUNSEL

Wyatt, Tarrant & Combs
PNC Plaza, 28th Floor
Louisville, KY 40202
Phone: (502) 589-5235
Fax: (502) 589-0309



SYPRIS
SOLUTIONS

101 BULLITT LANE, SUITE 450
LOUISVILLE, KENTUCKY 40222
Phone: (502) 329-2000
Fax: (502) 329-2050
www.sypris.com