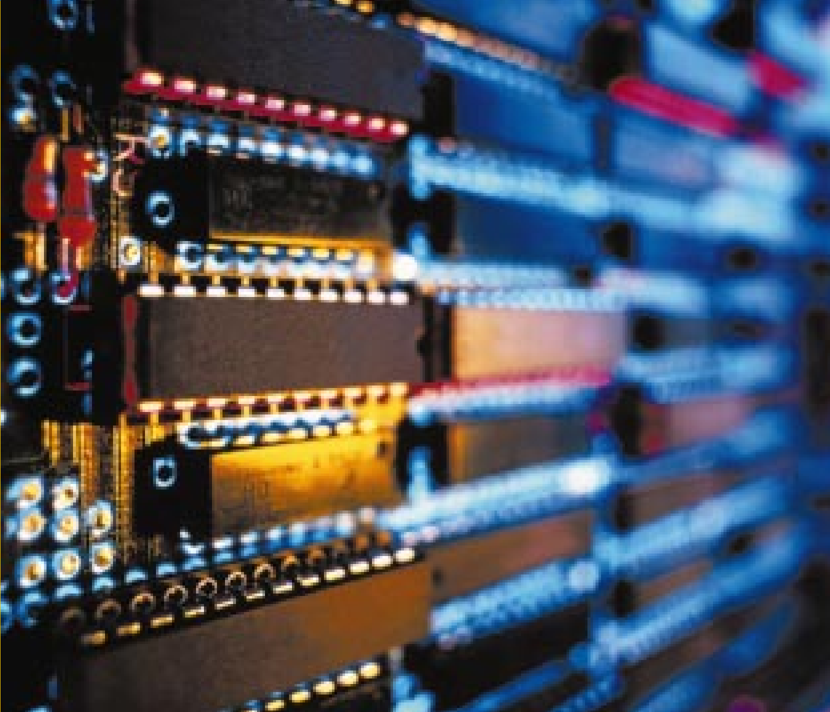
SYPRIS SOLUTIONS INC

Annual Report

1999



About Our Company

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 contracts with major manufacturers. We also manufacture and sell complex data storage systems, magnetic instruments, current sensors, high-pressure closures and a variety of other industrial products. Our mission is to become the leading value-added supplier in each of our unique, technically sophisticated niche markets.

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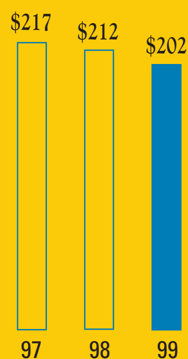
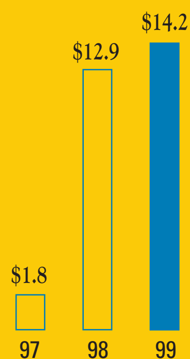
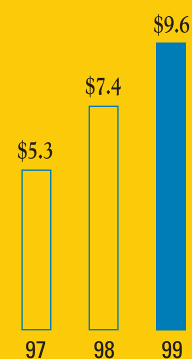
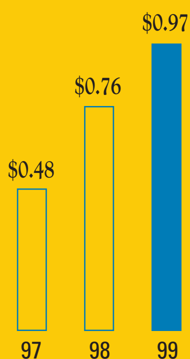
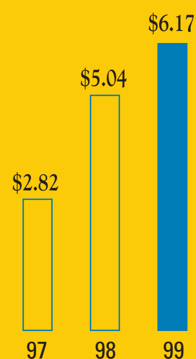
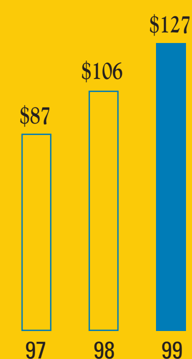












Financial Highlights

Years ended December 31	1999	1998	Change
(in thousands, except for per share data)			
Income Statement Data:			
Net revenue	$ 202,130	$ 211,625	(4.5%)
Gross profit	44,949	47,923	(6.2%)
Operating income	14,166	12,851	10.2%
Net income	9,556	7,446	28.3%
Per Share Data:			
Net income:			
Basic	$ 1.00	$ 0.79	26.6%
Diluted	$ 0.97	$ 0.76	27.6%

December 31	1999	1998	Change
(in thousands)			
Balance Sheet Data:			
Working capital	$ 53,705	$ 32,121	67.2%
Total assets	148,564	121,119	22.7%
Total debt	54,400	28,583	90.3%
Total shareholders' equity	60,820	49,359	23.2%

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

To Our Shareholders

We are pleased to report that 1999 marked a year of continued progress for Sypris Solutions. Employees throughout the Company worked diligently to accomplish a series of wide-ranging goals that were designed to create a stronger, more competitive, increasingly profitable corporation. It is our pleasure to report that they were successful.

Earnings per share increased 28 percent to $0.97 per share in 1999 from $0.76 per share for the prior year. Revenue declined slightly, as expected, to $202 million from $212 million in 1998. Backlog increased 20 percent to $127 million from $106 million for the prior year, while shareholders' equity increased 23 percent to $61 million from $49 million at year-end 1998. The Company's stock price reflected this progress and increased 52 percent to $9.00 per share as of the end of December 1999 from just under $6.00 per share at the end of 1998.

The important news, however, is that we believe the Company is now positioned to resume profitable top line growth. The trend toward outsourcing in the United States continues to accelerate, which should play well to our strengths since we derive approximately 75 percent of our revenue from an array of sophisticated manufacturing and technical services that are provided primarily to large original equipment manufacturers. We believe this positive business environment will be of particular benefit to our Manufacturing Services business, which encompasses a variety of value-added activities, ranging from the assembly of complex circuit card assemblies to the production of heavy-duty truck axles.

The significant growth in contract awards and backlog during the year was reflective of the Company's successful efforts to become a leader in certain segments of the rapidly growing market for outsourcing services. For example, during 1999 we announced two important, multi-year programs with Raytheon with a total estimated value of $71 million. These contracts extend through the year 2003 and provide for the Company to produce circuit card assemblies that will be integrated into a number of digital communications systems for use by satellites and aircraft.

In addition, we entered into a three-year contract with Allied Signal with a total estimated value of $35 million, including options, for the production of circuit card assemblies that will be used in the cockpit display units of the AH64 Apache Longbow attack helicopter. We also secured an $11 million contract to manufacture secure communications equipment for the United States Navy Space and Naval Warfare Systems Command, and a $6 million contract to produce complex circuit card assemblies for use in a ruggedized, hand-held computer produced by Litton Data Systems.

This momentum has carried forward into the new year. In January of 2000, we announced an accord to expand and extend our strategic partnership with Meritor Automotive. The contract, with an estimated value of $120 million over five years, calls for Sypris to serve as the sole-source provider of Class V-VIII truck axles in the United States for Meritor through the year 2004. In addition to the Meritor agreement, we also announced four new contracts with Raytheon during January and February of 2000 with a total value of more than $21 million.

The award of these and other contracts represent a significant milestone in our efforts to construct a strong, dependable platform on which to build the business in the future. The successful pursuit of multi-year, sole-source agreements is an important part of our strategy to increase the dependability and reliability of the Company's future financial results. The security and visibility provided by these types of long-term contracts enables us to invest with confidence in productivity-enhancing equipment that will benefit the Company for years to come.

On the acquisition front, the Company completed the purchase of Terametrix in September and the purchase of the Calibration and Repair Service division of Lucent Technologies in December. The Lucent transaction is of particular note, since it added AT&T, Lucent, the Federal Aviation Administration and the National Weather Service to the Company's growing list of valuable customers. As a result of this acquisition, we believe that we are now positioned to become the leading independent outsource provider of calibration and repair services in the United States.

We are pleased with the progress we have made to date and we are optimistic as we look toward the future. More specifically, we believe that Sypris Solutions is now poised to take advantage of the increasingly rapid consolidation of the automotive and truck components market, as well as the accelerating trend toward outsourcing in the aerospace and defense markets. We believe that we possess the special engineering and manufacturing skills that are required to meet the high-reliability, complex requirements of customers in these sectors. As we address the opportunities in both of these markets, we will invest to support the needs of those future customers who value long-term partnerships and are willing to enter into firm, multi-year contractual arrangements.

During the latter part of the year, the Company entered into a new $100 million revolving credit agreement with a bank syndicate led by Bank One, with Bank of America, LaSalle Bank and SunTrust Bank serving as participants. The new agreement replaced the Company's former $40 million credit facility and should provide us with the necessary financial resources to support our near-term growth initiatives.

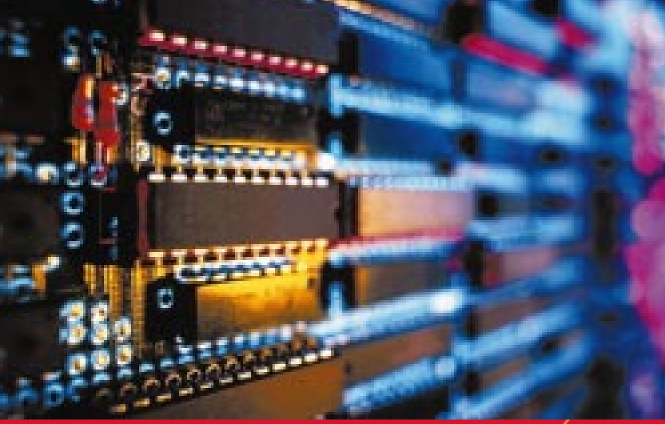
In closing, we want to thank our employees for their dedication over this past year. The achievements of 1999 would not have been possible without their hard work and commitment. We also want to thank our customers for giving us the opportunity to serve them and we look forward to playing an increasingly important role for each of them in the future.

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

Sincerely,

Jeffrey T. Gill
President & CEO

Robert E. Gill
Chairman



Lead
Cultivate Inve
Develop
Focus
Achieve
Deliver

Our mission is to become the ***leading*** value-added supplier in each of our unique, technically sophisticated niche markets. We will do so by continuing to ***cultivate*** close, long-term relationships with a select group of customers. We will ***invest*** to grow with these customers. We will ***develop*** new compelling value-added services, technologies and products. We will ***focus*** on the selective completion of synergistic acquisitions. And we will ***achieve*** operating synergies and cost efficiencies to improve our competitiveness. We believe that by so doing, we will be able to exceed the expectations of our customers and ***deliver*** consistent, dependable financial results and attractive returns for our shareholders over the long-term.

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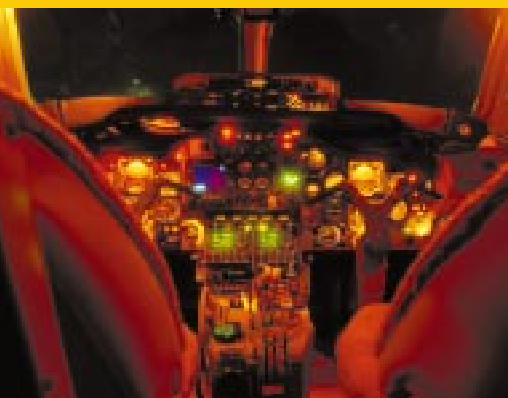
Manufacturing Services

Manufa

We are FAA specification compliant and we have a host of other certifications, including QS 9000, ISO 9001 and NASA NHB 5300.4.

Manufacturing Services accounted for approximately 50 percent of the Company's revenue during the year. In 1999, we expanded our partnership with Meritor Automotive and now serve as the sole-source for Class V-VIII truck axles for Meritor in the United States. We continued to serve the needs of Honeywell by providing subassemblies for use in its commercial avionics systems and we initiated production of circuit cards for Litton's ruggedized, hand-held computer. We increased the number of long-term programs for which we provide Raytheon with electronic assemblies for use in a variety of applications, ranging from missile guidance systems to satellite communications. And finally, we were pleased to add Allied Signal and Boeing to our growing list of significant customers.



We expect Manufacturing Services to be a major contributor to our future growth. We believe that we are uniquely positioned to take advantage of the increasingly rapid consolidation of the automotive and truck components market, as well as the accelerating trend toward outsourcing in the aerospace and defense markets. The growing number of multi-year contract awards that we received during 1999 from customers such as Allied Signal, Litton, Raytheon and Boeing, were the result of recent decisions by these prime aerospace contractors to embrace the increased use of specialty outsource partners to improve profitability and reduce working capital.

Honeywell Raytheon Litton Industries John Deere Caterpillar

cturing

Pratt & Whitney* Meritor *Rockwell* Northrop-Grumman *Boeing

Techni

AT&T **Square-D** **Boeing** **NASA** **Federal Aviation Administration**

Technical Services

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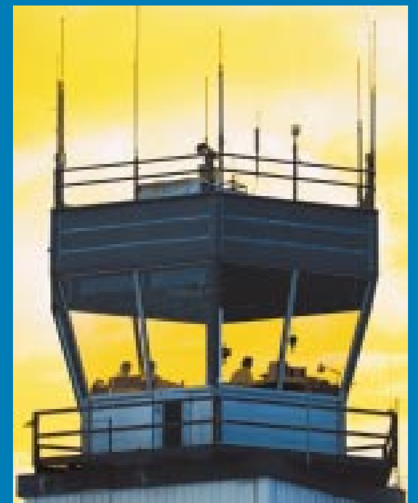
Technical Services accounted for approximately 24 percent of the Company's revenue during 1999. During the year, we calibrated equipment for Honeywell, Intel and Square D, and we tested electronic components for Boeing, Cisco Systems and Lockheed Martin. We strengthened our established position as one of the leading providers of encryption software for use by various agencies of the federal government. In December of 1999, we completed the acquisition of the Calibration and Repair Services division of Lucent Technologies, which serves a variety of important customers, including AT&T, Lucent, the Federal Aviation Administration and the National Weather Service. The combination of this business with our own calibration and repair operations will position the Company to become the leading independent supplier of these unique technical services.



We calibrate control tower radar and directional beacons for the FAA across the country.

We believe Technical Services will benefit in the future from the increasing trend toward outsourcing by original equipment manufacturers. Additional consolidation opportunities exist in the market for the calibration and repair of instruments and we plan to pursue acquisitions to further build upon our leading position in this market. We also believe that our recent investment in the development of wafer probe testing services has promising potential. This service, which is targeted for use by domestic fabless semiconductor manufacturers, received contractual commitments for substantially all of its initial capacity much sooner than we had anticipated.

Lucent Technologies Honeywell National Security Agency

Products

Pro

Our recording systems are used by the Johnson Space Center to track valuable Space Shuttle information.

Products accounted for approximately 26 percent of the Company's revenue during 1999. During the year, we continued to provide current sensors under long-term contracts to Daimler-Chrysler for use in its mass transit systems and to General Motors for use in its locomotives. We completed the purchase of Terametrix, which added to our line of telemetry products, and we entered into distribution agreements with Sony, Storage Concepts and others to fill openings in our product portfolio. The successful completion of these transactions enabled us to move closer to our objective of supplying fully integrated data acquisition, storage and analysis systems for use by our customers in the space, intelligence and defense markets.

As we look to the future, we believe Products will benefit from our new contract to supply Genie with current sensors for use in its latest garage door opening system. In addition, our new threaded, high-pressure closure will provide us with additional opportunities in the energy markets as capital spending in this sector begins to recover from 1999 levels. We plan to introduce an updated line of instruments and probes for use by Agilent Technologies, Toyo and other such customers who market systems for use in industrial research, laboratory and manufacturing applications. And finally, we will continue to invest in new product development and partnering opportunities so that we can offer our customers an ever-increasing array of value-added, feature-competitive products.

Daimler-Chrysler AdTranz General Motors Shell Oil US Navy

ducts

Chevron *Lockheed Martin* **Johnson Space Center** *US Air Force*

SYPRIS
SOLUTIONS INC

1999 Financial Review

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

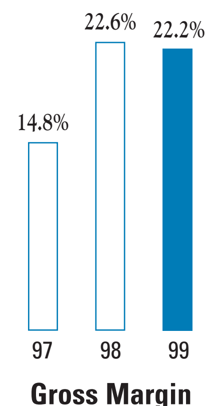
Results of Operations

The following table sets forth certain data from the Company's consolidated income statements for the years ended December 31, 1999, 1998 and 1997, expressed as a percentage of net revenue:

Years ended December 31	1999	1998	1997
Net revenue	100.0%	100.0%	100.0%
Cost of sales	77.8	77.4	85.2
Gross profit	22.2	22.6	14.8
Selling, general and administrative expense	11.5	13.3	12.3
Research and development	3.2	2.8	1.6
Amortization of intangible assets	0.5	0.4	0.1
Operating income	7.0%	6.1%	0.8%
Income from continuing operations	4.7%	3.5%	0.7%
Net income	4.7%	3.5%	2.5%

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

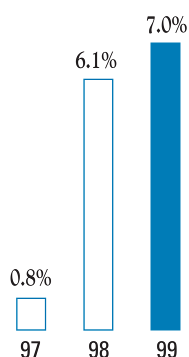
Net revenue totaled $202.1 million in 1999, a decrease of $9.5 million, or 4.5%, from $211.6 million in 1998. Net revenue for the Electronics Group in 1999 was $164.9 million, a decrease of $9.5 million or 5.4% from $174.4 million in 1998 and net revenue for the Industrial Group in 1999 was $37.2 million, 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 is 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 current backlog also consists 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 Margin

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 is 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.



Operating Margin

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. Other contributing factors include workforce reductions in certain operations, a reduction in selling expense attributable to the decrease in net revenue, and adjustments to the Company's estimated liability for the sale of certain assets of the Electronics Group in June 1997, for which a final settlement agreement was reached during the second quarter of 1999. Also included in 1998 were professional fees and other costs 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 reflects 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 is 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 reflects a reduction in the valuation allowance on deferred tax assets of $1.9 million as compared to $0.9 million in 1998.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net revenue totaled $211.6 million in 1998, a decrease of $5.8 million, or 2.6%, from $217.4 million in 1997. The Electronics Group experienced a decrease in net revenue of $11.5 million, while the Industrial Group experienced an increase of $5.7 million. The $11.5 million decrease in the Electronics Group's net revenue resulted from the divestiture of the Company's Latin American operations, which accounted for net revenue of $16.9 million in 1997, and a decrease in net revenue from manufacturing and technical services of $10.4 million partially offset by an increase in product sales of $15.8 million. The $10.4 million decrease in manufacturing and technical services revenue is primarily attributable to management's actions to redirect its resources to pursue low-volume, high-mix, complex industrial electronics assembly and test opportunities which meet specific profitability targets. The $15.8 million increase in product sales includes the acquisition of certain assets of Datatape Incorporated in November 1997 (the "Datatape Acquisition") which expanded the Company's data acquisition, storage and analysis product line and generated a $24.8 million increase in net revenue in 1998. The balance of the Electronics Group's product offerings experienced a $9.0 million decline in net revenue primarily due to a weakening of demand in domestic and Asian markets. The $5.7 million increase in the Industrial Group's net revenue resulted primarily from an increase in shipments to a customer based upon its commitment to use the Company as its sole source for truck axles in its North American market.

Gross profit totaled $47.9 million in 1998, an increase of $15.8 million, or 49.1%, from $32.1 million in 1997. The Electronics Group and the Industrial Group accounted for $14.3 million and $1.5 million of the increase in gross profit, respectively. The Electronics Group's gross profit was $41.4 million in 1998, an increase of $14.3 million, or 52.9%, from $27.1 million in 1997. The $14.3 million increase in gross profit was achieved while net revenue for the Electronics Group declined by $11.5 million to $174.4 million, reflecting the change in revenue mix described above. Gross profit of the Electronics Group expressed as a percentage of net revenue increased to 23.7% in 1998 from 14.6% in 1997. The increased product sales volume and improved cost management controls over higher margin manufacturing services

contracts accounted for approximately $5.7 million and $7.7 million of the increase in gross profit, respectively. The Industrial Group's gross profit was $6.5 million in 1998, an increase of $1.5 million, or 29.0%, from $5.0 million in 1997, primarily due to the volume increase reflected in net revenue. Gross profit of the Industrial Group expressed as a percentage of net revenue increased to 17.5% in 1998 compared to 16.1% in 1997, primarily related to increased capacity utilization and cost reductions on certain programs.

Selling, general and administrative expense totaled $28.2 million in 1998, an increase of $1.5 million, or 5.7%, from $26.7 million in 1997. The change in revenue mix occurring in the Electronics Group resulted in an increase in selling, general and administrative expense for the comparable years.

Research and development expense totaled $5.9 million in 1998, an increase of $2.4 million, or 70.3%, from $3.5 million in 1997. This increase was generated by the Electronics Group, and reflects management's continued support and investment in the data acquisition, storage and analysis product lines.

Amortization of intangible assets totaled $1.0 million in 1998, an increase of $0.8 million, from $0.2 million in 1997. This increase is due to the amortization of goodwill recognized in connection with the Reorganization and the Datatape Acquisition.

Interest expense totaled $1.3 million in 1998, a decrease of $0.7 million, from $2.0 million in 1997. This decrease is primarily due to a reduction in the weighted average debt outstanding, a reduction in the Company's overall costs of borrowing and a decrease in amortization expense for debt issuance costs and stock warrants issued to a previous lender. The reduction in debt outstanding in 1998 compared to 1997 is attributable to the repayment of debt from proceeds generated by the divestiture of the Latin American operations, coupled with repayments generated by the Company's improved cash flow from operations in 1998, partially offset by the debt incurred to finance the Datatape Acquisition. The divestiture proceeds were used to repay in full a credit facility on which the effective interest rate was approximately 300 basis points over the Company's cost of borrowing under its consolidated credit facility during 1998.

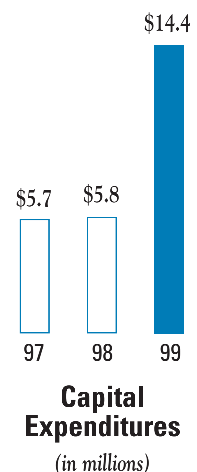
Other income totaled $0.2 million in 1998, a decrease of $2.0 million, from $2.2 million in 1997. Other income in 1997 included the gain recognized on the divestiture of the Latin American operations totaling $3.2 million.

The provision for income taxes totaled $4.3 million, an increase of $3.2 million, from $1.1 million in 1997. The Company's effective tax rate in 1998 was 36.7%.

Liquidity, Capital Resources and Financial Condition

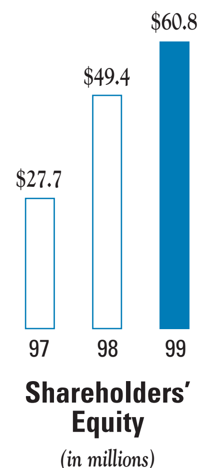
Net cash used in operating activities totaled $2.1 million in 1999 as compared to net cash provided by operating activities of $11.0 million in 1998. The use of cash in operating activities during 1999 was primarily driven by an increase in inventory to support the growth in the Company's order backlog and a decrease in accrued liabilities attributable to cash used to settle or reduce obligations. Inventory increased by $11.3 million during 1999, $11.0 million of which was associated with the expected shipment schedule for the Electronics Group. Accrued liabilities decreased by $6.7 million during 1999, which includes, among other things, the final settlement payment made during the second quarter with respect to the June 1997 asset divestiture transaction, reductions in employee incentive and benefit accruals, and payments on lease obligations. Accounts receivable decreased by $2.6 million during 1999, primarily due to an improvement in days sales outstanding.

Net cash used in investing activities totaled $26.4 million in 1999 as compared to $5.8 million in 1998. Capital expenditures were $14.4 million and $5.8 million in 1999 and 1998, respectively. The Company also invested $11.6 million for two acquisitions by the Electronics Group. Capital expenditures by the Electronics Group and the Industrial Group for 1999 were $6.3 million and $7.1 million, respectively. Capital expenditures for the Electronics Group include information system upgrades and replacements as well as manufacturing, assembly and test equipment. The Industrial Group's capital expenditures relate primarily to increasing production capacity to meet the expanding needs of its customer base. At December 31, 1999, the Industrial Group also had commitments to invest $1.4 million in manufacturing equipment to further increase production capacity, which is expected to be funded through the Company's cash balances and borrowings under its revolving credit facility. The Company expects total capital expenditures in 2000 to be approximately $25.0 million. The planned capital expenditures are for facilities and equipment to increase capacity, expand production capabilities and improve efficiency through automation.



Net cash provided by financing activities was $26.5 million in 1999 as compared to net cash used in financing activities of $2.6 million in 1998. The Company funded the Electronics Group's acquisitions, the investment in working capital and capital expenditures in 1999 through additional borrowings under its revolving credit facility.

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 $45.6 million at December 31, 1999, which, with certain limitations, can be used for general corporate purposes. This credit agreement contains customary restrictive covenants, including covenants requiring the Company to maintain certain financial ratios. Maximum borrowings on the revolving credit facility are $100.0 million, subject to a $15.0 million limit for letters of credit.



Shareholders' Equity
(in millions)

The Company believes cash generated from operations, existing cash reserves and available borrowings under its existing credit facility will satisfy the Company's working capital and capital expenditure requirements for at least the next twelve months.

Year 2000 Compliance

During 1999, the Company completed the process of preparing for the Year 2000 date change. This process involved assessing, testing and remediation of all significant information technology ("IT") and non-IT systems, identifying and communicating with customers, suppliers and other critical service providers to determine if entities with which the Company transacts business had an effective plan in place to address the Year 2000 issue, and determining the extent of the Company's vulnerability to the failure of third parties to remediate their own Year 2000 issue.

To date, the Company has not experienced any significant business disruptions as a result of the Year 2000 issue. In addition, the Company has not been informed of any such problems experienced by its customers, suppliers and other critical service providers. Although considered unlikely, it is too soon to conclude that there will not be any problems arising from the Year 2000 issue, particularly at some of the Company's customers, suppliers and other critical service providers. The Company will continue to monitor all business processes throughout 2000 to address any issues and ensure all processes continue to function properly. Contingency plans to address potential risks in the event of Year 2000 failures will be developed as needed.

As of December 31, 1999, the cost of the Year 2000 project totaled $1,024,000. The Company does not expect to incur significant costs during 2000 related to ongoing monitoring and support activities for the Year 2000 issue.

Market Risk

The Company had no holdings of derivative financial or commodity instruments at December 31, 1999. 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 not significantly affect the Company's net income. 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	1999	1998	1997
(in thousands, except for per share data)			
Net revenue	**$ 202,130**	$ 211,625	$ 217,355
Cost of sales	**157,181**	163,702	185,220
Gross profit	**44,949**	47,923	32,135
Selling, general and administrative expense	**23,388**	28,169	26,658
Research and development	**6,409**	5,940	3,487
Amortization of intangible assets	**986**	963	205
Operating income	**14,166**	12,851	1,785
Interest expense, net	**1,730**	1,298	1,959
Other income, net	**(219)**	(204)	(2,205)
Income before income taxes, minority interests and discontinued operations	**12,655**	11,757	2,031
Income tax expense	**3,099**	4,311	1,143
Income before minority interests and discontinued operations	**9,556**	7,446	888
Minority interests in losses of consolidated subsidiaries	**—**	—	639
Income from continuing operations	**9,556**	7,446	1,527
Loss from discontinued operations (net of applicable taxes of $186)	**—**	—	(375)
Gain on disposal of discontinued operations (net of applicable taxes of $2,160)	**—**	—	4,192
Net income	**$ 9,556**	$ 7,446	$ 5,344
Earnings per common share:			
Income from continuing operations:			
Basic	**$ 1.00**	$ 0.79	$ 0.09
Diluted	**$ 0.97**	$ 0.76	$ 0.09
Net income:			
Basic	**$ 1.00**	$ 0.79	$ 0.50
Diluted	**$ 0.97**	$ 0.76	$ 0.48
Shares used in computing per common share amounts:			
Basic	**9,515**	9,438	9,424
Diluted	**9,861**	9,793	9,826

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

Consolidated Balance Sheets

December 31	1999	1998
(in thousands, except for share data)		
Assets:		
Current assets:		
Cash and cash equivalents	$ 10,406	$ 12,387
Accounts receivable, net	23,793	26,283
Inventory, net	49,462	38,465
Other current assets	4,279	1,724
Total current assets	87,940	78,859
Property, plant and equipment, net	40,192	27,535
Intangible assets, net	18,038	12,500
Other assets	2,394	2,225
Total assets	$ 148,564	$ 121,119
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	$ 11,022	$ 13,004
Accrued liabilities	17,813	23,651
Current portion of long-term debt	5,400	10,083
Total current liabilities	34,235	46,738
Long-term debt	49,000	18,500
Other liabilities	4,509	6,522
Total liabilities	87,744	71,760
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; 9,589,214 and 9,450,593 shares issued and outstanding in 1999 and 1998, respectively	96	95
Additional paid-in capital	23,921	23,238
Retained earnings	36,876	27,320
Accumulated other comprehensive income (loss)	(73)	(1,294)
Total shareholders' equity	60,820	49,359
Total liabilities and shareholders' equity	$ 148,564	$ 121,119

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

Consolidated Statements of Cash Flows

Years ended December 31	1999	1998	1997
(in thousands)			
Cash flows from operating activities:			
Net income	**$ 9,556**	$ 7,446	$ 5,344
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	**7,582**	6,909	7,399
Deferred income taxes	**(645)**	989	(309)
Minority interests in losses of consolidated subsidiaries	**—**	—	(639)
Provision for excess and obsolete inventory	**446**	851	2,130
Provision for doubtful accounts	**(129)**	135	718
Gain on disposal of discontinued operations, net of tax	**—**	—	(4,192)
Other noncash charges (credits)	**133**	(258)	(1,689)
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	**2,619**	1,727	7,490
Inventory	**(11,277)**	4,245	(7,657)
Other assets	**(1,704)**	(1,138)	(775)
Accounts payable	**(1,997)**	(1,855)	(7,986)
Accrued and other liabilities	**(6,652)**	(8,081)	117
Net cash (used in) provided by operating activities	**(2,068)**	10,970	(49)
Cash flows from investing activities:			
Capital expenditures	**(14,443)**	(5,845)	(5,746)
Proceeds from disposal of assets	**14**	380	39,586
Purchase of the net assets of acquired entities	**(11,642)**	—	(14,400)
Changes in nonoperating assets and liabilities	**(343)**	(364)	(911)
Net cash (used in) provided by investing activities	**(26,414)**	(5,829)	18,529
Cash flows from financing activities:			
Net proceeds (repayments) under revolving credit agreements	**28,280**	720	(6,934)
Proceeds from long-term debt	**—**	—	30,650
Principal payments on long-term debt	**(2,463)**	(3,284)	(37,157)
Proceeds from issuance of common stock	**684**	40	—
Payments for redemption of common stock in subsidiaries, net	**—**	(66)	(1,215)
Net cash provided by (used in) financing activities	**26,501**	(2,590)	(14,656)
Net (decrease) increase in cash and cash equivalents	**(1,981)**	2,551	3,824
Cash and cash equivalents at beginning of year	**12,387**	9,836	6,012
Cash and cash equivalents at end of year	**$ 10,406**	$ 12,387	$ 9,836

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

Consolidated Statements of Shareholders' Equity

(in thousands, except for share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 1997	314,196	$ 7,892	$ —	$ 14,492	$ —	$ 22,384
Net income and comprehensive income	—	—	—	5,344	—	5,344
Balance at December 31, 1997	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**

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

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.

Basis of Presentation

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

The historical financial statements included herein as of and for the periods ended prior to the Reorganization are the consolidated financial statements of GFP, since GFP is deemed to be the acquirer for accounting purposes. 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. Minority interest accounting was reflected in the historical financial statements of GFP as of and for the periods prior to the Reorganization based upon the proportionate share of the equity of GroupTech owned by minority shareholders.

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. Buildings and building improvements are depreciated over their estimated economic lives principally using the straight-line method. Machinery, equipment, furniture and fixtures are depreciated over their estimated economic lives principally using the straight-line method. Leasehold improvements are amortized over the 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.

Intangible Assets

Goodwill, patents, non-compete agreements, product drawings and similar intangible assets are amortized over their estimated economic lives. Currently, intangible assets are being amortized over periods ranging from five to fifteen years, using the straight-line method. Goodwill is being amortized over a period of fifteen years (see Notes 2 and 7).

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 the U.S. Government and prime contractors with the U.S. Government. Contract revenue is included in the consolidated statement of operations 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 $90,819,000, $56,867,000 and $47,887,000 for the years ended December 31, 1999, 1998 and 1997, 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, 1999 and 1998). 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 which are 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 $807,000, $907,000 and $1,600,000 in 1999, 1998 and 1997, respectively.

Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's customer base consists of various departments or agencies of the U.S. Government, prime contractors with the U.S. Government and a number of customers in diverse industries across geographic areas. At December 31, 1999, the Company does 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 the U.S. Government and its agencies of approximately $53,244,000, $47,178,000 and $40,170,000 during the years ended December 31, 1999, 1998 and 1997, respectively. The Company's largest commercial customer for the year ended December 31, 1997 was IBM, which represented approximately 10% of the Company's revenue. No other single commercial customer accounted for more than 10% of the Company's net revenue for the years ended December 31, 1999, 1998 or 1997.

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").

Reclassifications

Certain amounts in the Company's 1998 and 1997 consolidated financial statements have been reclassified to conform with the 1999 presentation.

2. Mergers and Acquisitions

See "Basis of Presentation" included in Note 1 for a discussion of the Reorganization on March 30, 1998 that resulted in the formation of Sypris. If the Reorganization had occurred at the beginning of each year, income before minority interests and discontinued operations in 1998 and 1997 would have been reduced by $103,000 and $413,000, respectively.

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).

On November 14, 1997, the Company acquired substantially all of the assets and assumed certain liabilities of Datatape Incorporated. The transaction was accounted for as a purchase, in which the purchase price of $14,400,000 was allocated based on the fair values of assets acquired and liabilities assumed, with the excess amount allocated to goodwill, which totaled $4,631,000. The acquisition was financed by the Company's credit agreement (see Note 9).

3. Dispositions

On June 30, 1997, the Company sold to SCI Systems, Inc., SCI Systems De Mexico S.A. de C.V. and SCI Holdings, Inc., (collectively, "SCI"), all of its investment in the capital stock and/or equity interests of three of its wholly-owned subsidiaries, Group Technologies S.A. de C.V., Group Technologies Suprimentos de Informatica Industia E Comercio Ltda. and Group Technologies Integraoes em Electronica Ltda. (the "Latin American Operations"). These three subsidiaries comprised all of GroupTech's operations in Latin America. The Company also sold or assigned to SCI certain assets principally used in or useful to the operations being sold, including accounts receivable, inventory, equipment, accounts payable and equipment leases. The final sales price of the aforementioned assets totaled approximately $14,400,000 and the assumption by SCI of certain liabilities. During 1999, the Company repaid $3,614,000 of the initial sales price paid by SCI in 1997 in accordance with a settlement reached pursuant to the purchase and sale agreement. The Company recognized a gain of $3,200,000 in 1997 relative to this disposition.

4. Accounts Receivable

Accounts receivable consists of the following:

December 31 *(in thousands)*	1999	1998
Commercial	**$ 18,419**	$ 18,789
U.S. Government	**6,044**	8,330
	24,463	27,119
Allowance for doubtful accounts	**(670)**	(836)
	$ 23,793	$ 26,283

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 1999 and 1998, of $4,282,000 and $2,203,000, respectively.

5. Inventory

Inventory consists of the following:

December 31 *(in thousands)*	1999	1998
Raw materials	**$ 12,640**	$ 12,308
Work in process	**9,649**	10,068
Finished goods	**1,673**	2,085
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	**31,258**	22,861
Progress payments related to long-term contracts and programs	**(1,038)**	(4,224)
LIFO reserve	**(430)**	(609)
Reserve for excess and obsolete inventory	**(4,290)**	(4,024)
	$ 49,462	$ 38,465

The preceding amounts include inventory valued under the last-in, first-out ("LIFO") method totaling $7,582,000 and $7,020,000 at December 31, 1999 and 1998, respectively, which approximates replacement cost.

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31 *(in thousands)*	1999	1998
Land and land improvements	$ 1,024	$ 991
Buildings and building improvements	13,392	12,395
Machinery, equipment, furniture and fixtures	70,173	57,824
Facilities in progress	6,327	967
	90,916	72,177
Accumulated depreciation	(50,724)	(44,642)
	$ 40,192	$ 27,535

Depreciation expense totaled $6,526,000, $5,934,000 and $6,908,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

7. Intangible Assets

Intangible assets consists of the following:

December 31 *(in thousands)*	1999	1998
Costs in excess of net assets of businesses acquired	$ 18,462	$ 11,849
Other	2,954	3,034
	21,416	14,883
Accumulated amortization	(3,378)	(2,383)
	$ 18,038	$ 12,500

Amortization expense totaled $1,056,000, $975,000 and $491,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

8. Accrued Liabilities

Accrued liabilities consists of the following:

December 31 *(in thousands)*	1999	1998
Employee benefit plan accruals	$ 5,007	$ 5,471
Salaries, wages and incentives	3,694	4,179
Sale of business price adjustment	—	3,614
Other	9,112	10,387
	$ 17,813	$ 23,651

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.

9. Long-Term Debt

Long-term debt consists of the following:

December 31 *(in thousands)*	1999	1998
Revolving Credit Agreement	**$ 54,400**	$ 16,870
Term Loan	—	11,500
Other	—	213
	54,400	28,583
Less current portion	**(5,400)**	(10,083)
	$ 49,000	$ 18,500

On October 27, 1999, the Company entered into an amended and restated credit agreement (the "Revolving Credit Agreement"), under the terms of which a syndicate of banks committed a maximum of $100,000,000 to the Company for cash borrowings and letters of credit through January 2005. Under the terms of the Revolving Credit Agreement, interest rates are determined at the time of borrowing and are based on the Company's choice of the prime rate, the London Interbank Offered Rate plus a spread, or certain alternative rates, and approximated 7.09% at December 31, 1999. The Revolving Credit Agreement also requires compliance with a number of financial and non-financial covenants. The commitment fee on the unused portion of the Revolving Credit Agreement ranges from 0.20% to 0.25% per annum. Current maturities of long-term debt at December 31, 1999 principally represent amounts due under a short-term borrowing arrangement included in the Revolving Credit Agreement. The Revolving Credit Agreement replaced a $30,000,000 revolving credit facility and a $15,000,000 term loan entered into in November 1997.

Interest paid during the years ended December 31, 1999, 1998 and 1997 totaled $1,629,000, $1,664,000 and $2,238,000, respectively.

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, 1999 under the Revolving Credit Agreement approximates fair value, due to the short period of time that this instrument has been outstanding. The carrying amount of debt outstanding under the revolving credit facility at December 31, 1998 is assumed to approximate fair value because of the short-term nature of the instrument. The carrying amount of the term loan at December 31, 1998 is assumed to approximate fair value because there were not any significant changes in market conditions or specific circumstances since the instrument was recorded.

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 an increase of $1,221,000 and a decrease of $1,294,000 to its minimum pension liability during 1999 and 1998, respectively. No tax effect was recorded related to these adjustments.

The following table details the components of pension expense:

Years ended December 31 *(in thousands)*	1999	1998	1997
Service cost benefits earned during the period	**$ 181**	$ 163	$ 157
Interest cost of projected benefit obligation	**1,283**	1,312	1,312
Net amortizations and deferrals	**554**	474	889
Actual return on plan assets	**(1,480)**	(1,321)	(1,592)
	$ 538	$ 628	$ 766

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

December 31 *(in thousands)*	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 19,185**	$ 17,195
Service cost	**181**	163
Interest cost	**1,283**	1,312
Actuarial (gain) loss	**(1,549)**	1,745
Benefits paid	**(1,241)**	(1,230)
Benefit obligation at end of year	**$ 17,859**	$ 19,185
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 13,146**	$ 11,924
Actual return on plan assets	**1,480**	1,321
Company contributions	**944**	1,131
Benefits paid	**(1,241)**	(1,230)
Fair value of plan assets at end of year	**$ 14,329**	$ 13,146
Funded status of the plans:		
Benefit obligation at end of year	**$ 17,859**	$ 19,185
Fair value of plan assets at end of year	**14,329**	13,146
Funded status of plan (underfunded)	**(3,530)**	(6,039)
Unrecognized actuarial (gain) loss	**(821)**	1,126
Unrecognized prior service cost	**608**	764
Net liability recognized	**$ (3,743)**	$ (4,149)
Balance sheet liabilities (assets):		
Accrued benefit liability	**$ 4,379**	$ 6,203
Intangible asset	**(563)**	(760)
Accumulated other comprehensive income (loss)	**(73)**	(1,294)
Net amount recognized	**$ 3,743**	$ 4,149
Assumptions at year end:		
Discount rate used in determining present values	**8.00%**	7.00%
Rate of compensation increase	**4.25%**	3.25%
Expected long-term rate of return on plan assets	**8.50%**	8.50%

The Company sponsors defined contribution plans (the "Defined Contribution Plans") for substantially all employees of the Company. The Defined Contribution Plans are intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Defined Contribution Plans allow the Company to match participant contributions as approved by the Company's Board of Directors, and certain of the Defined Contribution Plans include required base contributions and discretionary contributions. Contributions to the Defined Contribution Plans for 1999, 1998 and 1997 totaled $2,996,000, $2,661,000 and $1,863,000, respectively.

The Company has partially self-insured medical plans (the "Medical Plans") covering certain employees. 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, in some instances, for payment of a portion of the premiums. During 1999, 1998 and 1997, the Company charged $2,802,000, $2,407,000 and $2,265,000, respectively, to operations related to reinsurance premiums, medical claims incurred and estimated, and administrative costs for the Medical Plans. Claims paid during 1999, 1998 and 1997 did not exceed the aggregate limits.

12. Commitments and Contingencies

The Company leases certain of its real property and certain computer, manufacturing and office equipment under operating leases with terms ranging from month-to-month to ten years and which contain various renewal and rent escalation clauses. Future minimum noncancelable lease payments are as follows:

Years ending December 31 *(in thousands)*	
2000	$ 3,591
2001	3,431
2002	2,413
2003	1,587
2004 and thereafter	322
	$ 11,344

Rent expense for the years ended December 31, 1999, 1998 and 1997 totaled $3,858,000, $4,701,000 and $3,406,000, respectively.

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.

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. Options issued under stock compensation plans of subsidiaries prior to the Reorganization were assumed by the Company without modifying the vesting terms and conditions of the outstanding options. The number of shares issuable under options assumed pursuant to the Reorganization and the related exercise price of the outstanding options were determined in accordance with the terms of the Reorganization. The following table summarizes option activity from the effective date of the Reorganization through December 31, 1999:

	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**

The following table summarizes certain weighted average data for options outstanding and currently exercisable at December 31, 1999:

	Outstanding			Exercisable	
		Weighted Average			
Exercise Price Range	Shares	Exercise Price	Remaining Contractual Life	Shares	Weighted Average Exercise Price
$1.72	156,648	$ 1.72	2.7	156,648	$ 1.72
$2.76 - $4.12	120,578	3.33	2.0	119,953	3.33
$4.24 - $6.24	220,578	4.81	6.5	97,242	4.98
$6.68 - $10.00	765,016	8.28	6.5	308,146	8.07
$10.52 - $15.76	35,533	12.50	3.5	33,658	12.32
$16.12 - $23.00	10,003	18.16	6.4	10,003	18.16
$25.52 - $31.00	4,104	28.86	5.2	4,104	28.86
Total	1,312,460	$ 6.71	5.5	729,754	$ 5.97

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 16,000 shares and 380,000 shares of

common stock were granted during 1999 and 1998, respectively. None of the targeted price levels of the performance-based options were achieved during 1999 or 1998 and, accordingly, these options are excluded from disclosures of options outstanding at December 31, 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, 1999 was 3,000,000. The aggregate number of shares available for future grant as of December 31, 1999 was 1,251,089.

Prior to the Reorganization, stock compensation plans were maintained for each entity. The Company used a formula price valuation as a basis for establishing a market value for stock which was not publicly traded. The following table summarizes option activity for periods prior to the Reorganization:

	GFP		Tube Turns		Bell		GroupTech	
	Shares	Exercise Price Range	Shares	Exercise Price Range	Shares	Exercise Price Range	Shares	Exercise Price Range
Balance at January 1, 1997	6,600	$45.99 - 73.40	75,000	$9.05 - 10.75	109,650	$9.92 - 16.56	1,249,688	$0.84 - 7.75
Granted	—	—	—	—	—	—	806,879	0.88 - 4.03
Exercised	—	—	(5,000)	9.05	(36,350)	9.92 - 15.49	(600)	2.75
Forfeited	—	—	—	—	—	—	(411,600)	1.06 - 5.25
Balance at December 31, 1997	6,600	45.99 - 73.40	70,000	9.05 - 10.75	73,300	9.92 - 16.56	1,644,367	0.84 - 7.75
Granted	—	—	—	—	—	—	16,080	3.25
Exercised	—	—	—	—	(10,400)	9.92	(154,000)	1.09 - 1.67
Forfeited	—	—	—	—	—	—	(9,800)	1.09 - 2.75
Balance at March 30, 1998	6,600	$45.99 - 73.40	70,000	$9.05 - 10.75	62,900	$9.92 - 16.56	1,496,647	$0.84 - 7.75

The following table summarizes the weighted average exercise prices for option activity for periods prior to the Reorganization:

	GFP	Tube Turns	Bell	GroupTech
Balance at January 1, 1997	$ 48.90	$ 9.50	$ 13.24	$ 2.30
Granted	—	—	—	1.29
Exercised	—	9.05	13.85	2.75
Forfeited	—	—	—	2.23
Balance at December 31, 1997	48.90	9.54	12.94	1.82
Granted	—	—	—	3.25
Exercised	—	—	9.92	1.06
Forfeited	—	—	—	1.40
Balance at March 30, 1998	$ 48.90	$ 9.54	$ 13.45	$ 1.86

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 Statement of Financial Accounting Standards ("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 1999 and 1998 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: expected term of six years, no dividends, a

volatility factor of the expected market price of the Company's common stock of 0.755 in 1999 and 0.942 in 1998, and risk-free interest rates of 6.30% and 5.68% in 1999 and 1998. The weighted average Black-Scholes value of options granted under the stock option plans during 1999 and 1998 was $5.50 and $6.91.

The fair value for options granted prior to the Reorganization was estimated at the date of grant using a Black-Scholes option pricing model for options of GroupTech. The following weighted average assumptions were used for options granted by GroupTech in 1997: expected term of 3.3 years, no dividends, a volatility factor of 1.12, and a risk-free interest rate of 5.75%. The per share weighted average fair value of options granted by GroupTech during 1997 was $1.30. No options were granted by Tube Turns and Bell during 1997.

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:

Years ended December 31	**1999**	**1998**	**1997**
(in thousands, except for per share data)			
Pro forma income from continuing operations	**$ 8,533**	$ 5,989	$ 546
Pro forma net income	**$ 8,533**	$ 5,989	$ 4,363
Pro forma per share data:			
Income from continuing operations:			
Basic	**$ 0.90**	$ 0.63	$ 0.06
Diluted	**$ 0.87**	$ 0.61	$ 0.06
Net income:			
Basic	**$ 0.90**	$ 0.63	$ 0.46
Diluted	**$ 0.87**	$ 0.61	$ 0.44

Effective February 1, 1999, the Company adopted a stock purchase plan to provide substantially all employees who have satisfied the eligibility requirements 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, 1999, there were 284,400 shares available for purchase under the plan. During 1999, a total of 15,600 shares were issued under the plan.

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 taxes related to continuing operations are as follows:

Years ended December 31 *(in thousands)*	1999	1998	1997
Current:			
Federal	$ 3,386	$ 2,844	$ 1,171
State	320	441	138
Other	38	37	169
	3,744	3,322	1,478
Deferred:			
Federal	(630)	1,011	(251)
State	(15)	(22)	(84)
	(645)	989	(335)
	$ 3,099	$ 4,311	$ 1,143

The Company files a consolidated federal income tax return which includes all subsidiaries. Income taxes paid during 1999, 1998 and 1997 totaled $2,136,000, $5,329,000 and $4,747,000, respectively. Income tax refunds received during 1997 totaled $1,373,000. At December 31, 1999, the Company had state net operating loss carryforwards of approximately $17,800,000 with various expiration dates.

The following is a reconciliation of income tax expense to that computed by applying the federal statutory rate of 34% to income before income taxes, minority interests and discontinued operations:

Years ended December 31 *(in thousands)*	1999	1998	1997
Federal tax at the statutory rate	$ 4,303	$ 3,997	$ 691
State income taxes, net of federal tax benefit	236	291	47
Change in valuation allowance for deferred tax asset	(1,891)	(882)	247
Research and development tax credit	(544)	—	—
Other	995	905	158
	$ 3,099	$ 4,311	$ 1,143

Deferred income tax assets and liabilities are as follows:

Years ended December 31 *(in thousands)*	1999	1998
Deferred tax assets:		
Compensation and benefit accruals	$ 992	$ 1,026
Inventory valuation	969	857
Net operating loss carryforward	977	1,041
Accounts receivable allowance	250	310
Defined benefit pension plan	985	1,629
Other	1,279	1,405
	5,452	6,268
Valuation allowance	(3,985)	(5,876)
	1,467	392
Deferred tax liabilities:		
Depreciation	(1,494)	(1,148)
Contract provisions	(278)	(194)
	(1,772)	(1,342)
Net deferred tax liability	$ (305)	$ (950)

The valuation allowance for deferred tax assets decreased by $1,891,000 and $882,000 in 1999 and 1998, respectively. The valuation allowance is recorded on the Company's deferred tax assets to reduce the total to an amount that management believes will more likely than not be realized. Realization of deferred tax assets is dependent upon sufficient taxable income during the period that temporary differences and carry forwards are expected to be available to reduce taxable income.

15. Net Income Per Common Share

For periods prior to the Reorganization, shares used in computing basic and diluted net income per common share include the outstanding shares of Sypris common stock as of the date of the Reorganization and the dilution associated with common stock options issued prior to the Reorganization. For the years ended December 31, 1999 and 1998, the computation also gives effect to the dilution associated with the issuance of common stock options subsequent to the Reorganization. Additionally, earnings used in the computation of per share amounts for income from continuing operations and net income for periods prior to the Reorganization have been adjusted to exclude the minority interests reflected in the historical financial statements of GFP.

The following table presents information necessary to calculate net income per common share:

Years ended December 31 *(in thousands, except for per share data)*	1999	1998	1997
Shares outstanding:			
Weighted average shares outstanding	**9,515**	9,438	9,424
Effect of dilutive employee stock options	**346**	355	402
Adjusted weighted average shares outstanding and assumed conversions	**9,861**	9,793	9,826
Income applicable to common stock:			
Income from continuing operations	**$ 9,556**	$ 7,446	$ 1,527
Discontinued operations	**—**	—	3,817
Net income	**9,556**	7,446	5,344
Minority interests in losses of consolidated subsidiaries	**—**	—	(639)
Net income applicable to common stock	**$ 9,556**	$ 7,446	$ 4,705
Income per common share:			
Basic income per common share:			
Income from continuing operations	**$ 1.00**	$ 0.79	$ 0.09
Discontinued operations	**—**	—	0.41
Net income per common share	**$ 1.00**	$ 0.79	$ 0.50
Diluted income per common share:			
Income from continuing operations	**$ 0.97**	$ 0.76	$ 0.09
Discontinued operations	**—**	—	0.39
Net income per common share	**$ 0.97**	$ 0.76	$ 0.48

16. Segment Information

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial Group. There was no intersegment net revenue recognized for all years presented. The following presents financial information for the reportable segments of the Company:

Years ended December 31 *(in thousands)*	1999	1998	1997
Net revenue from unaffiliated customers:			
Electronics Group	**$ 164,963**	$ 174,396	$ 185,854
Industrial Group	**37,167**	37,229	31,501
	$ 202,130	$ 211,625	$ 217,355
Gross profit:			
Electronics Group	**$ 37,873**	$ 41,400	$ 27,079
Industrial Group	**7,076**	6,523	5,056
	$ 44,949	$ 47,923	$ 32,135
Operating income:			
Electronics Group	**$ 12,005**	$ 11,207	$ 2,501
Industrial Group	**4,930**	4,329	2,456
General, corporate and other	**(2,769)**	(2,685)	(3,172)
	$ 14,166	$ 12,851	$ 1,785
Total assets:			
Electronics Group	**$ 106,229**	$ 90,174	$ 97,978
Industrial Group	**26,714**	18,905	16,946
General, corporate and other	**15,621**	12,040	5,684
	$ 148,564	$ 121,119	$ 120,608
Depreciation and amortization:			
Electronics Group	**$ 6,551**	$ 5,933	$ 6,111
Industrial Group	**902**	825	816
General, corporate and other	**129**	151	93
Discontinued operations	**—**	—	379
	$ 7,582	$ 6,909	$ 7,399
Capital expenditures:			
Electronics Group	**$ 6,327**	$ 4,598	$ 3,329
Industrial Group	**7,134**	1,185	2,294
General, corporate and other	**982**	62	108
Discontinued operations	**—**	—	15
	$ 14,443	$ 5,845	$ 5,746

The Company attributes net revenue to countries based upon the location of its operations. Prior to June 30, 1997, the Company's Electronics Group had operations in Latin America (see Note 3). The Company's assets since that date are located exclusively in the United States. Export sales from the United States totaled $30,061,000, $25,551,000 and $22,717,000 in 1999, 1998 and 1997, respectively. Following is geographic information regarding the Company's net revenue:

Years ended December 31 *(in thousands)*	1999	1998	1997
United States	**$ 202,130**	$ 211,625	$ 200,424
Latin America	**—**	—	16,931
	$ 202,130	$ 211,625	$ 217,355

17. Discontinued Operations

The Company formerly owned various commercial office buildings, industrial buildings and land (the "Real Estate Group"). The assets of the Real Estate Group were divested in a series of transactions beginning in October 1995 and ending in February 1997. The Real Estate Group is accounted for as a discontinued operation and, accordingly, the results of operations and related gain on the disposal are segregated in the accompanying consolidated income statements. The Company received proceeds from the sale of the real estate of $21,200,000 in 1997. The majority of the proceeds were used to repay mortgages on the related real estate properties.

18. 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, 1999 and 1998:

	1999				1998			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except for per share data)							
Net revenue	**$ 44,898**	**$ 49,331**	**$ 48,291**	**$ 59,610**	$ 55,490	$ 55,196	$ 46,936	$ 54,003
Gross profit	**9,720**	**11,734**	**12,041**	**11,454**	10,912	13,152	10,960	12,899
Operating income	**2,432**	**3,704**	**4,364**	**3,666**	2,093	3,772	3,299	3,687
Net income	**1,533**	**2,459**	**2,763**	**2,801**	1,061	2,087	1,919	2,379
Per share data:								
Net income:								
Basic	**0.16**	**0.26**	**0.29**	**0.29**	0.11	0.22	0.20	0.25
Diluted	**0.16**	**0.25**	**0.28**	**0.28**	0.11	0.21	0.20	0.24

Report of Independent Auditors

Board of Directors and Shareholders
Sypris Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. (and predecessor entities as described in Note 1) as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Louisville, Kentucky
February 4, 2000

Financial Summary

Years ended December 31	1999	1998	1997	1996	1995
(in thousands, except for per share data)					
Income Statement Data:					
Net revenue	$ 202,130	$ 211,625	$ 217,355	$ 308,598	$ 328,977
Gross profit	44,949	47,923	32,135	30,383	16,547
Operating income (loss)	14,166	12,851	1,785	513	(14,816)
Income (loss) from continuing operations	9,556	7,446	1,527	(2,536)	(11,765)
Discontinued operations, net of tax	—	—	3,817	3,457	3,732
Net income (loss)	9,556	7,446	5,344	921	(8,033)
Per Share Data:					
Income (loss) from continuing operations:					
Basic	$ 1.00	$ 0.79	$ 0.09	$ (0.45)	$ (1.62)
Diluted	$ 0.97	$ 0.76	$ 0.09	$ (0.43)	$ (1.56)
Net income (loss):					
Basic	$ 1.00	$ 0.79	$ 0.50	$ (0.08)	$ (1.23)
Diluted	$ 0.97	$ 0.76	$ 0.48	$ (0.08)	$ (1.18)

December 31	1999	1998	1997	1996	1995
(in thousands)					
Balance Sheet Data:					
Working capital	$ 53,705	$ 32,121	$ 35,123	$ 6,337	$ 26,159
Total assets	148,564	121,119	120,608	132,960	173,028
Total debt	54,400	28,583	31,340	46,597	63,814
Total shareholders' equity	60,820	49,359	27,728	22,384	21,463

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, President & CEO
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

James G. Cocke
Vice President of Finance,
Contracts & Program Management
Group Technologies Corporation

Russell H. Johnson, Jr.
Vice President
& General Manager
Tube Turns Technologies Inc.

John M. Kramer (5)
President & CEO
Tube Turns Technologies Inc.

Kevin H. Kramer
Vice President
& General Manager
Tube Turns Technologies Inc.

G. Darrell Robertson (5)
President & CEO
Metrum-Datatape Inc.

Thomas W. Lovelock (5)
President & CEO
Group Technologies Corporation

Raymond E. Minter
Vice President of Sales
& Marketing
Group Technologies Corporation

Henry L. Singer II (5)
President & CEO
Bell Technologies Inc.

Robert D. Starnes
Vice President of Sales
Metrum-Datatape Inc.

Glenn W. Turpen
Vice President of Finance
Metrum-Datatape Inc.

William D. Wilkerson III
Vice President of Operations
Metrum-Datatape Inc.

Norman E. Zelesky
Vice President of Finance
Tube Turns Technologies Inc.

Company Locations

Alabama

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

Arizona

Bell Technologies Inc.
2320 West Peoria Ave.
Building D-133
Phoenix, AR 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.
Van Nuys, CA 91406
Phone: (818) 830-9111

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

Colorado

Metrum-Datatape Inc.
Corporate Headquarters
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) 773-4609

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) 585-5544

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

Maryland

Bell Technologies Inc.
1321A Mercedes Drive, Suite 3
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 07003
Phone: (908) 851-3589

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

Metrum-Datatape Inc.
107 Knickerbocker Avenue
Hillsdale, NJ 07642
Phone: (201) 666-3217

New York

Bell Technologies Inc.
c/o Delphi Harrison
200 Upper Mountain Road
Building 6, Plant Q
Lockport, NY 14094
Phone: (716) 439-3531

Ohio

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

Bell Technologies Inc.
3162 Presidential Drive
Fairborn, OH 45324
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

Tennessee

Bell Technologies Inc.
277 Mallory Station Road
Suite 102
Franklin, TN 37064
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

Since March 30, 1998, the Company's common stock has been traded on The Nasdaq Stock Market under the symbol "SYPR." Prior to that date, the Company's common stock was traded on The Nasdaq Stock Market under the symbol "GRTK." 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. Prices have been restated to reflect the one-for-four reverse stock split effective March 30, 1998.

	High	Low
Year ended December 31, 1998:		
First Quarter	$ 15.252	$ 9.250
Second Quarter	$ 11.375	$ 6.500
Third Quarter	$ 10.375	$ 7.500
Fourth Quarter	$ 8.750	$ 5.938
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

As of February 4, 2000, 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

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) 585-5544.

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
Citizens Plaza, 28th Floor
Louisville, KY 40202
Phone: (502) 589-5235
Fax: (502) 589-0309

Corporate Address

Sypris Solutions Inc.
101 Bullitt Lane
Suite 450
Louisville, KY 40222
Phone: (502) 585-5544
Fax: (502) 585-1602

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, May 2, 2000 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.

SYPRIS
SOLUTIONS INC

101 BULLITT LANE, SUITE 450
LOUISVILLE, KENTUCKY 40222
Phone: (502) 585-5544
Fax: (502) 585-1602
www.sypris.com