



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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended June 29, 2008

OR

Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

Commission file number: 0-24020

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

As of July 31, 2008, the Registrant had 19,259,747 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYPRIS SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except for per share data)

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|-----------------|------------------|-----------------|
| | June 29, 2008 | July 1, 2007 | June 29, 2008 | July 1, 2007 |
| | (Unaudited) | | (Unaudited) | |
| Net revenue: | | | | |
| Outsourced services | \$ 89,564 | \$ 91,338 | \$178,236 | \$186,344 |
| Products | 20,786 | 24,909 | 38,376 | 41,342 |
| Total net revenue | 110,350 | 116,247 | 216,612 | 227,686 |
| Cost of sales: | | | | |
| Outsourced services | 80,835 | 87,156 | 161,148 | 173,405 |
| Products | 18,440 | 21,390 | 31,661 | 34,573 |
| Total cost of sales | 99,275 | 108,546 | 192,809 | 207,978 |
| Gross profit | 11,075 | 7,701 | 23,803 | 19,708 |
| Selling, general and administrative | 10,900 | 8,775 | 21,054 | 19,371 |
| Research and development | 1,089 | 714 | 2,084 | 1,393 |
| Amortization of intangible assets | 58 | 164 | 129 | 328 |
| Nonrecurring items | — | 1,248 | — | 1,554 |
| Operating (loss) income | (972) | (3,200) | 536 | (2,938) |
| Interest expense, net | 1,023 | 914 | 1,975 | 1,633 |
| Other (income) expense, net | (924) | 61 | (916) | 41 |
| Loss before income taxes | (1,071) | (4,175) | (523) | (4,612) |
| Income tax (benefit) expense | (136) | (1,874) | 27 | (2,066) |
| Net loss | \$ (935) | \$ (2,301) | \$ (550) | \$ (2,546) |
| Loss per common share: | | | | |
| Basic | \$ (0.05) | \$ (0.13) | \$ (0.03) | \$ (0.14) |
| Diluted | \$ (0.05) | \$ (0.13) | \$ (0.03) | \$ (0.14) |
| Dividends declared per common share | \$ 0.03 | \$ 0.03 | \$ 0.06 | \$ 0.06 |
| Weighted average shares outstanding: | | | | |
| Basic | 18,351 | 18,169 | 18,347 | 18,138 |
| Diluted | 18,351 | 18,169 | 18,347 | 18,138 |

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

SYPRIS SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except for share data)

| | June 29, 2008 (Unaudited) | December 31, 2007 (Note) |
|---|---------------------------------|--------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,690 | \$ 14,622 |
| Restricted cash | 764 | 883 |
| Accounts receivable, net | 61,817 | 59,067 |
| Inventory, net | 69,087 | 71,789 |
| Other current assets | 36,344 | 107,132 |
| Total current assets | 181,702 | 253,493 |
| Investment in marketable securities | 17,467 | — |
| Property, plant and equipment, net | 130,438 | 137,104 |
| Goodwill | 14,277 | 14,277 |
| Other assets | 28,947 | 17,186 |
| Total assets | <u>\$ 372,831</u> | <u>\$ 422,060</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 62,483 | \$ 54,119 |
| Accrued liabilities | 26,274 | 41,933 |
| Current portion of long-term debt | 9,091 | 5,000 |
| Total current liabilities | 97,848 | 101,052 |
| Long-term debt | 53,909 | 60,000 |
| Other liabilities | 49,070 | 53,529 |
| Total liabilities | 200,827 | 214,581 |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued | — | — |
| Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued | — | — |
| Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued | — | — |
| Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 19,503,122 shares issued and 19,369,786 shares outstanding in 2008 and 19,205,247 shares issued and 19,078,440 shares outstanding in 2007 | 195 | 192 |
| Additional paid-in capital | 146,562 | 146,025 |
| Retained earnings | 63,695 | 65,402 |
| Accumulated other comprehensive loss | (38,447) | (3,943) |
| Treasury stock, 133,336 and 126,807 shares in 2008 and 2007, respectively | (1) | (197) |
| Total stockholders' equity | 172,004 | 207,479 |
| Total liabilities and stockholders' equity | <u>\$ 372,831</u> | <u>\$ 422,060</u> |

Note: The balance sheet at December 31, 2007 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

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

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

| | <u>Six Months Ended</u> | |
|---|--------------------------------|-------------------------------|
| | <u>June 29,</u> <u>2008</u> | <u>July 1,</u> <u>2007</u> |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (550) | \$ (2,546) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 13,511 | 14,254 |
| Noncash compensation expense | 736 | 462 |
| Other noncash items | (4,969) | 27 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (2,502) | (831) |
| Inventory | 1,275 | (1,843) |
| Other current assets | 4,623 | (3,328) |
| Accounts payable | 8,641 | (3,258) |
| Accrued liabilities | (11,523) | 1,492 |
| Net cash provided by operating activities | 9,242 | 4,429 |
| Cash flows from investing activities: | | |
| Capital expenditures, net | (7,040) | (3,612) |
| Proceeds from sale of assets | 181 | 22 |
| Changes in nonoperating assets and liabilities | (162) | (6) |
| Net cash used in investing activities | (7,021) | (3,596) |
| Cash flows from financing activities: | | |
| Net change in debt under revolving credit agreements | (2,000) | 13,000 |
| Payments on Senior Notes | — | (25,000) |
| Debt modification costs | — | (885) |
| Cash dividends paid | (1,153) | (1,117) |
| Proceeds from issuance of common stock | — | 167 |
| Net cash used in financing activities | (3,153) | (13,835) |
| Net decrease in cash and cash equivalents | (932) | (13,002) |
| Cash and cash equivalents at beginning of period | 14,622 | 32,400 |
| Cash and cash equivalents at end of period | <u>\$ 13,690</u> | <u>\$ 19,398</u> |

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

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business

Sypris is a diversified provider of outsourced services and specialty products. The Company performs a wide range of manufacturing, engineering, design, testing, and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for truck components & assemblies, aerospace & defense electronics, and test & measurement equipment.

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, Sypris or the Company), and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. All significant intercompany transactions and accounts have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three and six months ended June 29, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2007 as presented in the Company's Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation.

(3) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements*. The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 was effective for the Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position (FSP) SFAS No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial statements. The adoption of SFAS No. 157 for non-financial assets and liabilities, effective January 1, 2009, is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment to ARB No. 51* (SFAS No. 160). SFAS No. 160 requires all entities to report noncontrolling interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires that companies provide sufficient disclosures to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements for income attributable to the noncontrolling interest holder. This statement is effective for fiscal years beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have a significant impact on the Company's consolidated financial statements.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 applies to all derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of Statement 133, and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). SFAS No. 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. This statement is effective for fiscal years beginning on or after November 15, 2008. Early adoption is encouraged. The adoption of this statement is not expected to have a significant impact on the Company's disclosures included in its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position SFAS 142-3, *Determination of the Useful Life of Intangible Assets*, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is not expected to change existing practices but rather reduce the complexity of financial reporting. This statement will go into effect 60 days after the SEC approves related auditing rules.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. This FSP addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share (EPS) pursuant to the two-class method described in paragraphs 60 and 61 of SFAS No. 128, *Earnings Per Share*. A share-based payment award that contains a non-forfeitable right to receive cash when dividends are paid to common shareholders irrespective of whether that award ultimately vests or remains unvested shall be considered a participating security as these rights to dividends provide a non-contingent transfer of value to the holder of the share-based payment award. Accordingly, these awards should be included in the computation of basic EPS pursuant to the two-class method. The guidance in this FSP is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. Early adoption is not permitted. All prior period EPS data will be adjusted retrospectively to reflect the provisions of the FSP. Under the terms of the Company's restricted stock awards, grantees are entitled to receive dividends on the unvested portions of their awards. There is no requirement to return these dividends in the event the unvested awards are forfeited in the future. Accordingly, this FSP will have an effect on the Company's EPS calculations and the Company will continue to evaluate the effects of this guidance.

(4) Dana Claim

On March 3, 2006, the Company's largest customer, Dana, and 40 of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. On July 24, 2007, the Company announced that its wholly-owned subsidiary, Sypris Technologies, Inc., entered into a comprehensive settlement agreement with Dana to resolve all outstanding disputes between the parties, terminate previously approved arbitration payments and enter into a new long-term supply contract running through 2014. In addition, Dana provided the Company with an allowed general unsecured non-priority claim in the amount of \$89,900,000, which was recorded by the Company at its estimated fair value of \$76,483,000 as of the August 7, 2007 settlement date.

On December 12, 2007 the bankruptcy court approved Dana's plan of reorganization. Pursuant to the terms included therein, the Company became entitled to receive an initial distribution of 3,090,408 shares of common stock in Dana Holding Corporation (DAN), the right to participate in additional distributions of reserved shares of common stock of DAN if certain disputed matters are ultimately resolved for less than Dana's reserves for

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those matters (currently estimated by the Company to represent an additional 739,000 shares) and the right to receive a future distribution of cash. Dana emerged from bankruptcy on January 31, 2008, and on February 1, 2008, the newly issued shares of Dana Holding Corporation began trading on the New York Stock Exchange. On February 11, 2008, the Company received its initial distribution of common stock, and on March 18, 2008 the Company received its cash distribution totaling \$6,891,188. On April 21, 2008, the Company received 114,536 common shares of DAN representing approximately 15% of the total 739,000 additional common shares the Company expects to receive.

The aforementioned cash distribution was recorded as a reduction in the Company's \$76,483,000 recorded basis in the claim. Of the remaining \$69,592,000, \$56,162,000 was attributed to the initial distribution of shares received by the Company in February, 2008, \$2,081,000 was attributed to the shares received by the Company in April, 2008 and the remaining \$11,349,000 was attributed to the 624,000 of additional shares expected to be received by the Company as secondary distributions. If the Company ultimately receives fewer additional shares than expected, these allocations would be adjusted on a pro rata basis.

The Company accounts for its common stock in DAN in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). The Company accounts for its shares as available-for-sale securities with associated unrealized holding gains or losses reported as a component of other comprehensive loss or income. The Company has not sold any of its common stock in DAN, and at June 29, 2008, the basis and fair value of the company's holdings of DAN common stock amounted to \$58,243,000 and \$17,467,000, respectively. Unrealized holding losses recorded in other comprehensive loss totaled \$36,874,000, net of income taxes of \$3,902,000. See Note 7 for further information.

The Company believes that the price for Dana's common stock at June 29, 2008 is temporarily depressed. A number of market issues including sub-prime lending practices, tightening credit markets and recession concerns have driven market prices down. A substantial portion of the current owners of DAN stock were contractually restricted from trading those shares through July of 2008, while many equity mutual funds remained restricted from purchasing stock in businesses that have recently emerged from bankruptcy. The automotive sector has been under considerable scrutiny due to bankruptcies, sharply declining light vehicle sales and significant losses recorded by major companies within the sector. The Company believes that these negative factors will begin to improve during 2008, and it possesses the ability and intent to hold its shares of Dana common stock until a full recovery of the current carrying value occurs. However, there can be no assurance that, under applicable accounting principles, unrealized holding losses will not become "other-than-temporary" and be recognized through the Company's statement of operations in future periods, which could materially adversely affect the Company's business, results of operations and financial condition.

At June 29, 2008, the Company's right to participate in additional distributions of DAN common stock, presently estimated to be 624,000 additional shares, was carried at \$11,349,000 in other assets. Had these shares been received at June 29, 2008, the Company would have recorded an additional \$6,728,000 unrealized holding loss to other comprehensive loss, net of income taxes of \$1,217,000.

(5) Stock-Based Compensation

On March 31, 2008, the Company offered eligible participants, including executive officers and directors of the Company, the opportunity to surrender certain vested outstanding, unexercised stock options which have exercise prices greater than \$4.31 per share in exchange for shares of common stock or new options to acquire common stock with an exercise price of \$4.31 per share, pursuant to the 2004 Sypris Equity Plan (Exchange Offer). Participants could participate in the offer if they remained employed until May 12, 2008, the date on which the Company cancelled eligible options under the offer. At the participant's election, the participant could exchange all of the eligible options owned by such participant for either shares of common stock having a fair value equivalent to the fair value of each such eligible option, or new, vested options to purchase shares of Sypris common stock having a fair value equivalent to the fair value of each such eligible option.

The ratio of shares subject to eligible options cancelled to common stock and new options issued was calculated using the Black-Scholes Merton Option Valuation Model. Each share of common stock and new option granted with respect to an exchanged option was fully vested. All new options are exercisable through March 30, 2012 unless earlier forfeited.

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Pursuant to the Exchange Offer and in exchange for the options surrendered, the Company issued 904 shares of common stock, in addition to 179,946 options to purchase common stock.

The following table summarizes option activity for the six months ended June 29, 2008:

| | <u>Number of Shares</u> | <u>Weighted- average Exercise Price Per Share</u> | <u>Weighted- average Remaining Term</u> | <u>Aggregate Intrinsic Value</u> |
|--------------------------------|-----------------------------|---|---|--|
| Outstanding at January 1, 2008 | 1,281,440 | \$ 8.33 | | |
| Granted | 258,946 | 4.35 | | |
| Exchanged | (423,986) | 7.34 | | |
| Forfeited | (19,550) | 7.84 | | |
| Expired | (54,497) | 9.33 | | |
| Outstanding at June 29, 2008 | <u>1,042,353</u> | <u>\$ 7.71</u> | <u>3.20</u> | <u>\$ 942</u> |
| Exercisable at June 29, 2008 | <u>742,128</u> | <u>\$ 7.56</u> | <u>2.79</u> | <u>\$ 942</u> |

On February 26, 2008, the Company granted 282,379 restricted stock awards under a long-term incentive program. Twenty-five percent of the restricted stock awards will vest in one-third increments on each of the third, fifth and seventh anniversaries of the grant date. Seventy-five percent of the restricted stock awards will vest in one-quarter increments on each of the first, second, third and fourth anniversaries of the achievement of the Vesting Trigger Date. This Vesting Trigger Date is the first business day following the Company's achievement of a specified target for aggregate net income as measured over the previous four fiscal quarters. If no Vesting Trigger Date occurs before December 31, 2010, this portion of the restricted stock awards will be immediately forfeited.

(6) Loss Per Common Share

There were no adjustments required to be made to net loss for purposes of computing basic and diluted loss per common share. A reconciliation of the weighted average shares outstanding used in the calculation of basic and diluted loss per common share is as follows (in thousands):

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|---------------------------|-------------------------|--------------------------|-------------------------|
| | <u>June 29, 2008</u> | <u>July 1, 2007</u> | <u>June 29, 2008</u> | <u>July 1, 2007</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| Shares used to compute basic loss per common share | 18,351 | 18,169 | 18,347 | 18,138 |
| Dilutive effect of equity awards | — | — | — | — |
| Shares used to compute diluted loss per common share | <u>18,351</u> | <u>18,169</u> | <u>18,347</u> | <u>18,138</u> |

Stock options and restricted stock were not considered in the calculations, as they would have been antidilutive.

(7) Investment in Marketable Securities

The valuation of our investment in DAN, a marketable security accounted for pursuant to SFAS No. 115, is classified as available-for-sale and measured at fair value as determined by a quoted market price. The related unrealized holding losses are currently excluded from operations and recorded in accumulated other comprehensive loss on the consolidated balance sheets. At June 29, 2008, the Company owned 3,204,944 shares of DAN with a market value of \$5.45 per share, which resulted in an unrealized loss of \$36,874,000, net of a deferred tax benefit of \$3,902,000, included in accumulated other comprehensive loss as of such date. The deferred tax benefit is net of a valuation allowance of \$2,345,000 associated with the unrealized capital loss portion for our foreign subsidiary, as the company has no assurance of generating capital gains in the future in order to realize the tax benefit. The deferred tax benefit associated with the unrealized loss for our domestic operations has been fully reserved. This decline is currently considered temporary (see Note 4). Realized gains and losses and declines in value judged to be

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other-than-temporary will be included in other expense (income), if and when recorded. In accordance with SFAS No. 157, the fair value of DAN shares was valued based on quoted market prices in active markets for identical shares.

The following table summarizes marketable securities as of June 29, 2008 (in thousands):

| | <u>Basis</u> | <u>Gross Unrealized Gain/ (Loss)</u> | <u>Gross Realized Gain/ (Loss)</u> | <u>Fair Value At Quoted Prices in Active Markets (Level 1)</u> |
|-------------------------------------|--------------|--|--|--|
| Investment in marketable securities | \$58,243 | \$(40,776) | \$ — | \$17,467 |

(8) Inventory

Inventory consisted of the following (in thousands):

| | <u>June 29, 2008 (Unaudited)</u> | <u>December 31, 2007</u> |
|---|--|------------------------------|
| Raw materials, including perishable tooling of \$919 and \$1,129 in 2008 and 2007, respectively | \$ 19,477 | \$ 21,140 |
| Work in process | 13,167 | 12,815 |
| Finished goods | 5,960 | 7,439 |
| Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date | 39,510 | 39,936 |
| Progress payments related to long-term contracts and programs | (3,438) | (2,565) |
| Reserve for excess and obsolete inventory | (5,589) | (6,976) |
| | <u>\$ 69,087</u> | <u>\$ 71,789</u> |

(9) Segment Data

The Company is organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group is one reportable business segment, while the Electronics Group includes two reportable business segments, Aerospace & Defense and Test & Measurement. There was no intersegment net revenue recognized in any of the periods presented. The following table presents financial information for the reportable segments of the Company (in thousands):

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|--|-------------------------|--|-------------------------|
| | <u>June 29, 2008 (Unaudited)</u> | <u>July 1, 2007</u> | <u>June 29, 2008 (Unaudited)</u> | <u>July 1, 2007</u> |
| Net revenue from unaffiliated customers: | | | | |
| Industrial Group | \$ 69,100 | \$ 73,472 | \$138,915 | \$152,591 |
| Aerospace & Defense | 27,011 | 29,380 | 50,435 | 49,051 |
| Test & Measurement | 14,239 | 13,395 | 27,262 | 26,044 |
| Electronics Group | 41,250 | 42,775 | 77,697 | 75,095 |
| | <u>\$110,350</u> | <u>\$116,247</u> | <u>\$216,612</u> | <u>\$227,686</u> |
| Gross profit: | | | | |
| Industrial Group | \$ 5,333 | \$ 3,749 | \$ 12,162 | \$ 9,069 |
| Aerospace & Defense | 1,975 | 777 | 4,536 | 3,932 |
| Test & Measurement | 3,767 | 3,175 | 7,105 | 6,707 |
| Electronics Group | 5,742 | 3,952 | 11,641 | 10,639 |
| | <u>\$ 11,075</u> | <u>\$ 7,701</u> | <u>\$ 23,803</u> | <u>\$ 19,708</u> |

| | Three Months Ended | | Six Months Ended | |
|------------------------------|--------------------|-------------------|------------------|-------------------|
| | June 29, 2008 | July 1, 2007 | June 29, 2008 | July 1, 2007 |
| | (Unaudited) | | (Unaudited) | |
| Operating income (loss): | | | | |
| Industrial Group | \$ 2,458 | \$ 1,468 | \$ 6,612 | \$ 4,351 |
| Aerospace & Defense | (1,993) | (2,590) | (2,746) | (2,887) |
| Test & Measurement | 838 | 765 | 1,349 | 1,397 |
| Electronics Group | (1,155) | (1,825) | (1,397) | (1,490) |
| General, corporate and other | (2,275) | (2,843) | (4,679) | (5,799) |
| | <u>\$ (972)</u> | <u>\$ (3,200)</u> | <u>\$ 536</u> | <u>\$ (2,938)</u> |

| | June 29, 2008 | December 31, 2007 |
|------------------------------|-------------------|----------------------|
| | (Unaudited) | |
| Total assets: | | |
| Industrial Group | \$ 225,282 | \$ 264,182 |
| Aerospace & Defense | 98,530 | 108,189 |
| Test & Measurement | 31,217 | 30,337 |
| Electronics Group | 129,747 | 138,526 |
| General, corporate and other | 17,802 | 19,352 |
| | <u>\$ 372,831</u> | <u>\$ 422,060</u> |

(10) Commitments and Contingencies

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. A summary of changes in the warranty accrual, which is included in accrued liabilities in the accompanying balance sheets, is as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 29, 2008 | July 1, 2007 | June 29, 2008 | July 1, 2007 |
| | (Unaudited) | | (Unaudited) | |
| Balance at the beginning of the period | \$ 489 | \$ 239 | \$ 522 | \$ 242 |
| Accruals for warranties for products sold in the period | 188 | 113 | 301 | 190 |
| Fulfillment of warranty obligations | (201) | (126) | (322) | (206) |
| Revisions of estimated obligations | — | — | (25) | — |
| Balance at the end of the period | <u>\$ 476</u> | <u>\$ 226</u> | <u>\$ 476</u> | <u>\$ 226</u> |

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

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.

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As of June 29, 2008, the Company had outstanding purchase commitments of approximately \$40,218,000, primarily for the acquisition of inventory and manufacturing equipment. As of June 29, 2008, the Company also had outstanding letters of credit approximating \$1,915,000 primarily under a captive insurance program.

(11) Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company expects to generate income in 2008 from its foreign operations, which are taxed at a 28% statutory rate. The Company expects to generate a loss in 2008 from its domestic operations, which are subject to a federal statutory rate of 35%. It is anticipated that the Company will record a valuation allowance against a large portion of the deferred tax asset generated by the domestic operating loss (see below for the amount recorded during the first half of 2008). Reconciling items between the federal statutory rate and the effective tax rate include state income taxes, valuation allowances and other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets or liabilities are recovered or settled. SFAS No. 109 requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company evaluates its deferred tax position on a quarterly basis and valuation allowances are provided as necessary. During this evaluation, the Company reviews its forecast of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. Based on the Company's current forecast, a valuation allowance of \$937,000 was recorded through earnings for the six months ended June 29, 2008; however, there can be no assurances that the Company's forecasts are now, or in the future will be, accurate or that other factors impacting this deferred tax asset will not materially and adversely affect its business, results of operations and financial condition.

The Company's Mexican subsidiary is currently under a routine audit by the Mexican Servicio de Administracion Tributaria (SAT), the Mexican taxing authority, for the periods from May 27, 2004 through July 20, 2007. Proposed audit adjustments, if any, could significantly impact the Company's operating results.

(12) Employee Benefit Plans

Pension benefit consisted of the following (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 29, 2008 | July 1, 2007 | June 29, 2008 | July 1, 2007 |
| | (Unaudited) | | (Unaudited) | |
| Service cost | \$ 25 | \$ 28 | \$ 50 | \$ 56 |
| Interest cost on projected benefit obligation | 580 | 548 | 1,160 | 1,096 |
| Net amortizations, deferrals and other costs | 27 | 51 | 54 | 102 |
| Expected return on plan assets | (813) | (775) | (1,626) | (1,550) |
| | <u>\$ (181)</u> | <u>\$ (148)</u> | <u>\$ (362)</u> | <u>\$ (296)</u> |

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The Company's accumulated other comprehensive loss consists of the accumulated net unrealized losses on available-for-sale securities, employee benefit related adjustments and foreign currency translation adjustments.

The components of comprehensive loss, net of tax, are as follows for the periods indicated (in thousands):

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | <u>June 29,</u> <u>2008</u> | <u>July 1,</u> <u>2007</u> | <u>June 29,</u> <u>2008</u> | <u>July 1,</u> <u>2007</u> |
| | <u>(Unaudited)</u> | | <u>(Unaudited)</u> | |
| Net loss | \$ (935) | \$ (2,301) | \$ (550) | \$ (2,546) |
| Other comprehensive loss: | | | | |
| Unrealized loss on available-for-sale securities, net of tax of \$61 and \$3,902 for the three and six months ended June 29, 2008, respectively | (15,643) | — | (36,874) | — |
| Foreign currency translation adjustments | 1,836 | 580 | 2,370 | (128) |
| Total comprehensive loss | <u>\$ (14,742)</u> | <u>\$ (1,721)</u> | <u>\$ (35,054)</u> | <u>\$ (2,674)</u> |

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

| | <u>June 29,</u> <u>2008</u> | <u>December 31,</u> <u>2007</u> |
|--|--------------------------------|------------------------------------|
| | <u>(Unaudited)</u> | |
| Foreign currency translation adjustments | \$ 2,897 | \$ 527 |
| Unrealized loss on available-for-sale securities, net of tax | (36,874) | — |
| Employee benefit related adjustments, net of tax | (4,470) | (4,470) |
| Accumulated other comprehensive loss | <u>\$ (38,447)</u> | <u>\$ (3,943)</u> |

(14) Subsequent Events

On July 29, 2008, the Company received 152,506 common shares of DAN representing approximately 24% of the total 624,000 additional common shares the Company expected to receive as of June 29, 2008 (see Note 4). The Company expects to receive its remaining estimated balance of approximately 472,000 additional shares in future distributions, subject to the relative size of certain settlements by the Dana Corporation bankruptcy estate.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The table presented below, which compare our results of operations for the three and six month periods from 2008 to 2007, presents the results for each period, the change in those results from 2008 to 2007 in both dollars and percentage change and the results for each period as a percentage of net revenue. The columns present the following:

The first two data columns in the table show the absolute results for each period presented.

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

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

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Three Months Ended June 29, 2008 Compared to Three Months Ended July 1, 2007

| | <u>Three Months Ended</u> | | <u>Year Over</u> | <u>Year Over</u> | <u>Results as</u> | |
|-------------------------------------|--|----------------|----------------------|----------------------|--------------------------|----------------|
| | <u>June 29,</u> | <u>July 1,</u> | <u>Year Change</u> | <u>Year</u> | <u>Percentage of Net</u> | |
| | <u>2008</u> | <u>2007</u> | <u>(Unfavorable)</u> | <u>Change</u> | <u>June 29,</u> | <u>July 1,</u> |
| | | | | <u>(Unfavorable)</u> | <u>2007</u> | <u>2008</u> |
| | (in thousands, except percentage data) | | | | | |
| Net revenue: | | | | | | |
| Industrial Group | \$ 69,100 | \$ 73,472 | \$ (4,372) | (6.0)% | 62.6% | 63.2% |
| Aerospace & Defense | 27,011 | 29,380 | (2,369) | (8.1) | 24.5 | 25.3 |
| Test & Measurement | 14,239 | 13,395 | 844 | 6.3 | 12.9 | 11.5 |
| Electronics Group | 41,250 | 42,775 | (1,525) | (3.6) | 37.4 | 36.8 |
| Total | 110,350 | 116,247 | (5,897) | (5.1) | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Industrial Group | 63,767 | 69,723 | 5,956 | 8.5 | 92.3 | 94.9 |
| Aerospace & Defense | 25,036 | 28,603 | 3,567 | 12.5 | 92.7 | 97.4 |
| Test & Measurement | 10,472 | 10,220 | (252) | (2.5) | 73.5 | 76.3 |
| Electronics Group | 35,508 | 38,823 | 3,315 | 8.5 | 86.1 | 90.8 |
| Total | 99,275 | 108,546 | 9,271 | 8.5 | 90.0 | 93.4 |
| Gross profit: | | | | | | |
| Industrial Group | 5,333 | 3,749 | 1,584 | 42.3 | 7.7 | 5.1 |
| Aerospace & Defense | 1,975 | 777 | 1,198 | 154.2 | 7.3 | 2.6 |
| Test & Measurement | 3,767 | 3,175 | 592 | 18.6 | 26.5 | 23.7 |
| Electronics Group | 5,742 | 3,952 | 1,790 | 45.3 | 13.9 | 9.2 |
| Total | 11,075 | 7,701 | 3,374 | 43.8 | 10.0 | 6.6 |
| Selling, general and administrative | 10,900 | 8,775 | (2,125) | (24.2) | 9.9 | 7.5 |
| Research and development | 1,089 | 714 | (375) | (52.5) | 1.0 | 0.6 |
| Amortization of intangible assets | 58 | 164 | 106 | 64.6 | — | 0.1 |
| Nonrecurring expense | — | 1,248 | 1,248 | NM | — | 1.1 |
| Operating loss | (972) | (3,200) | 2,228 | 69.6 | (0.9) | (2.7) |
| Interest expense, net | 1,023 | 914 | (109) | (11.9) | 0.9 | 0.8 |
| Other (income) expense, net | (924) | 61 | 985 | NM | (0.8) | 0.1 |
| Loss before income taxes | (1,071) | (4,175) | 3,104 | 74.3 | (1.0) | (3.6) |
| Income tax benefit | (136) | (1,874) | (1,738) | (92.7) | (0.1) | (1.6) |
| Net loss | \$ (935) | \$ (2,301) | \$ 1,366 | 59.4% | (0.9)% | (2.0)% |

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Six Months Ended June 29, 2008 Compared to Six Months Ended July 1, 2007

| | <u>Six Months Ended</u> | | <u>Year Over</u> | <u>Year Over</u> | <u>Results as</u> | |
|-------------------------------------|--|----------------|----------------------|----------------------|--------------------------|----------------|
| | <u>June 29,</u> | <u>July 1,</u> | <u>Year Change</u> | <u>Percentage</u> | <u>Percentage of Net</u> | |
| | <u>2008</u> | <u>2007</u> | <u>Favorable</u> | <u>Change</u> | <u>June 29,</u> | <u>July 1,</u> |
| | | | <u>(Unfavorable)</u> | <u>(Unfavorable)</u> | <u>2007</u> | <u>2008</u> |
| | (in thousands, except percentage data) | | | | | |
| Net revenue: | | | | | | |
| Industrial Group | \$ 138,915 | \$ 152,591 | \$ (13,676) | (9.0)% | 64.1% | 67.0% |
| Aerospace & Defense | 50,435 | 49,051 | 1,384 | 2.8 | 23.3 | 21.6 |
| Test & Measurement | 27,262 | 26,044 | 1,218 | 4.7 | 12.6 | 11.4 |
| Electronics Group | 77,697 | 75,095 | 2,602 | 3.5 | 35.9 | 33.0 |
| Total | 216,612 | 227,686 | (11,074) | (4.9) | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Industrial Group | 126,753 | 143,522 | 16,769 | 11.7 | 91.2 | 94.1 |
| Aerospace & Defense | 45,899 | 45,119 | (780) | (1.7) | 91.0 | 92.0 |
| Test & Measurement | 20,157 | 19,337 | (820) | (4.2) | 73.9 | 74.2 |
| Electronics Group | 66,056 | 64,456 | (1,600) | (2.5) | 85.0 | 85.8 |
| Total | 192,809 | 207,978 | 15,169 | 7.3 | 89.0 | 91.3 |
| Gross profit: | | | | | | |
| Industrial Group | 12,162 | 9,069 | 3,093 | 34.1 | 8.8 | 5.9 |
| Aerospace & Defense | 4,536 | 3,932 | 604 | 15.4 | 9.0 | 8.0 |
| Test & Measurement | 7,105 | 6,707 | 398 | 5.9 | 26.1 | 25.8 |
| Electronics Group | 11,641 | 10,639 | 1,002 | 9.4 | 15.0 | 14.2 |
| Total | 23,803 | 19,708 | 4,095 | 20.8 | 11.0 | 8.7 |
| Selling, general and administrative | 21,054 | 19,371 | (1,683) | (8.7) | 9.7 | 8.5 |
| Research and development | 2,084 | 1,393 | (691) | (49.6) | 1.0 | 0.6 |
| Amortization of intangible assets | 129 | 328 | 199 | 60.7 | — | 0.1 |
| Nonrecurring items | — | 1,554 | 1,554 | NM | — | 0.7 |
| Operating income (loss) | 536 | (2,938) | 3,474 | NM | 0.3 | (1.2) |
| Interest expense, net | 1,975 | 1,633 | (342) | (20.9) | 0.9 | 0.7 |
| Other (income) expense, net | (916) | 41 | 957 | NM | (0.4) | — |
| Loss before income taxes | (523) | (4,612) | 4,089 | 88.7 | (0.2) | (1.9) |
| Income tax expense (benefit) | 27 | (2,066) | (2,093) | NM | — | (0.9) |
| Net loss | \$ (550) | \$ (2,546) | \$ 1,996 | 78.4% | (0.2)% | (1.0)% |

Backlog. At June 29, 2008, backlog for our Aerospace & Defense segment increased \$4.8 million to \$97.9 million from \$93.1 million at July 1, 2007, on a 3% increase in net orders to \$49.3 million in the six months ended June 29, 2008 compared to \$47.9 million in net orders in the first six months of 2007. Backlog for our Test & Measurement segment increased \$2.9 million to \$8.9 million at June 29, 2008, on \$28.4 million in net orders compared to \$26.5 million in net orders for the first six months of 2007. We expect to convert approximately 86% of the Aerospace & Defense backlog and 100% of the Test & Measurement backlog at June 29, 2008 to revenue during the next twelve months.

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group decreased \$4.4 million and \$13.7 million from the prior year second quarter and six month periods, respectively. Depressed market conditions for light trucks, commercial vehicles and trailers have contributed to volume related reductions in net revenue of approximately \$10.3 million and \$27.1 million for the second quarter and six month periods, respectively. Partially offsetting the volume change is an increase in steel prices, which is contractually passed through to customers under certain contracts, resulting in an increase in net revenue of \$5.0 million and \$9.2 million for the second quarter and six month periods, respectively. The Industrial

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Group also realized an increase in net revenue of approximately \$1.0 million and \$4.4 million for the second quarter and six month periods, respectively, from contractual settlements with certain customers and other pricing related changes.

The Aerospace & Defense segment derives its revenue from product sales and technical outsourced services. Net revenue in the Aerospace & Defense segment decreased \$2.4 million from the prior year second quarter, primarily due to reduced sales of certain data systems products. Although we experienced a different mix of revenue within our other product offerings and our electronic manufacturing services, these revenue sources were generally consistent with the comparable prior year quarter. The certification testing for a link encryption product also resulted in lower than expected revenue in the second quarter of 2008. Net revenue in the Aerospace & Defense segment increased \$1.4 million from the prior year six month period. Although net revenue from certain data systems products decreased approximately \$3.7 million from the comparable six month period of 2007, sales for link encryption and other products increased approximately \$3.2 million and electronic manufacturing services revenue increased approximately \$1.8 million.

The Test & Measurement segment derives its revenue from technical services and product sales. Technical services revenue accounted for approximately 88% of total Test & Measurement revenue in the first six months of 2008 and 2007, respectively. Test & Measurement segment net revenue increased \$0.8 million and \$1.2 million for the second quarter and six months ended June 29, 2008, respectively, primarily due to increased calibration services.

Gross Profit. The Industrial Group's gross profit increased to \$5.3 million in the second quarter of 2008 from \$3.7 million in the prior year period. The Industrial Group's gross profit increased to \$12.2 million in the first six months of 2008 from \$9.1 million in the prior year period. The volume based decline in net revenue generated a decrease in gross profit of approximately \$1.9 million and \$4.7 million for the second quarter and six month periods, respectively. Despite the volume decline, certain productivity related actions taken by the management contributed to the Industrial Group's profitability in 2008. The combined effect of productivity improvements, the contractual settlements with certain customers and other pricing related changes resulted in a net favorable impact to gross profit of approximately \$4.4 million and \$8.7 million for the second quarter and six month periods, respectively. Costs for wages, benefits and utilities increased approximately \$1.0 million in each of the second quarter and six month periods of 2008 as compared to the prior year periods. The increase in net revenue attributable to higher steel prices did not significantly impact gross profit, as this represents a direct pass through of material cost to the customer.

The Industrial Group's gross profit as a percentage of revenue increased to 7.7% and 8.8% for the second quarter and six month periods of 2008, respectively, from 5.1% and 5.9% for the second quarter and six month periods of 2007, respectively. The depressed market conditions in the light truck, commercial vehicle and trailer markets are expected to continue in the second half of 2008, and we anticipate the corresponding volume decline for our business will result in lower net revenues and gross profits for the Industrial Group than we experienced in the first half of the year.

The Aerospace & Defense segment's gross profit increased \$1.2 million and \$0.6 million in the second quarter and six month periods of 2008, respectively. The second quarter increase in gross profit reflects lower certification and launch costs for a secured communication product, an increased mix of space electronics manufacturing services and improved contributions from productivity initiatives. These factors offset the decline in gross profit from lower data systems product sales, which typically generate a higher margin rate than other products in the Electronics Group's portfolio. The reasons for the decrease in gross profit for the six month period are generally consistent with the second quarter; however, the loss of a follow-on contract for an electronics manufacturing service program earlier in 2008 had an unfavorable impact on the six month comparison.

The Test & Measurement segment's gross profit increased 18.6% or \$0.6 million and 5.9% or \$0.4 million for the second quarter and six month periods of 2008, respectively. The improvement in gross profit for both periods is primarily due to the increased sales volume and the impact of productivity initiatives partially offset by cost inflation. Gross profit as a percentage of revenue also increased to 26.5% and 26.1% for the second quarter and six month periods of 2008 from 23.7% and 25.8% for the second quarter and six month periods of 2007, respectively.

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Selling, General and Administrative. Selling, general and administrative expense increased \$2.1 million and \$1.7 million for the second quarter and six month periods of 2008, respectively, primarily due to higher recruiting costs, employee benefit costs and compensation related expenses.

Research and Development. Research and development costs during the second quarter and six month periods ended June 29, 2008 increased from the prior year periods primarily due to new product development efforts for a next generation secured communications device within our Aerospace & Defense segment.

Nonrecurring Expense, Net. Nonrecurring items in 2007 include legal and professional fees incurred as a result of the Dana Bankruptcy filing.

Interest Expense. Interest expense for the second quarter and six months ended June 29, 2008 increased primarily due to an increase in the weighted average debt outstanding. Our weighted average debt outstanding increased to \$56.2 million and \$54.7 million for the second quarter and six month periods of 2008, respectively, from \$51.0 million and \$53.0 million during the second quarter and six month periods of 2007. The weighted average interest rate was 6.5% and 6.9% for the second quarter and six month periods of 2008, respectively, compared to 7.1% and 6.2% for the second quarter and six month periods of 2007.

Other Income, Net. Other income, net increased \$1.0 million for the second quarter and six month periods ended June 29, 2008, primarily due to foreign currency transaction gains of \$0.7 million in the current periods, while such amounts in the prior year periods were not significant.

Income Taxes. The provision for income taxes in the second quarter and six month periods of 2008 includes a valuation allowance on the deferred tax assets generated by domestic operating losses. The requirement for a valuation allowance limits the domestic tax benefit recognized in 2008 and, when combined with the tax expense recorded on the profitable Mexico operations, results in a tax expense on the consolidated pre-tax loss for the six months ended June 29, 2008.

Liquidity, Capital Resources and Financial Condition

Net cash provided by operating activities was \$9.2 million in the first six months of 2008, as compared to \$4.4 million in 2007. Accounts receivable increased in 2008 and used \$2.5 million, as revenue was \$110.3 million in the second quarter of 2008 as compared to \$103.7 million in the fourth quarter of 2007. Inventory decreased in 2008 and provided \$1.3 million, primarily due to volume reductions in the Industrial Group. Other current assets decreased in 2008 and provided \$4.6 million, primarily due to a \$6.9 million receipt associated with the Dana settlement. Accounts payable increased in 2008 and provided \$8.6 million primarily due to the timing of disbursements for inventory and capital expenditures. Accrued liabilities decreased in 2008 and used \$11.5 million, primarily due to a \$9.5 million payment for the 2007 Mexico income tax liability. Other noncash charges in 2008 includes the amortization of deferred revenue attributable to the Dana settlement.

Net cash used in investing activities increased \$3.4 million to \$7.0 million for the first six months of 2008, primarily due to higher capital expenditures.

Net cash used in financing activities was \$3.2 million in the first six months of 2008, as compared to \$13.8 million in the first six months of 2007, primarily due to principal payments of \$25.0 million on the Senior Notes in the prior year period. There was a net reduction of \$2.0 million in the outstanding balance of the Revolving Credit Agreement in the first six months of 2008, as compared to a net increase of \$13.0 million in 2007.

We had total borrowings under our Revolving Credit Agreement of \$33.0 million at June 29, 2008 and an unrestricted cash balance of \$13.7 million. Approximately \$1.9 million of the unrestricted cash balance relates to our Mexican subsidiaries. Maximum borrowings on the Revolving Credit Agreement are \$50.0 million, with \$50.0 million of additional borrowings available upon lead bank approval. Standby letters of credit up to a maximum of \$15.0 million may be issued under the Revolving Credit Agreement of which \$1.9 million were issued at June 29, 2008.

As of June 29, 2008, our principal commitment under the Revolving Credit Agreement is due in October 2009, while our principal commitment under the Senior Notes is \$4.1 million, \$15.0 million and \$10.9 million due in 2009, 2011 and 2012, respectively. We also had purchase commitments totaling approximately \$40.2 million at June 29, 2008, primarily for inventory and manufacturing equipment.

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We believe that sufficient resources will be available to satisfy our cash requirements for at least the next twelve months. Our assessment of the availability of funds for the next twelve months is based in part on our intent and ability to continue to own the shares of common stock of DAN received through the settlement agreement reached in August 2007. We will continue to monitor the market price and the factors impacting the market price of the DAN common stock. We expect to own our shares of the DAN common stock until the value indicated by the market price approximates the estimated recoverable amount we recognized at the time of the settlement agreement.

Cash requirements for periods beyond the next twelve months depend on our profitability, our ability to manage working capital requirements and our rate of growth. If we make significant acquisitions, if our largest customers experience financial difficulty, or if working capital and capital expenditure requirements exceed expected levels during the next twelve months or in subsequent periods, we may require additional external sources of capital. There can be no assurance that any additional required financing will be available through bank borrowings, debt or equity financings or otherwise, or that if such financing is available, it will be available on terms acceptable to us. If adequate funds are not available on acceptable terms, our business, consolidated results of operations and financial condition could be adversely affected.

Critical Accounting Policies

See the information concerning our critical accounting policies included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation—Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007. There have been no significant changes in our critical accounting policies during the six month period ended June 29, 2008, except for the treatment of securities impairment, for which our new policy is outlined below.

As of June 29, 2008, we accounted for all of our marketable securities as available-for-sale. We evaluate our available-for-sale securities for other-than-temporary impairment under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). SFAS No. 115 requires an investor to determine when an investment is considered impaired (i.e., the fair value is below its cost), evaluate whether the impairment is other-than-temporary (i.e., the investment value will not be recovered over its remaining life), and, if the impairment is other-than-temporary, recognize an impairment loss equal to the difference between the investment's cost and its fair value. The guidance also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments.

The Company's available-for-sale securities are carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income/loss in stockholders' equity. The fair value of securities in the portfolio is based on published or securities dealers' market values. The Company periodically reviews and evaluates the securities portfolio to determine if the decline in the fair value is other-than-temporary. If such a decline is deemed to be other-than-temporary, the security is written down to a new cost basis, and the resulting loss is charged to earnings. At June 29, 2008, the Company carried no other-than-temporarily impaired securities.

Forward-looking Statements

This quarterly report, and our other oral or written communications, may contain "forward-looking" statements. These statements may include our expectations or projections about the future of our industries, business strategies, potential acquisitions or financial results and our views about developments beyond our control, including domestic or global economic conditions, trends and market developments. These statements are based on management's views and assumptions at the time originally made, and we undertake no obligation to update these statements, even if, for example, they remain available on our website after those views and assumptions have changed. There can be no assurance that our expectations, projections or views will come to pass, and undue reliance should not be placed on these forward-looking statements.

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A number of significant factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: our ability to liquidate our equity interests in Dana Holding Corporation (NYSE:DAN) at satisfactory valuation levels¹; potential impairments, non-recoverability or write-offs of goodwill, assets or deferred costs, including deferred tax assets in the U.S.; compliance with covenants in, or acceleration of, our loan and other debt agreements; costs and inefficiencies of restructuring our manufacturing capacity; breakdowns, relocations or major repairs of machinery and equipment; our inability to successfully launch new or next generation programs; the cost, efficiency and yield of our operations and capital investments, including working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; cost and availability of raw materials such as steel, component parts, natural gas or utilities; volatility of our customers' forecasts, financial conditions, market shares, product requirements or scheduling demands; cyclical or other downturns; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; failure to adequately insure or to identify environmental or other insurable risks; inventory valuation risks including obsolescence, shrinkage, theft, overstocking or underbilling; changes in government or other customer programs; reliance on major customers or suppliers, especially in the automotive or aerospace and defense electronics sectors; revised contract prices or estimates of major contract costs; dependence on, recruitment or retention of key employees; union negotiations; pension valuation, health care or other benefit costs; labor relations; strikes; risks of foreign operations; currency exchange rates; the costs and supply of debt, equity capital, or insurance; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; weaknesses in internal controls; the costs of compliance with our auditing, regulatory or contractual obligations; regulatory actions or sanctions; disputes or litigation, involving customer, supplier, creditor, stockholder, product liability, asbestos-related or environmental claims; war, terrorism or political uncertainty; unanticipated or uninsured disasters, losses or business risks; inaccurate data about markets, customers or business conditions; or unknown risks and uncertainties and the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

In this quarterly report, we may rely on and refer to information and statistics regarding the markets in which we compete. We obtained this information and these statistics from various third party sources and publications that are not produced for the purposes of securities offerings or reporting or economic analysis. We have not independently verified the data and cannot assure the accuracy of the data we have included.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and prices for equity securities.

Interest Rate Risk

All additional borrowings under our credit agreement bear interest at a variable rate based on the prime rate, the London Interbank Offered Rate ("LIBOR"), or certain alternative short-term rates, plus a margin (1.50% at June 29, 2008) based upon our leverage ratio. A change in interest rates of 100 basis points would result in additional interest expense of \$0.3 million on an annualized basis, based upon our debt outstanding at June 29, 2008. A change in fixed interest rates of 100 basis points would change the fair value of our Senior Notes by \$1.0 million. Inflation has not been a significant factor in our operations in any of the periods presented; however, there can be no assurances that the costs of steel will not adversely affect our working capital requirements and our associated interest costs, which could also increase the sensitivity of our results to changes in interest rates.

¹ *As of June 29, 2008, we have received distributions of approximately 3.2 million shares of DAN common stock. Due to market conditions and certain other factors, we believe that the recent trading prices of DAN common stock do not reflect its longer-term value. However, if we sell these shares at current prices or such prices otherwise reflect a decline in value which is deemed to be "other than temporary," our business, results of operations, covenants in our loan and other debt agreements, cash flows and financial condition could be materially adversely impacted.*

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Foreign Exchange Risk

Fluctuations in foreign currency exchange rates have historically impacted our earnings only to the extent of remeasurement gains related to U.S. dollar denominated accounts of our foreign subsidiary, because the vast majority of our transactions are denominated in U.S. dollars. A one percent change in foreign currency exchange rates would result in remeasurement gain or loss of approximately \$0.2 million on an annualized basis, based upon the U.S. dollar denominated accounts of our foreign subsidiary at June 29, 2008. For the second quarter and six months ended June 29, 2008, other income, net includes foreign currency transaction gains of \$0.7 million. Similar amounts for 2007 were not significant.

Equity Price Risk

With respect to our ownership of common stock in DAN, we are also subject to equity price risk. The Company received approximately 3.1 million shares of DAN common stock in its initial distribution from the bankruptcy estate on February 11, 2008 and received an additional 0.1 million shares on April 21, 2008. Subsequent distributions are anticipated following the resolution of disputed matters within the estate. The Company anticipates receiving approximately 0.6 million additional shares following the resolution of these matters. Based on these assumptions, a permanent change of \$1.00 per share in the value of DAN stock would change the fair value of our holdings at June 29, 2008 by approximately \$3.8 million.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in “MD&A—Forward-Looking Statements,” in Part I—Item 2 of this Form 10-Q and in Part I—Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2007.

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

On May 12, 2008, the Company completed a participant equity exchange offer under which participants in the Company's equity incentive plan were able to exchange certain vested and underwater options for lesser quantities of new options or stock. As a result of the exchange, 255 shares were withheld by the Company for payment of employee payroll taxes related to such exchange program. Common shares repurchased were cancelled on May 12, 2008. The following table summarizes our repurchases during the second quarter ended June 29, 2008:

| <u>Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid per Share</u> | <u>Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u> |
|---------------|---|-------------------------------------|---|---|
| May 12, 2008 | 255 | \$ 4.48 | — | \$ — |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on April 22, 2008 in Louisville, Kentucky. At the meeting, stockholders elected three Class III directors for a term of three years pursuant to the following votes:

| <u>Class III Director</u> | <u>Votes in Favor</u> | <u>Votes Withheld</u> |
|---------------------------|-----------------------|-----------------------|
| William G. Ferko | 17,062,268 | 534,292 |
| Jeffrey T. Gill | 17,062,755 | 533,805 |
| Sidney R. Petersen | 16,989,797 | 606,763 |

The total number of shares of common stock outstanding as of March 5, 2008, the record date of the Annual Meeting of Stockholders, was 19,347,675.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 10.1 | Settlement Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007, replaces Exhibit 10.1, redacted copy of Settlement Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 2, 2007 (Commission File No. 000-24020)). |
| 31(i).1 | CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002. |
| 31(i).2 | CFO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002. |
| 32 | CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002. |

SETTLEMENT AGREEMENT

This Settlement Agreement (the “Agreement”), dated as of July 23, 2007, is made by and between, on the one hand, Dana Corporation (“DC”), Torque-Traction Manufacturing Technologies, LLC. (“TTM”) and Dana Heavy Axle Mexico, S.A. de C.V. (“DHAM”) (collectively, “Dana”); and, on the other hand, Sypris Solutions, Inc. (“SS”), Sypris Technologies, Inc. (“ST”), Sypris Technologies Marion, LLC (“STM”) and Sypris Technologies Mexico, S. de R.L. de C.V. (“STMex”) (collectively, “Sypris,” and, collectively with Dana, the “Parties”).

Recitals

- A. On March 3, 2006 (the “Petition Date”), DC, TTM and 39 of their affiliates (collectively, the “Debtors”) filed petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). The Debtors’ chapter 11 cases (collectively, the “Chapter 11 Cases”) are being jointly administered under Case Number 06-10354 (BRL). DHAM and various other non-U.S. subsidiaries and affiliates of DC have not filed petitions for relief under chapter 11 of the Bankruptcy Code, nor commenced any similar or ancillary insolvency or reorganization proceedings.
- B. Before the Petition Date, Dana and Sypris entered into various agreements, including without limitation: (i) that certain supply agreement by and among DC, ST and STM, dated on or about May 31, 2001 (as amended, the “Marion Supply Agreement”), (ii) that certain supply agreement by and among DC, TTM and ST, dated on or about December 8, 2003 (as amended, the “Morganton Supply Agreement”), and (iii) that certain supply agreement by and among DC, DHAM, ST and STMex, dated on or about June 30, 2004 (as amended, the “Toluca Supply Agreement”) (collectively, the Marion Supply Agreement, the Morganton Supply Agreement, and the Toluca Supply Agreement, the “Supply Agreements”).
- C. On May 10, 2006, Dana and Sypris entered into a settlement agreement, which was approved by the Bankruptcy Court on May 17, 2006 (the “May Agreement”) (collectively, the Supply Agreements and the May Agreement are referred to herein as the “Existing Agreements”).
- D. On December 6, 2006, the Arbitrator in a dispute between and among the parties to the Supply Agreements (the “Arbitration”) issued his Final Award of Arbitrator Relating to the Pricing and Sourcing of Gear Sets, which award was modified by the Arbitrator’s January 29, 2007 Order Relating to Motion of Respondents to Clarify the Gear Set Award Dated December 6, 2006 (collectively, the “Arbitration Award”).
- E. On December 15, 2006, the Debtors filed Motion For An Order, Pursuant to Section 363 of the Bankruptcy Code, Authorizing Them to Enter Into a Staged Re-Sourcing Program for Parts Currently Supplied by Sypris Technologies, Inc. (Docket No. 4421) (the “Re-Sourcing Motion”). On May 30, 2007, Sypris filed an objection to the Re-Sourcing Motion (the “Objection”), and on June 6, 2007, Dana filed a reply thereto (the “Reply”).
- F. In addition, the parties have conducted extensive discovery in connection with the Re-Sourcing Motion and on May 15, 2007, the Court ordered mediation and approved the appointment of Denis Cronin, as Mediator, with respect to the disputes between the parties (the “Mediation”).

- G. Dana and Sypris desire to resolve all currently outstanding issues between the Parties and, further, to commit themselves to an agreement with respect to the continuous and uninterrupted supply of parts from Sypris to Dana (the "New Agreement"). A copy of the New Agreement is attached hereto as Exhibit 1.
- H. The Parties, with the concurrence of the Official Committee of Unsecured Creditors in the Chapter 11 Cases, have agreed that ST will have (i) an allowed, general, unsecured, nonpriority claim in the amount of Eighty-Nine Million Nine Hundred Thousand Dollars (\$89,900,000.00) in the DC Chapter 11 Case and an allowed, general unsecured, non-priority claim in the amount of Thirty Million Dollars (\$30,000,000.00) in the TTM Chapter 11 Case (collectively, the "Sypris Allowed Claims"), as further described herein.

Agreement

In consideration of the foregoing recitals and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Dana and Sypris agree as follows:

1. Approval of New Agreement. No later than July 24, 2007, the Debtors shall file a motion and proposed order pursuant to Bankruptcy Rule 9019 (the "Motion"), seeking entry of an order approving this Agreement and the New Agreement (the "Approval Order"). The Approval Order shall be in form and substance acceptable to Dana and Sypris. The Debtors and Sypris shall each utilize their best efforts to expedite consideration of the Motion and to obtain Bankruptcy Court entry of the Approval Order. Until such time as the Bankruptcy Court enters the Approval Order and the New Agreement becomes effective by its terms, the Parties agree to operate pursuant to the terms of the May Agreement.
2. Transfer of Non-Core Business. Dana and Sypris agree that as soon as practical for Dana following the entry of the Approval Order, Dana will permanently re-source the I-beams currently supplied by Sypris pursuant to the Toluca Supply Agreement ("I-beams") and the steer arms currently supplied by Sypris pursuant to the Morganton Supply Agreement ("Steer Arms"); provided however, that the Parties agree to use commercial best efforts to develop an agreed transition plan to alternative suppliers, including building a mutually agreeable inventory bank of sufficient I-Beams and Steer Arms to assist in Dana's transfer of such business to alternative suppliers. Sypris agrees to continue to supply I-beams and Steer Arms to Dana at the pricing under the Toluca and Morganton Supply Agreements until the transition to alternative suppliers is complete. Dana shall have no further obligation to purchase any I-beams or Steer Arms from Sypris after the implementation of such transition plan.
3. Resolution and Release of Disputes. Except with respect to the Reserved Matters (as defined in Section 5 below), and the Sypris Allowed Claims, Dana on behalf of itself and its officers, directors, agents, shareholders, affiliates, subsidiaries, related or parent entities, successors and assigns, and Sypris, on behalf of itself and its officers, directors, agents, shareholders, affiliates, subsidiaries, related or parent entities, successors and assigns, mutually release and discharge each other from and waive any and all claims, counterclaims, remedies and causes of action of any kind which arose from events,

defects, claims, or other conditions occurring or existing on or before July 15, 2007 (whether liquidated or not, contingent or not, known or unknown), that any of them may have against any unaffiliated Party (including such Party's affiliates, subsidiaries, predecessors, successors, employees, directors, officers, stockholders and assigns) relating to the Dana / Sypris commercial relationship or any of the Existing Agreements, (including any claims possessed by Dana arising under sections 544 through 550 of the Bankruptcy Code or similar provisions of state law, and including any claims by Sypris for future payments by Dana pursuant to the Arbitration Award). The foregoing is an intentional and knowing waiver, discharge and release by the Parties.

4. Dismissal of Arbitration. Dana and Sypris agree to promptly and jointly notify the Arbitrator in the Arbitration, following the entry of the Approval Order and the New Agreement having become effective, by its terms, that the remaining claims in the Arbitration have been settled and released pursuant to this Agreement.
5. Reserved Matters. The Parties reserve their rights to assert any available claims or causes of action and/or assert any factual or legal defenses to such claims or causes of action that relate to the following matters (the "Reserved Matters"):
 - a. All warranty claims related to the Parts sold by Sypris to Dana, unless Dana, its affiliates, subsidiaries, predecessors or successors (or their respective directors, officers, employees, consultants or agents) had notice or other knowledge of such potential claims on or before July 15, 2007 (for avoidance of doubt, if a warranty claim is subsequently made that was previously unknown, but relates to the period prior to and including July 15, 2007, then the warranty provisions of the applicable Supply Agreement shall apply and govern any such claims). This does not otherwise expand or modify the rights and obligations of the Parties as provided in the applicable Supply Agreement;
 - b. All warranty claims related to the material sold by Dana or its designated suppliers to Sypris, unless Sypris, its affiliates, subsidiaries, predecessors or successors (or their respective directors, officers, employees, consultants or agents) had notice or other knowledge of such potential claims on or before July 15, 2007 (for avoidance of doubt, if a warranty claim is subsequently made that was previously unknown, but relates to the period prior to and including July 15, 2007, then the warranty provisions of the applicable Supply Agreement shall apply and govern any such claims). This does not otherwise expand or modify the rights and obligations of the Parties as provided in the applicable Supply Agreement.
 - c. All claims by Dana for contribution or indemnity, and all other claims by Dana related to the assertion of claims by third parties against Dana (whether brought under a theory of strict liability, negligence or other legal theory), related to Parts sold by Sypris to Dana. Dana represents to Sypris that, based on reasonable inquiry of those persons in its legal department responsible for product liability claims against Dana, it is not currently aware of any claims against Dana for which it would seek contribution or indemnity from Sypris.
 - d. All claims by Sypris for contribution or indemnity, and all other claims by Sypris related to the assertion of claims by third parties (including Dana affiliates)

against Sypris (whether brought under a theory of strict liability, negligence or other legal theory), related to Materials sold by Dana (or Dana's designated suppliers) to Sypris. Sypris represents to Dana that, based on reasonable inquiry of those persons in its legal department responsible for product liability claims against Sypris, it is not currently aware of any claims against Sypris for which it would seek contribution or indemnity from Dana.

- e. Notwithstanding any rejection of the asset purchase agreements relating to the Supply Agreements (the "Asset Purchase Agreements"), or other termination of the Asset Purchase Agreements, Dana shall retain its responsibility for indemnification of any environmental claims under the terms of the applicable Asset Purchase Agreement for the facility sold by Dana to Sypris, but only to the extent that Dana is entitled to indemnification from any prior owner of such facility and Dana shall remit to Sypris any proceeds received by Dana on account of such indemnification by any such prior owner. The Parties agree that if Dana obtains an assignment of its indemnification rights from any such prior owner in favor of Sypris, then such assignment shall relieve Dana of this duty to indemnify with respect to such facility. DC represents that it previously entered into a Settlement Agreement and Release between Eaton Corporation and DC dated April 2003 (the "Eaton Settlement") which remains legally binding and in full effect as of the date of this Settlement Agreement, an unsigned copy of which has been provided to Sypris, and further represents that the Eaton Settlement has not been amended, terminated or otherwise modified, and that DC will not terminate or otherwise reject the Eaton Agreement in the Chapter 11 Cases or otherwise amend or modify the Eaton Agreement without the prior written consent of Sypris which consent will not be unreasonably withheld. If Sypris has previously asserted or otherwise preserved a valid claim or right to bring a claim against Dana for indemnification related to environmental liabilities associated with the Marion or Toluca facilities that Dana released in the Eaton Settlement or in any other agreement or arrangement with Eaton or otherwise (a "Released Obligation"), then notwithstanding anything to the contrary in this Agreement, Dana retains its obligation to indemnify Sypris under the Marion Asset Purchase Agreement and the Toluca Asset Purchase Agreement solely with respect to such Released Obligations, if any.
- f. Notwithstanding any rejection of the Asset Purchase Agreements, or other termination of the Asset Purchase Agreements, Dana agrees to continue its efforts concerning the transfer of water rights to Sypris pursuant to paragraph 2.17 of the Asset Purchase Agreement dated June 30, 2004 concerning the Toluca, Mexico facility (the "Toluca APA") and, to the extent of any obligation to do so under section 8.2(b) of the Toluca APA, Dana agrees to indemnify Sypris with respect to any claim by Dana or its Affiliates against Sypris concerning the unauthorized provision of water to Dana or its Affiliates, provided that Sypris continues to supply water to Dana consistent with its historical practice under the parties' lease concerning the Toluca, Mexico facility unless ordered to cease supplying by an appropriate governmental authority.

- g. All outstanding, unpaid invoices for Parts tendered to Dana by Sypris, and all outstanding, unpaid invoices for raw material or components tendered by Dana to Sypris, in each case, on or after April 15, 2007.
6. Sypris' Pre-Petition Claims. Subject only to the provisions of paragraph 7 below, upon the entry of the Approval Order and the New Agreement becoming effective, the Sypris Allowed Claims shall immediately and without any further action or notice of any sort, be irrevocably allowed (a) in the amount of Eighty-Nine Million Nine Hundred Thousand Dollars ((\$89,900,000.00) in the DC Chapter 11 Case and in the amount of Thirty Million Dollars (\$30,000,000.00) in the TTM Chapter 11 Case, provided that Sypris shall not be entitled to recover from such claims, more than \$89,900,000.00 in the aggregate from any or all of the Debtors' estates (including, no more than \$30,000,000.00 from the TTM estate), unless general unsecured claims in either of the estates are entitled to receive post-petition interest in which event Sypris shall be entitled to prove its right to receive post-petition interest. Other than as set forth in the preceding sentence, the Sypris Allowed Claims shall not be subject to subordination, disallowance, or reclassification, and shall not be reduced by or subject to any counterclaim, offset or dispute of any sort, including, without limitation, by reason of any Reserved Matter. Sypris agrees not to oppose a provision in a plan of reorganization or motion proposed by Dana which seeks substantive consolidation of the DC and TTM Chapter 11 Cases. Upon any consolidation of the bankruptcy estates of DC and TTM for purposes of plan distribution, the Sypris DC claim and the Sypris TTM claim shall be deemed merged into a single claim of Eighty-Nine Million Nine Hundred Thousand Dollars (\$89,900,000.00) against the consolidated estate.
7. Post-confirmation Survival. Notwithstanding Bankruptcy Code Section 1141, the obligations of Dana under this Settlement Agreement and under the New Agreement shall survive confirmation of any plan of reorganization that may be confirmed in the cases unimpaired. Any order confirming a plan or plans of reorganization shall provide for the survival of such obligations.
8. Bankruptcy Court Approval. All provisions of this Agreement become null and void in the event the Approval Order is either not obtained or is reversed by a final order no longer subject to appeal; provided however, that to the extent practicable all of the Parties' rights shall be restored to be as they existed prior to this Agreement, and any delay caused by the settlement contained herein or the Motion shall not adversely affect or prejudice such rights.
9. Entire Agreement. This Agreement together with the New Agreement contains the entire agreement between the parties pertaining to the subject matter hereof and fully supersedes all prior agreements and understandings between the Parties pertaining to such subject matter, including without limitation, the Settlement Agreement. No change in or amendment to this Agreement shall be valid unless set forth in writing and signed by all of the Parties after the execution of this Agreement. To the extent any term in this Agreement conflicts with any term in the New Agreement, the Parties agree that the New Agreement shall control.
10. Authority. Each person who executes this Agreement represents that he or she is duly authorized to execute this Agreement on behalf of the respective parties and that each such party has full knowledge of and has consented to this Agreement, *provided that*, with respect to Dana, such authority is subject to approval by the Bankruptcy Court.

11. Successors and Assigns. The provisions and covenants contained herein shall inure to and be binding upon the permitted successors, transferees, heirs and assigns of the parties hereto.
12. Section Headings. The headings in this Agreement are solely for convenience of reference and shall not affect its interpretation.
13. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement.
14. Governing Law. This Agreement shall be construed in accordance with the laws of the state of Ohio.
15. Bankruptcy Court Jurisdiction. The Bankruptcy Court shall have exclusive jurisdiction over any disputes concerning the interpretation and implementation of this Agreement.

Dana Corporation

/s/ Teresa Mulawa

Signature

Teresa Mulawa

Printed Name

Treasurer

Title

Torque-Traction Manufacturing
Technologies, Inc.

/s/ Teresa Mulawa

Signature

Teresa Mulawa

Printed Name

Treasurer

Title

Dana Heavy Axle Mexico, S.A. de C.V.

/s/ Carlos Porras

Signature

Carlos Porras

Printed Name

Title

Sypris Solutions, Inc.

/s/ Jeffrey T. Gill

Signature

Printed Name

Title

Sypris Technologies, Inc.

/s/ Jeffrey T. Gill

Signature

Printed Name

Title

Sypris Technologies Marion, LLC

/s/ Jeffrey T. Gill

Signature

Printed Name

Title

Sypris Technologies Mexico, S. de R.L. de C.V.

/s/ Jeffrey T. Gill

Signature

Printed Name

Title

