# 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 30, 2005.**

**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**<br>**(State or Other Jurisdiction of Incorporation or Organization)** | **61-1321992**<br>**(I.R.S. Employer Identification No.)** |

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

**(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐.

As of July 29, 2005, the Registrant had 18,035,758 shares of common stock outstanding.

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**Part I. Financial Information**

**Item 1. Financial Statements**

## Sypris Solutions, Inc.

## Consolidated Income Statements
**(in thousands, except for per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 Restated (Note 3) | 2005 | 2004 Restated (Note 3) |
| | (Unaudited) | | (Unaudited) | |
| Net revenue: | | | | |
| Outsourced services | $117,404 | $85,923 | $234,415 | $166,050 |
| Products | 8,198 | 9,973 | 15,428 | 19,222 |
| Total net revenue | 125,602 | 95,896 | 249,843 | 185,272 |
| Cost of sales: | | | | |
| Outsourced services | 106,694 | 77,003 | 214,028 | 146,429 |
| Products | 5,020 | 5,897 | 10,568 | 11,489 |
| Total cost of sales | 111,714 | 82,900 | 224,596 | 157,918 |
| Gross profit | 13,888 | 12,996 | 25,247 | 27,354 |
| Selling, general and administrative | 9,113 | 8,628 | 17,666 | 16,786 |
| Research and development | 944 | 875 | 1,617 | 1,399 |
| Amortization of intangible assets | 175 | 140 | 313 | 266 |
| Operating income | 3,656 | 3,353 | 5,651 | 8,903 |
| Interest expense, net | 1,508 | 227 | 2,769 | 515 |
| Other income, net | (586) | (48) | (767) | (106) |
| Income before income taxes | 2,734 | 3,174 | 3,649 | 8,494 |
| Income tax expense | 753 | 1,190 | 1,078 | 3,185 |
| Net income | $ 1,981 | $ 1,984 | $ 2,571 | $ 5,309 |
| Earnings per common share: | | | | |
| Basic | $ 0.11 | $ 0.11 | $ 0.14 | $ 0.33 |
| Diluted | $ 0.11 | $ 0.11 | $ 0.14 | $ 0.31 |
| Dividends declared per common share | $ 0.03 | $ 0.03 | $ 0.06 | $ 0.06 |
| Weighted average shares outstanding: | | | | |
| Basic | 18,028 | 17,827 | 17,996 | 16,326 |
| Diluted | 18,261 | 18,552 | 18,279 | 17,072 |

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

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SYPRIS SOLUTIONS, INC.

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

| | June 30, 2005 (Unaudited) | December 31, 2004 Restated (Note 3) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,283 | $ 14,060 |
| Accounts receivable, net | 110,813 | 104,637 |
| Inventory, net | 121,908 | 96,476 |
| Other current assets | 17,737 | 21,566 |
| Total current assets | 268,741 | 236,739 |
| Property, plant and equipment, net | 180,790 | 166,940 |
| Goodwill | 14,277 | 14,277 |
| Other assets | 13,476 | 13,222 |
| Total assets | $ 477,284 | $ 431,178 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 97,220 | $ 61,778 |
| Accrued liabilities | 20,811 | 20,378 |
| Current portion of long-term debt | 7,000 | 7,000 |
| Total current liabilities | 125,031 | 89,156 |
| Long-term debt | 117,500 | 110,000 |
| Other liabilities | 22,798 | 23,083 |
| Total liabilities | 265,329 | 222,239 |
| 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; 18,035,358 and 17,920,500 shares issued and outstanding in 2005 and 2004, respectively | 180 | 179 |
| Additional paid-in capital | 141,931 | 140,898 |
| Retained earnings | 71,716 | 70,227 |
| Accumulated other comprehensive loss | (1,872) | (2,365) |
| Total stockholders' equity | 211,955 | 208,939 |
| Total liabilities and stockholders' equity | $ 477,284 | $ 431,178 |

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

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SYPRIS SOLUTIONS, INC.

CONSOLIDATED CASH FLOW STATEMENTS
(in thousands)

| | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 Restated (Note 3) |
|---|---|---|
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | $ 2,571 | $ 5,309 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,900 | 8,516 |
| Other noncash charges | 1,507 | 693 |
| Changes in operating assets and liabilities, net of acquisitions in 2004: | | |
| Accounts receivable | (6,517) | (26,816) |
| Inventory | (26,282) | (11,312) |
| Other current assets | 3,227 | 1,786 |
| Accounts payable | 35,993 | 20,113 |
| Accrued liabilities | 1,230 | 5,017 |
| Net cash provided by operating activities | 23,629 | 3,306 |
| Cash flows from investing activities: | | |
| Capital expenditures | (26,061) | (19,214) |
| Purchase of the net assets of acquired entities | — | (29,399) |
| Changes in nonoperating assets and liabilities | (797) | 247 |
| Net cash used in investing activities | (26,858) | (48,366) |
| Cash flows from financing activities: | | |
| Net change in debt under revolving credit facility | 7,500 | (37,700) |
| Proceeds from long-term debt | — | 27,500 |
| Cash dividends paid | (1,078) | (950) |
| Proceeds from issuance of common stock | 1,030 | 56,730 |
| Net cash provided by financing activities | 7,452 | 45,580 |
| Net increase in cash and cash equivalents | 4,223 | 520 |
| Cash and cash equivalents at beginning of period | 14,060 | 12,019 |
| Cash and cash equivalents at end of period | $ 18,283 | $ 12,539 |

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 aerospace & defense electronics, truck components and assemblies, 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 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2004 as presented in the Company’s Annual Report on Form 10-K.

**(3) Change in Method of Accounting**

During the first quarter of 2005, the Company’s Industrial Group changed its method of accounting for certain inventory and cost of sales at its Louisville manufacturing facility to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method used in all prior years. As a result, all inventories are now stated at the lower of cost, determined on a FIFO basis, or market. Prior to this voluntary change in accounting principle, approximately 13% of the Company’s total inventory as previously reported was valued using LIFO and the remaining inventories were valued using FIFO.

The change is preferable because it results in conforming all of the Company’s inventories to a uniform method of accounting subsequent to a series of acquisitions from 2001 through 2004. In addition, inventories will be valued in a manner which more closely approximates current cost, and FIFO is the prevalent method used by other entities within the Company’s industry and provides a more meaningful and understandable presentation of financial position to users of the Company’s financial statements.

In accordance with Accounting Principles Board Opinion No. 20, Accounting Changes, the financial statements for all prior periods have been adjusted to retroactively apply this change in accounting principle. The effect of the accounting change on net income (loss) and earnings (loss) per common share as previously reported by quarter for 2004 is:

| | Year ended December 31, 2004 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| | (in thousands, except per share data) | | | | |
| Net income (loss): | | | | | |
| Previously reported | $3,399 | $1,984 | $3,487 | $(1,463) | $7,407 |
| Increase (decrease) | (74) | — | 304 | 662 | 892 |
| Restated | $3,325 | $1,984 | $3,791 | $ (801) | $8,299 |
| Basic earnings (loss) per common share: | | | | | |
| Previously reported | $ 0.23 | $ 0.11 | $ 0.19 | $ (0.08) | $ 0.43 |
| Increase (decrease) | (0.01) | — | 0.02 | 0.04 | 0.05 |
| Restated | $ 0.22 | $ 0.11 | $ 0.21 | $ (0.04) | $ 0.48 |
| Diluted earnings (loss) per common share: | | | | | |
| Previously reported | $ 0.22 | $ 0.11 | $ 0.19 | $ (0.08) | $ 0.42 |
| Increase (decrease) | (0.01) | — | 0.02 | 0.04 | 0.05 |
| Restated | $ 0.21 | $ 0.11 | $ 0.21 | $ (0.04) | $ 0.47 |

The effect of the accounting change on net income and earnings per common share as previously reported for 2003 and 2002 is:

| | Years ended December 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in thousands, except per share data) | |
| Net income: | | |
| Previously reported | $ 8,135 | $ 11,439 |
| Increase (decrease) | (44) | 13 |
| Restated | $ 8,091 | $ 11,452 |
| Basic earnings per common share: | | |
| Previously reported | $ 0.57 | $ 0.87 |
| Increase (decrease) | — | — |
| Restated | $ 0.57 | $ 0.87 |
| Diluted earnings per common share: | | |
| Previously reported | $ 0.56 | $ 0.84 |
| Increase (decrease) | — | — |
| Restated | $ 0.56 | $ 0.84 |

The retroactive restatement of the change in accounting method increases previously reported inventory, retained earnings and noncurrent deferred tax liabilities at December 31, 2004 by $2,224,000, $1,503,000 and $721,000, respectively. The restatement had no impact on operating cash flow.

**(4) Recent Accounting Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” SFAS No. 123R supersedes Accounting Principles Board (“APB”) No. 25, “Accounting for Stock Issued to Employees” and amends SFAS No. 95, “Statement of Cash Flows.” In April of 2005, the FASB delayed the effective date of SFAS 123R and accordingly, the Company will adopt SFAS 123R on January 1, 2006.

As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R's fair value method could have a significant impact on the Company's results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share (see "Stock-Based Compensation" below). SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in the six months ended June 30, 2005 and 2004 was $175,000 and $552,000, respectively.

On March 1, 2005 and April 25, 2005, the Board of Directors approved resolutions to accelerate the vesting for "underwater" options as of March 11, 2005 and April 25, 2005, respectively in order to reduce future compensation expense related to outstanding options. After amendment of each underlying option agreement, compensation expense to be recognized in the income statement, subsequent to the adoption of SFAS No. 123R was reduced by approximately $1,385,000.

**(5) Stock-Based Compensation**

Stock options are granted under various stock compensation programs to employees and non-employee directors. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except for per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 Restated (Note 3) | 2005 | 2004, Restated (Note 3) |
| | (Unaudited) | | (Unaudited) | |
| Net income | $ 1,981 | $ 1,984 | $ 2,571 | $ 5,309 |
| Pro forma stock-based compensation expense, net of tax | (157) | (451) | (1,501) | (823) |
| Pro forma net income | $ 1,824 | $ 1,533 | $ 1,070 | $ 4,486 |
| Earnings per common share: | | | | |
| Basic – as reported | $ 0.11 | $ 0.11 | $ 0.14 | $ 0.33 |
| Basic – pro forma | $ 0.10 | $ 0.09 | $ 0.06 | $ 0.27 |
| Diluted – as reported | $ 0.11 | $ 0.11 | $ 0.14 | $ 0.31 |
| Diluted – pro forma | $ 0.10 | $ 0.08 | $ 0.06 | $ 0.26 |

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### (6) Earnings Per Common Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | (Unaudited) | | (Unaudited) | |
| Shares used to compute basic earnings per common share | 18,028 | 17,827 | 17,996 | 16,326 |
| Dilutive effect of stock options | 233 | 725 | 283 | 746 |
| Shares used to compute diluted earnings per common share | 18,261 | 18,552 | 18,279 | 17,072 |

### (7) Inventory

Inventory consisted of the following (in thousands):

| | June 30, 2005 | December 31, 2004 Restated (Note 3) |
|---|---|---|
| | (Unaudited) | |
| Raw materials | $ 49,336 | $ 33,599 |
| Work in process | 18,082 | 20,791 |
| Finished goods | 12,119 | 5,956 |
| Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date | 51,998 | 43,575 |
| Progress payments related to long-term contracts and programs | (2,834) | (1,543) |
| Reserve for excess and obsolete inventory | (6,793) | (5,902) |
| | $ 121,908 | $ 96,476 |

**(8) 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):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 Restated (Note 3) | 2005 | 2004, Restated (Note 3) |
| | (Unaudited) | | (Unaudited) | |
| Net revenue from unaffiliated customers: | | | | |
| Industrial Group | $ 89,673 | $58,222 | $178,363 | $106,673 |
| Aerospace & Defense | 24,095 | 25,793 | 48,091 | 55,365 |
| Test & Measurement | 11,834 | 11,881 | 23,389 | 23,234 |
| Electronics Group | 35,929 | 37,674 | 71,480 | 78,599 |
| | $125,602 | $95,896 | $249,843 | $185,272 |
| Gross profit: | | | | |
| Industrial Group | $ 7,541 | $ 5,536 | $ 13,938 | $ 11,993 |
| Aerospace & Defense | 3,369 | 4,791 | 5,760 | 10,253 |
| Test & Measurement | 2,978 | 2,669 | 5,549 | 5,108 |
| Electronics Group | 6,347 | 7,460 | 11,309 | 15,361 |
| | $13,888 | $12,996 | $ 25,247 | $ 27,354 |
| Operating income (loss): | | | | |
| Industrial Group | $ 5,334 | $ 3,516 | $ 9,477 | $ 8,585 |
| Aerospace & Defense | (127) | 657 | (1,127) | 2,524 |
| Test & Measurement | 39 | 316 | (27) | 424 |
| Electronics Group | (88) | 973 | (1,154) | 2,948 |
| General, corporate and other | (1,590) | (1,136) | (2,672) | (2,630) |
| | $ 3,656 | $ 3,353 | $ 5,651 | $ 8,903 |

| | June 30, 2005 | December 31, 2004 Restated (Note 3) |
|---|---|---|
| | (Unaudited) | |
| Total assets: | | |
| Industrial Group | $ 317,010 | $ 270,228 |
| Aerospace & Defense | 98,702 | 101,344 |
| Test & Measurement | 35,755 | 33,537 |
| Electronics Group | 134,457 | 134,881 |
| General, corporate and other | 25,817 | 26,069 |
| | $ 477,284 | $ 431,178 |

**(9) Commitments and Contingencies**

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 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.

As of June 30, 2005, the Company had outstanding purchase commitments of approximately $3,754,000, primarily for the acquisition of manufacturing equipment.

**(10) Income Taxes**

The Company's effective tax rate for the three and six months ended June 30, 2005 was 27.5% and 29.5%, respectively. Reconciling items between the federal statutory income tax rate of 34.0% and the effective tax rate include changes in estimates for tax contingencies, state and foreign income taxes, estimated 2005 research and development tax credits and certain other permanent differences.

**(11) Employee Benefit Plans**

Pension expense consisted of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | (Unaudited) | | (Unaudited) | |
| Service cost | $ 70 | $ 19 | $ 105 | $ 85 |
| Interest cost on projected benefit obligation | 1,642 | 485 | 2,202 | 1,043 |
| Net amortizations, deferrals and other costs | 372 | 55 | 504 | 369 |
| Expected return on plan assets | (2,037) | (746) | (2,722) | (1,353) |
| | $ 47 | $ (187) | $ 89 | $ 144 |

**(12) Foreign Currency Translation**

The functional currency for the Company's Mexican subsidiary is the Mexican peso. Assets and liabilities are translated at current rates of exchange and income and expense items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity. Total comprehensive income for the three months and six months ended June 30, 2005 was $2,527,000 and $3,064,000, respectively, including foreign currency translation adjustments of $546,000 and $493,000. For the three months and six months ended June 30, 2005, other income, net includes foreign currency transaction gains of $532,000 and $620,000, respectively.

**(13) Subsequent Events**

On June 27, 2005, the Compensation Committee (the “Committee”) of the Company’s Board of Directors approved a program, pursuant to the 2004 Sypris Equity Plan, to authorize the issuance of various restricted stock awards to key employees, including the Company’s executive officers, in large part pursuant to a newly approved executive long term incentive program. The awards vest at various rates depending on the type of award issued.

Effective August 1, 2005, restricted stock awards potentially representing 112,000 shares of common stock were granted to Company executives. Certain shares are subject to performance requirements; however, with certain exceptions, the restrictions on one-third of these shares are removed after three, five and seven years, respectively. During the restricted period, which is commensurate with each vesting year, the recipients receive dividends and voting rights for the shares. Generally, if a recipient leaves the Company before the end of the restricted period or if performance requirements are not met, if any, the shares will be forfeited. The shares have been valued at fair value on the grant date and maximum compensation expense to be recognized in future periods totals $1,200,000 prior to consideration of forfeitures or attainment of performance requirements, if any.

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

### Change in Method of Accounting

During the first quarter of 2005, our Industrial Group changed its method of accounting for certain inventory and cost of sales at our Louisville manufacturing facility to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method used in all prior years. As a result, all inventories are now stated at the lower of cost, determined on a FIFO basis, or market. Prior to this voluntary change in accounting principle, approximately 13% of our total inventory as previously reported was valued using LIFO and the remaining inventories were valued using FIFO.

The change is preferable because it results in conforming all of our inventories to a uniform method of accounting subsequent to a series of acquisitions from 2001 through 2004. In addition, inventories will be valued in a manner which more closely approximates current cost, and FIFO is the prevalent method used by other entities within our industry and provides a more meaningful and understandable presentation of financial position to users of our financial statements.

In accordance with Accounting Principles Board Opinion No. 20, Accounting Changes, the financial statements for all prior periods have been adjusted to retroactively apply this change in accounting principle. For the year ended December 31, 2004, the change from LIFO to FIFO reduced previously reported cost of sales for our Industrial Group by $1,284,000 which resulted in corresponding increases in gross profit, operating income and income before taxes. The effect of the accounting change on net income (loss) and earnings (loss) per common share as previously reported by quarter for 2004 is:

| | Year ended December 31, 2004 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| | (in thousands, except per share data) | | | | |
| Net income (loss): | | | | | |
| Previously reported | $3,399 | $1,984 | $3,487 | $(1,463) | $7,407 |
| Increase (decrease) | (74) | — | 304 | 662 | 892 |
| Restated | $3,325 | $1,984 | $3,791 | $ (801) | $8,299 |
| Basic earnings (loss) per common share: | | | | | |
| Previously reported | $ 0.23 | $ 0.11 | $ 0.19 | $ (0.08) | $ 0.43 |
| Increase (decrease) | (0.01) | — | 0.02 | 0.04 | 0.05 |
| Restated | $ 0.22 | $ 0.11 | $ 0.21 | $ (0.04) | $ 0.48 |
| Diluted earnings (loss) per common share: | | | | | |
| Previously reported | $ 0.22 | $ 0.11 | $ 0.19 | $ (0.08) | $ 0.42 |
| Increase (decrease) | (0.01) | — | 0.02 | 0.04 | 0.05 |
| Restated | $ 0.21 | $ 0.11 | $ 0.21 | $ (0.04) | $ 0.47 |

The effect of the accounting change on net income and earnings per common share as previously reported for 2003 and 2002 is:

| | Years ended December 31, 2003 | Years ended December 31, 2002 |
|---|---|---|
| | (in thousands, except per share data) | |
| Net income: | | |
| Previously reported | $ 8,135 | $ 11,439 |
| Increase (decrease) | (44) | 13 |
| Restated | $ 8,091 | $ 11,452 |
| Basic earnings per common share: | | |
| Previously reported | $ 0.57 | $ 0.87 |
| Increase (decrease) | — | — |
| Restated | $ 0.57 | $ 0.87 |
| Diluted earnings per common share: | | |
| Previously reported | $ 0.56 | $ 0.84 |
| Increase (decrease) | — | — |
| Restated | $ 0.56 | $ 0.84 |

The retroactive restatement of the change in accounting method increases previously reported inventory, retained earnings and noncurrent deferred tax liabilities at December 31, 2004 by $2,224,000, $1,503,000 and $721,000, respectively. The restatement had no impact on operating cash flow.

**Results of Operations**

The tables presented below, which compare our results of operations for the second quarter and six month periods from 2005 to 2004, present the results for each period, the change in those results from 2005 to 2004 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 each table show the absolute results for each period presented.
- The columns entitled “Year Over Year Change” and “Year Over Year Percentage Change” show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when our net revenue increases from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative number in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of that segment’s net revenue. These amounts are shown in italics.

In addition, as used in these tables, “NM” means “not meaningful.”

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**Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004**

| | Three Months Ended June 30, | | Year Over Year Change | Year Over Year Percentage Change | Results as Percentage of Net Revenue for the Three Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 Restated (Note 3) | Favorable (Unfavorable) | Favorable (Unfavorable) | 2005 | 2004 |
| | | | (in thousands, except percentage data) | | | |
| Net revenue: | | | | | | |
| Industrial Group | $ 89,673 | $58,222 | $ 31,451 | 54.0% | 71.4% | 60.7% |
| Aerospace & Defense | 24,095 | 25,793 | (1,698) | (6.6) | 19.2 | 26.9 |
| Test & Measurement | 11,834 | 11,881 | (47) | (0.4) | 9.4 | 12.4 |
| Electronics Group | 35,929 | 37,674 | (1,745) | (4.6) | 28.6 | 39.3 |
| Total | 125,602 | 95,896 | 29,706 | 31.0 | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Industrial Group | 82,132 | 52,686 | (29,446) | (55.9) | *91.6* | *90.5* |
| Aerospace & Defense | 20,726 | 21,002 | 276 | 1.3 | *86.0* | *81.4* |
| Test & Measurement | 8,856 | 9,212 | 356 | 3.9 | *74.8* | *77.5* |
| Electronics Group | 29,582 | 30,214 | 632 | 2.1 | *82.3* | *80.2* |
| Total | 111,714 | 82,900 | (28,814) | (34.8) | 88.9 | 86.4 |
| Gross profit: | | | | | | |
| Industrial Group | 7,541 | 5,536 | 2,005 | 36.2 | *8.4* | *9.5* |
| Aerospace & Defense | 3,369 | 4,791 | (1,422) | (29.7) | *14.0* | *18.6* |
| Test & Measurement | 2,978 | 2,669 | 309 | 11.6 | *25.2* | *22.5* |
| Electronics Group | 6,347 | 7,460 | (1,113) | (14.9) | *17.7* | *19.8* |
| Total | 13,888 | 12,996 | 892 | 6.9 | 11.1 | 13.6 |
| Selling, general and administrative | 9,113 | 8,628 | (485) | (5.6) | 7.3 | 9.0 |
| Research and development | 944 | 875 | (69) | (7.9) | 0.8 | 0.9 |
| Amortization of intangible assets | 175 | 140 | (35) | (25.0) | 0.1 | 0.2 |
| Operating income | 3,656 | 3,353 | 303 | 9.0 | 2.9 | 3.5 |
| Interest expense, net | 1,508 | 227 | (1,281) | NM | 1.2 | 0.2 |
| Other income, net | (586) | (48) | 538 | NM | (0.5) | — |
| Income before income taxes | 2,734 | 3,174 | (440) | (13.9) | 2.2 | 3.3 |
| Income taxes | 753 | 1,190 | 437 | 36.7 | 0.6 | 1.2 |
| Net income | $ 1,981 | $ 1,984 | $ (3) | (0.2)% | 1.6% | 2.1% |

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**Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

| | Six Months Ended June 30, | | Year Over Year Change | Year Over Year Percentage Change | Results as Percentage of Net Revenue for the Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 Restated (Note 3) | Favorable (Unfavorable) | Favorable (Unfavorable) | 2005 | 2004 |
| | (in thousands, except percentage data) | | | | | |
| Net revenue: | | | | | | |
| Industrial Group | $178,363 | $106,673 | $ 71,690 | 67.2% | 71.4% | 57.6% |
| Aerospace & Defense | 48,091 | 55,365 | (7,274) | (13.1) | 19.2 | 29.9 |
| Test & Measurement | 23,389 | 23,234 | 155 | 0.7 | 9.4 | 12.5 |
| Electronics Group | 71,480 | 78,599 | (7,119) | (9.1) | 28.6 | 42.4 |
| Total | 249,843 | 185,272 | 64,571 | 34.9 | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Industrial Group | 164,425 | 94,680 | (69,745) | (73.7) | *92.2* | *88.8* |
| Aerospace & Defense | 42,331 | 45,112 | 2,781 | 6.2 | *88.0* | *81.5* |
| Test & Measurement | 17,840 | 18,126 | 286 | 1.6 | *76.3* | *78.0* |
| Electronics Group | 60,171 | 63,238 | 3,067 | 4.8 | *84.2* | *80.5* |
| Total | 224,596 | 157,918 | (66,678) | (42.2) | 89.9 | 85.2 |
| Gross profit: | | | | | | |
| Industrial Group | 13,938 | 11,993 | 1,945 | 16.2 | *7.8* | *11.2* |
| Aerospace & Defense | 5,760 | 10,253 | (4,493) | (43.8) | *12.0* | *18.5* |
| Test & Measurement | 5,549 | 5,108 | 441 | 8.6 | *23.7* | *22.0* |
| Electronics Group | 11,309 | 15,361 | (4,052) | (26.4) | *15.8* | *19.5* |
| Total | 25,247 | 27,354 | (2,107) | (7.7) | 10.1 | 14.8 |
| Selling, general and administrative | 17,666 | 16,786 | (880) | (5.2) | 7.1 | 9.1 |
| Research and development | 1,617 | 1,399 | (218) | (15.6) | 0.6 | 0.7 |
| Amortization of intangible assets | 313 | 266 | (47) | (17.7) | 0.1 | 0.1 |
| Operating income | 5,651 | 8,903 | (3,252) | (36.5) | 2.3 | 4.9 |
| Interest expense, net | 2,769 | 515 | (2,254) | NM | 1.1 | 0.3 |
| Other (income) expense, net | (767) | (106) | 661 | NM | (0.3) | — |
| Income before income taxes | 3,649 | 8,494 | (4,845) | (57.0) | 1.5 | 4.6 |
| Income taxes | 1,078 | 3,185 | 2,107 | 66.2 | 0.5 | 1.7 |
| Net income | $ 2,571 | $ 5,309 | $ (2,738) | (51.6)% | 1.0% | 2.9% |

*Backlog.* Our backlog increased $2.8 million to $253.9 million at June 30, 2005, from $251.1 million at June 30, 2004, on $254.0 million in net orders in the six months ended June 30, 2005 compared to $237.5 million in net orders in the six months ended June 30, 2004. We expect to convert approximately 92% of the backlog at June 30, 2005 to revenue during the next twelve months.

Backlog for our Industrial Group increased $27.5 million to $147.6 million at June 30, 2005, from $120.1 million at June 30, 2004 on $194.5 million in net orders in the six months ended June 30, 2005 compared to $153.6 million in net orders in the six months ended June 30, 2004. We expect to convert substantially all of the Industrial Group's backlog at June 30, 2005 to revenue during the next twelve months.

Backlog for our Aerospace & Defense segment decreased $23.3 million to $100.9 million at June 30, 2005, from $124.2 million at June 30, 2004, on $34.0 million in net orders in the six months ended June 30, 2005 compared to $59.6 million in net orders in the six months ended June 30, 2004. Backlog for our Test & Measurement segment decreased $1.5 million to $5.4 million at June 30, 2005, on

$24.5 million in net orders in 2005 compared to $24.3 million in net orders in 2004. We expect to convert approximately 79% of the Aerospace & Defense backlog and 98% of the Test & Measurement backlog at June 30, 2005 to revenue during the next twelve months.

*Net Revenue*. Net revenue in the Industrial Group increased primarily due to higher volume resulting from the new ArvinMeritor and Dana contracts that started in May and June of 2004, respectively. These new contracts with ArvinMeritor for trailer axle beams and various drive train components and with Dana for steer axles, drive axle shafts and drive train components for the light, medium and heavy-duty truck markets generated outsourced services revenue of $32.8 million and $59.8 million in the second quarter and six month periods of 2005, respectively, as compared to $9.6 million in both comparable periods of 2004. Excluding these two new contracts, our Industrial Group's net revenue increased $8.2 million and $21.5 million for the second quarter and six month periods of 2005, respectively, primarily due to a growth in the commercial vehicle market.

The Aerospace & Defense segment derives its revenue from manufacturing services, other outsourced services and product sales. Net revenue decreased in the Aerospace & Defense segment primarily due to lower revenue from product sales and technical outsourced services. Net revenue from product sales decreased $2.3 million and $5.0 million in the second quarter and six month periods of 2005, respectively, primarily due to a continued decrease in demand for data storage products. Government funding for certain of our customers' programs in the range, telemetry and intelligence markets and the related demand for our products is expected to improve over prior year in the second half of 2005. Net revenue from technical outsourced services decreased $1.3 million and $3.5 million in the second quarter and six month periods of 2005, respectively, primarily due to the completion of an engineering program in 2004. Net revenue from manufacturing services increased $1.9 million and $1.2 million in the second quarter and six month periods of 2005, respectively, primarily due to increased volume on two military programs and revenue from new customers for initial shipments on new contracts.

The Test & Measurement segment derives its revenue from technical services and product sales. Products sales increased $0.4 million and $0.6 million for the second quarter and six month periods of 2005, respectively, primarily due to increased shipments on a military program related to the conflict in Iraq. Net revenue from technical outsourced services decreased $0.4 million and $0.5 million in the second quarter and six month periods of 2005, respectively.

*Gross Profit.* Our Industrial Group's gross profit of $7.5 million and $13.9 million in the second quarter and six month periods of 2005, respectively, increased from $5.5 million and $12.0 million in the second quarter and six month periods of 2004, respectively. Gross profit as a percentage of revenue decreased to 8.4% and 7.8% for the second quarter and six month periods of 2005, respectively, from 9.5% and 11.2% for the second quarter and six month periods of 2004, respectively, primarily due to costs associated with the increase in manufacturing capacity, launch of new programs, and overtime to meet customer shipment schedules. The excess costs associated with these items decreased sequentially from the first quarter of 2005 and are expected to continue to decrease throughout 2005 as manufacturing cell installations are completed.

The Aerospace & Defense segment's gross profit decreased $1.4 million and $4.5 million in the second quarter and six month periods of 2005, respectively, primarily due to lower margins associated with the decrease in product revenue. Lower overhead absorption attributable to the 40.8% and 45.5% decrease in product revenue reduced gross profit by $1.1 million and $3.2 million during the second quarter and six month periods of 2005, respectively. Higher volumes expected for the remainder of 2005 should continue to improve gross profit performance in the second half of 2005. Manufacturing services gross profit decreased $0.2 million and $0.7 million in the second quarter and six month periods of 2005, respectively, primarily due to a change in program mix and lower profit during the ramp-up of a new contract.

The Test & Measurement segment's gross profit increased $0.3 million and $0.4 million for the second quarter and six month periods of 2005, respectively, primarily due to increased product sales with lower manufacturing costs achieved through outsourcing certain product subassemblies.

*Selling, General and Administrative.* Selling, general and administrative expense increased $0.5 million and $0.9 million in the second quarter and six month periods of 2005, respectively, primarily due to additional infrastructure to support growth in the Industrial Group and costs associated with headcount reductions in both the Aerospace & Defense and Test & Measurement segments. Selling, general and administrative expense as a percentage of revenue decreased from the corresponding prior year periods.

*Research and Development.* The increase in research and development costs relate to continued investments in two data systems product development projects within our Aerospace & Defense segment.

*Amortization of Intangible Assets.* Amortization of intangible assets increased in the second quarter and six month periods primarily due to certain identifiable intangible assets acquired in connection with the new ArvinMeritor and Dana contracts that started in May and June of 2004, respectively.

*Interest Expense, Net.* Interest expense increased in the second quarter and six month periods due to an increase in weighted average debt outstanding and higher interest rates. The weighted average interest rate increased to 5.1% in the second quarter of 2005 from 3.7% in the second quarter of 2004 due to the issuance of senior notes totaling $55.0 million in June and August 2004 at a weighted average fixed interest rate of 5.4% and increased market interest rates and interest margin pricing under our credit agreement.

*Other Income, Net.* Other income, net increased for the second quarter and six month periods of 2005 due primarily to foreign currency transaction gains of $532,000 and $620,000, respectively.

*Income Taxes.* Our effective income tax rate decreased to 27.5% and 29.5% for the second quarter and six months ended June 30, 2005 from 37.5% in the second quarter and six month periods in 2004. The decrease primarily relates to certain changes in estimates for tax contingencies and the impact of our operations in Mexico acquired on June 30, 2004, for which the 2005 statutory tax rate is 30.0%.

**Liquidity, Capital Resources and Financial Condition**

Net cash provided by operating activities increased $20.3 million to $23.6 million for the first six months of 2005, primarily due to a net decrease in working capital investment in 2005. Accounts receivable and inventories increased $6.5 million and $26.3 million, respectively, in the first six months of 2005 primarily due to the revenue growth in the Industrial Group. This revenue growth and an increase in days payable outstanding contributed to an increase in accounts payable of $36.0 million in the first six months of 2005. Other current assets decreased $3.2 million in the first six months of 2005, primarily due to the receipt of an income tax refund attributable to 2004.

Net cash used in investing activities decreased $21.5 million to $26.9 million for the first six months of 2005, primarily due to 2004 amounts including the Industrial Group's acquisition of net assets approximating $29.4 million related to the new contracts, which was partially offset by increases in the Industrial Group's 2005 capital expenditures primarily in support of continued expansion.

Net cash provided by financing activities was $7.5 million for the first six months of 2005, compared to $45.6 million in the first six months of 2004. During the first six months of 2005, we borrowed $7.5 million on our revolving credit facility, while during the same period for 2004, we received net proceeds of $55.2 million for our public stock offering of 3,450,000 shares of common stock that closed in March and April 2004. Proceeds from the offering were principally used to reduce debt on our revolving credit facility.

We had total borrowings under our revolving credit facility of $69.5 million at June 30, 2005, and an unrestricted cash balance of $18.3 million. Maximum borrowings on the revolving credit facility are $125.0 million, subject to a $15.0 million limit for letters of credit. The credit agreement includes an option to increase the amount of available credit to $150.0 million from $125.0 million, subject to the lead bank's approval. Borrowings under the revolving credit facility may be used to finance working capital requirements, acquisitions and for general corporate purposes, including capital expenditures. Most acquisitions require the approval of our bank group. Our credit agreement was amended in March and August 2005 to revise certain financial covenants, while our senior notes were amended in August 2005 to revise certain financial covenants. Other terms of the credit agreement and senior notes remained substantially unchanged.

As of June 30, 2005, our principal commitment under the revolving credit facility was $7.0 million due in 2005 and $62.5 million due in 2008, while our principal commitment under the senior notes was $7.5 million, $27.5 million and $20.0 million due in 2008, 2011 and 2014, respectively. We also had purchase commitments totaling approximately $3.7 million at June 30, 2005, primarily for manufacturing equipment.

We believe that sufficient resources will be available to satisfy our cash requirements for at least the next twelve months. 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 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, 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, 2004. There have been no significant changes in our critical accounting policies during the first six months of 2005.

**Forward-looking Statements**

This quarterly report, and our other oral and 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 you should not place undue reliance on these forward-looking statements.

A number of significant factors could materially affect our specific business operations, and cause our performance to differ materially from any future results projected or implied by our prior statements.

Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results include:

- Disruptions in the timely supply or availability of raw materials such as steel and component parts, and changes to the demands of our customers' schedules for finished goods, could delay, increase the cost or otherwise impair our ability to efficiently manage production schedules, adversely affecting our revenues, expenses or earnings;
- Increases in the cost of raw materials such as steel or component parts could increase our working capital committed to such materials and parts, work in process and finished goods, and could cause delays in payment from, or other difficulties for, our customers who are impacted by such costs;
- The cost, efficiency and yield of our operations, including changes in product mix and any associated variances in our profit margins; cost and inefficiencies associated with increasing our manufacturing capacity and launching new programs; our ability to successfully reduce the causes, amounts and costs related to the scrap levels, overtime rates, or expediting costs in our production processes; our ability to achieve expected annual savings or other synergies from past and future business combinations; inventory risks due to shifts in market demand, obsolescence, price erosion of raw material or component parts, shrinkage, or other factors affecting our inventory valuations; production delays due to equipment downtime; or our ability to successfully manage growth beyond our productive capacity, contraction, cyclical downturns or competitive pressures in our primary markets, including the commercial vehicle or aerospace & defense electronics markets, or in the domestic or global economies;
- Our discovery of, or failure to discover, material issues during due diligence investigations of acquisition targets, either before closing with regard to potential risks of the acquired operations, or, after closing with regard to the timely discovery of breaches of representations or warranties, or of certain indemnified environmental conditions;
- The failure to agree on the final terms of any definitive agreements, long-term supply agreements, collective bargaining agreements, or related agreements or any party's breach of, or refusal to close the transactions reflected in, those agreements;
- Access to capital on favorable terms as needed for our operations or growth, including changes in the costs or supply of debt, equity capital, or insurance coverages, whether resulting from adverse changes in our operations, our financial results, the risk profile of our businesses, our credit ratings, any actual or alleged breach of our debt covenants, insurance conditions or similar agreements, or any adverse regulatory developments;
- Our concentrated reliance on major customers, suppliers or programs, including any changes, delays, or cancellations by the government or other customers which impact our major programs, or any revisions in the timing of shipments, prices or the estimated costs related to our major contracts;
- The Company's dependence on its current management and our ability to successfully recruit and retain qualified employees as needed to manage our businesses in a changing business environment, including during rapid changes in the size, complexity or skills required of our workforce; labor disputes or other deteriorations in our labor relations; or changes in the cost of providing pension and other employee benefits, including changes in health care costs, investment returns on plan assets, and discount rates used to calculate pension and related liabilities, which could lead to increased costs or disruptions of operations in any of our business units;

- The risks inherent in operating abroad, including foreign currency exchange rates, adverse regulatory developments, and miscommunications or errors due to inaccurate foreign language translations;
- The risk of changes in or adverse actions under applicable law or in our regulatory authorizations, licenses, security clearances, or other legal rights to operate our businesses, manage our work force or import and export goods and services as needed; any change in our accounting policies or practices; the risk of litigation, including litigation with respect to customer, creditor, stockholder, environmental or asbestos-related matters, customer or supplier claims, or stockholders; or the risk of other adverse regulatory actions, costs of compliance with regulatory or contractual obligations; or other governmental sanctions;
- The risks relating to war and future terrorist activities or political uncertainties which could change the timing and availability of funding for the aerospace & defense electronics markets that we serve or impact the cost or feasibility of doing business domestically or abroad;
- Disruptions or cost increases of utilities such as electricity, natural gas or water, the occurrence of natural disasters, casualties, or our failure to anticipate or to adequately insure against other risks and uncertainties present in our businesses including unknown or unidentified risks; and
- Other factors included in our filings with the Securities and Exchange Commission.

This list of factors that may affect our future performance or the accuracy of our forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

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 you of 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 and foreign currency exchange rates. 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 (2.0% at June 30, 2005) based upon our leverage ratio. An increase in interest rates of 100 basis points would result in additional interest expense approximating $695,000 on an annualized basis, based upon our debt outstanding at June 30, 2005. Historically, fluctuations in foreign currency exchange rates have not materially impacted our earnings, fair values or cash flows, because the vast majority of our transactions are denominated in U.S. dollars. Inflation has not been a significant factor in our operations in any of the periods presented; however, there can be no assurance that the growth in our Industrial Group’s business combined with significant increases in 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.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

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

The Company's Annual Meeting of Stockholders was held on April 26, 2005 in Louisville, Kentucky. At the meeting, stockholders elected three Class III directors for a term of three years pursuant to the following votes:

| Class III Director | Votes in Favor | Votes Withheld |
|---|---|---|
| William G. Ferko | 16,835,990 | 107,839 |
| Jeffrey T. Gill | 16,506,434 | 437,395 |
| Sidney R. Peterson | 16,504,428 | 439,400 |

The total number of shares of common stock outstanding as of March 9, 2005, the record date of the Annual Meeting of Stockholders, was 17,982,914.

### ITEM 5. OTHER INFORMATION

On August 3, 2005, our credit agreement and senior notes were amended to revise certain financial covenants. Other terms of the credit agreement and senior notes remained substantially unchanged. The amendment to our credit agreement and senior notes agreement is included at Exhibit 10.1 and 10.2, respectively.

Effective August 1, 2005, the Company amended the terms of the Two-Year Restricted Stock Award Agreement, the 1-3-5 Year Restricted Stock Award Agreement, and the Long-term Incentive Program and Form of Long-term Incentive Award Agreements previously filed as Exhibits 10.2, 10.3 and 10.4 to the Company's Form 8-K filed on June 27, 2005, primarily in order to provide certain dividend and voting rights to restricted shares granted under the programs, to make the programs respective forfeiture and vesting terms more consistent, as well as, to add performance requirements to certain awards, substantially in the form of Exhibits 10.8, 10.9 and 10.10 to this Form 10-Q.

## ITEM 6. EXHIBITS

(a) Exhibits:

| Exhibit Number | Description |
|---|---|
| 10.1 | 2005B Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated March 10, 2005 (Commission File No. 000-24020). |
| 10.2 | 2005C Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated August 3, 2005 (Commission File No. 000-24020). |
| 10.3 | 2005A Amendment to Note Purchase Agreement between The Guardian Life Insurance Company of America, Connecticut General Life Insurance Company, Life Insurance Company of North America, Jefferson Pilot Financial Insurance Company, Jefferson-Pilot Life Insurance Company, Jefferson Pilot LifeAmerica Insurance Company, and Sypris Solutions, Inc. dated as of August 3, 2005 (Commission File No. 000-24020). |
| 10.4 | Sypris Solutions, Inc. Incentive Bonus Plan (July 1, 2005 – December 31, 2005) (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)). |
| 10.5 | Form of Two-Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)). |
| 10.6 | Form of 1-3-5 Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)). |
| 10.7 | Long-term Incentive Program and Form of Long-term Incentive Award Agreements for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)). |
| 10.8 | Amended Form of Two-Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (Commission File No. 000-24020). |
| 10.9 | Amended Form of 1-3-5 Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (Commission File No. 000-24020). |
| 10.10 | Amended Executive Long-Term Incentive Program and Alternate Form of Executive Long-Term Incentive Award Agreements for Grants to Executive Officers and Other Key Employees (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. |

**SIGNATURES**

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

| | | |
|---|---|---|
| | | SYPRIS SOLUTIONS, INC.<br>(Registrant) |
| Date: August 5, 2005 | By: | /s/ T. Scott Hatton |
| | | (T. Scott Hatton)<br>Vice President & Chief Financial Officer |
| Date: August 5, 2005 | By: | /s/ Anthony C. Allen |
| | | (Anthony C. Allen)<br>Vice President & Chief Accounting Officer |

**Exhibit 10.1**

2005B AMENDMENT TO LOAN DOCUMENTS

THIS 2005B AMENDMENT TO LOAN DOCUMENTS (this "Amendment"), is made and entered into as of May 10, 2005, by and among (i) JP MORGAN CHASE BANK, N.A. (successor by merger to BANK ONE, NA with its main office in Chicago, Illinois), a national banking association (the "Agent Bank") (JP MORGAN CHASE BANK, N.A. may also be referred to as a "Bank"); (ii) the BANKS identified on Schedule 1.1 hereto (each a "Bank" and collectively, the "Banks"); (iii) SYPRIS SOLUTIONS, INC., a Delaware corporation, with its principal office and place of business and registered office in Louisville, Jefferson County, Kentucky (the "Borrower") and (iv) the GUARANTORS identified on Schedule 1.2 hereto (each a "Guarantor" and collectively, the "Guarantors").

P R E L I M I N A R Y   S T A T E M E N T:

A. Certain of the Guarantors and their Affiliates entered into a Loan Agreement dated as of March 21, 1997, with the Agent Bank (the "Original Loan Agreement"), whereby the Agent Bank extended in favor of the Guarantors a revolving line of credit in the amount of $20,000,000, a term loan in the amount of $10,000,000 and a swing line of credit subfacility in the amount of $5,000,000.

B. The predecessors to the Borrower and certain of the Guarantors entered into a 1997A Amended and Restated Loan Agreement dated as of November 1, 1997, with the Agent Bank (the "1997A Loan Agreement"), whereby the Agent Bank increased the revolving line of credit to $30,000,000 and the term loan to $15,000,000 and provided the swing line of credit subfacility in the amount of $5,000,000. The 1997A Loan Agreement was subsequently amended by, among other amendments, the 1998A Amendment to Loan Documents dated as of February 18, 1998.

C. The Borrower, certain of the Guarantors, the Agent Banks and the Banks entered into the 1999 Amended and Restated Loan Agreement dated as of October 27, 1999 (the "1999 Loan Agreement"), which amended, restated and replaced the Original Loan Agreement and the 1997A Loan Agreement, as amended. The 1999 Loan Agreement provided for (i) a revolving line of credit in the amount of $100,000,000, (ii) a swing line subfacility of $5,000,000 and (iii) a letter of credit subfacility of $15,000,000. The 1999 Loan Agreement was subsequently amended by the 2000A Amendment to Loan Documents dated as of November 9, 2000 (the "2000A Amendment").

D. The Borrower, certain of the Guarantors, the Agent Bank and the Banks entered into the 2001A Amendment to Loan Documents dated as of February 15, 2001 and having an effective date of December 31, 2000 (the "2001A Amendment") in order to (i) change certain financial covenants and (ii) make certain other changes as set forth therein.

E. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2002A Amendment to Loan Documents dated as of December 21, 2001 and having an effective date of January 1, 2002 (the “2002A Amendment”) in order to (i) to restructure, reorganize and/or rename, as applicable, certain of the Guarantors, and to add a Guarantor and (ii) to amend the 1999 Loan Agreement and other Loan Documents to reflect such changes in the Guarantors and (iii) make certain other changes as set forth therein.

F. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2002B Amendment to Loan Documents dated as of July 3, 2002 (the “2002B Amendment”) in order to (i) increase the revolving line of credit to $125,000,000, (ii) add a new participant Bank and (iii) make certain other changes as set forth therein.

G. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2003A Amendment to Loan Documents dated as of October 16, 2003 (the “2003A Amendment”) in order to (i) extend the maturity of the line of credit from January 2, 2005 to October 16, 2008, (ii) to add a new Section 2.1G to the Loan Agreement providing a mechanism for Borrower to increase its line of credit by an additional $25,000,000 and (iii) to make certain other changes as set forth therein.

H. The Agent Bank and the Banks in May 2004 consented to the Borrower’s issuance of $55,000,000 of senior notes pursuant to a note purchase agreement.

I. The Borrower in April 2004 created a new subsidiary, Sypris Technologies Kenton, Inc., a Delaware corporation (“STK”), and the Agent Bank and the Banks consented to the creation of STK as a subsidiary, on the condition that STK become a Guarantor under the Loan Agreement. STK became a Guarantor under the Loan Agreement by executing and delivering to the Agent Bank a Guaranty Agreement dated June 1, 2004, guarantying the obligations of the Borrower to the Banks (the “STK Guaranty”).

J. The Borrower in June 2004 requested that the Banks consent to the Borrower’s acquisition of a facility in Toluca, Mexico (the “Toluca Facility”). The Banks consented to the acquisition of the Toluca Facility. The Borrower created the following second tier subsidiary and third tier subsidiaries related to the Toluca Facility: (i) Sypris Technologies Mexican Holdings, LLC (the interests of which are held by Sypris Technologies, Inc.) and (ii) Sypris Technologies Mexico, S. de R.L. de C.V. and Sypris Technologies Toluca, S.A. de C.V. (the interests of which are held by Sypris Technologies Mexican Holdings, LLC and Sypris Technologies, Inc.) (all of the foregoing Subsidiaries are referred to as the “Toluca Subsidiaries”).

K. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2005A Amendment to Loan Documents dated as of March 10, 2005 (the “2005A Amendment”) in order to among other things, (i) to include provisions related to the Borrower’s issuance of $55,000,000 of senior notes in May 2004, (ii) to amend one of the financial covenants of the Loan Agreement, (iii) to include a provision related to the

Toluca Facility and (iv) to make certain other changes. The 1999 Loan Agreement, as amended by the 2000A Amendment, 2001A Amendment, the 2002A Amendment, the 2002B Amendment, the 2003A Amendment and the 2005A Amendment, is referred to herein as the “Loan Agreement.”

L. The Borrower, the Guarantors, the Agent Bank and the Banks wish to amend the Loan Documents to extend a deadline for taking certain action with respect to the Toluca Subsidiaries. Terms not defined herein shall have the meanings set forth in the Loan Agreement.

M. Subject to the terms set forth herein, the Banks are agreeable to the amendments to the Loan Documents set forth herein.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements set forth herein and for other good and valuable consideration, the mutuality, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. AMENDMENT TO LOAN AGREEMENT.

A. Agreement Related to Toluca Subsidiaries. Notwithstanding the requirement of the Loan Agreement that all Subsidiaries of the Borrower become Guarantors, the Borrower, the Guarantors, the Banks and the Agent Bank agree that the Toluca Subsidiaries are not required to become Guarantors under the Loan Agreement at any time prior to August 10, 2005 (the “Deadline”) but that the Toluca Subsidiaries must become Guarantors by the Deadline unless other alternative arrangements (such as a pledge of the interests in the Toluca Subsidiaries to the Agent Bank for the benefit of the Banks) reasonably satisfactory to the Agent Bank have been made prior to such Deadline. This provision supersedes and replaces a similar provision in the 2005A Amendment with respect to the Toluca Subsidiaries.

2. RATIFICATION. Except as specifically amended by the provisions hereinabove, the Loan Documents remain in full force and effect. The Borrower and Guarantors reaffirm and ratify all of their respective obligations to Agent Bank and the Banks under all of the Loan Documents, as amended and modified hereby, including, but not limited to, the Loan Agreement, the Guaranty Agreements, the Negative Pledge Agreement and all other agreements, documents and instruments now or hereafter evidencing and/or pertaining to the Loan Agreement. Each reference to all or any of the Loan Documents contained in any other of the Loan Documents shall be deemed to be a reference to such Loan Document, as modified hereby.

3. REPRESENTATIONS, WARRANTIES, AND COVENANTS OF THE BORROWER. To induce the Agent Bank and the Banks to enter into this Amendment, the Borrower represents and warrants to Agent Bank and the Banks as follows:

A. The Borrower has full power, authority, and capacity to enter into this Amendment, and this Amendment constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its respective terms.

B. No uncured Event of Default under the Notes or any of the other Loan Documents has occurred which continues unwaived by the Agent Bank, and no Potential Default exists as of the date hereof.

C. The Person executing this Amendment on behalf of the Borrower is duly authorized to do so.

D. The representations and warranties made by the Borrower in any of the Loan Documents are hereby remade and restated as of the date hereof.

E. Except as previously disclosed to the Agent Bank or disclosed in the Borrower’s filings with the Securities and Exchange Commission, copies of which have been provided previously to the Agent Bank, there are no material actions, suits, legal, equitable, arbitration or administrative proceedings pending or threatened against the Borrower, the adverse determination of which could have a material adverse effect on the Loan Documents, the business operations or financial condition of the Borrower and the Guarantors taken as a whole, or the ability of the Borrower to fulfill its obligations under the Loan Documents.

4. <u>REPRESENTATIONS, WARRANTIES, AND COVENANTS OF THE GUARANTORS</u>. To induce the Agent Bank and the Banks to enter into this Amendment, the Guarantors represent and warrant to the Agent Bank and the Banks as follows:

A. each Guarantor has full power, authority, and capacity to enter into this Amendment, and this Amendment constitutes the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with their terms.

B. the Person executing this Amendment on behalf of each Guarantor is duly authorized to do so.

C. the representations and warranties made by each Guarantor in any of the Loan Documents are hereby remade and restated as of the date hereof.

D. except as previously disclosed to the Agent Bank, there are no material actions, suits, legal, equitable, arbitration or administrative proceedings pending or threatened against any Guarantor, the adverse determination of which could have a material adverse effect on the Loan Documents, the business operations or financial condition of the Borrower and the Guarantors taken as a whole or the ability of any Guarantor to fulfill its obligations under the Guaranty Agreement.

5. MISCELLANEOUS.

A. Amendment and Other Fees and Expenses. The Borrower agrees to pay to or for the account of the Agent Bank, whichever is applicable, upon the closing of this Amendment (i) any recording or filing fees incurred by Agent Bank in connection with this Amendment, and (ii) the reasonable fees and expenses of Agent Bank's counsel in negotiating, drafting and closing this Amendment, and related documents up to the amount set forth in a letter from Bank's counsel to the Borrower and agreed to by Borrower.

B. Illegality. In case any one or more of the provisions contained in this Amendment should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

C. Changes in Writing. No modification, amendment or waiver of any provision of this Amendment nor consent to any departure by the Borrower or any of the Guarantors therefrom, will in any event be effective unless the same is in writing and signed by the Agent Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

D. Successors and Assigns. This Amendment will be binding upon and inure to the benefit of the Borrower, the Guarantors, the Agent Bank and the Banks and their respective successors and assigns; provided, however, that neither the Borrower nor the Guarantors may assign this Amendment in whole or in part without the prior written consent of the Agent Bank, and the Agent Bank and the Banks at any time may assign this Amendment in whole or in part, as provided in Section 11 of the Loan Agreement.

E. Counterparts. This Amendment may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Agent Bank, each Bank, the Borrower and each Guarantor has caused this Amendment to be duly executed as of the day and year first above written.

JP MORGAN CHASE BANK, N.A.
(successor by merger to BANK ONE, NA with main office in Chicago, Illinois), as the Agent Bank

By ______________________________

J. Duffy Baker
First Vice President

JP MORGAN CHASE BANK, N.A.
(successor by merger to BANK ONE, NA with main office in Chicago, Illinois), as a Bank

By ______________________________

J. Duffy Baker
First Vice President

BANK OF AMERICA, N.A.
as a Bank

By ______________________________

Jim Gaittens
Vice President

LASALLE BANK NATIONAL ASSOCIATION
as a Bank

By ______________________________

A. Mark Mital
First Vice President

SUNTRUST BANK, N.A.
as a Bank

By ______________________________

Scott T. Corley
Managing Director

U.S. BANK NATIONAL
ASSOCIATION f/k/a
FIRSTAR BANK, N.A.,
as a Bank

By ______________________________

David A. Wombwell
Senior Vice President

NATIONAL CITY BANK OF KENTUCKY
as a Bank

By ______________________________

Rob King
Senior Vice President

SYPRIS SOLUTIONS, INC. (the “Borrower”)

By ________________________________

Anthony C. Allen
Vice President and Treasurer

SYPRIS TEST & MEASUREMENT, INC., a Delaware corporation (“ST&M”)
(as a “Guarantor”)

By ________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES, INC.
a Delaware corporation (“ST”)
(as a “Guarantor”)

By ________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS ELECTRONICS, LLC,
a Delaware limited liability
company (“SE”)
(as a “Guarantor”)

By ________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation (“SDS”)
(as a “Guarantor”)

By ______________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES
MARION, LLC,
a Delaware limited liability company
(“Marion”) (as a “Guarantor”)

By ______________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES KENTON, INC.
a Delaware corporation (“STK”)
(as a “Guarantor”)

By ______________________________

Anthony C. Allen
Assistant Secretary

SCHEDULE 1.1

LIST OF BANKS

JP MORGAN CHASE BANK, N.A. (successor to BANK ONE, NA) ("JP Morgan Chase Bank")
416 West Jefferson Street
Louisville, Kentucky 40202
Attention: J. Duffy Baker, First Vice President

LASALLE BANK
NATIONAL ASSOCIATION ("LaSalle")
135 South LaSalle
Chicago, Illinois 60603
Attention: Mr. A. Mark Mital, First Vice President

BANK OF AMERICA, N.A. ("Bank of America")
Bank of America Plaza
414 Union Street, $2^{nd}$ Floor
Nashville, Tennessee 37239
Attention: Jim Gaittens, Vice President

SUNTRUST BANK, N.A. ("SunTrust")
201 Fourth Avenue North, $3^{rd}$ Floor
Nashville, Tennessee 37219
Attention: Scott T. Corley, Managing Director

U.S. BANK NATIONAL ASSOCIATION ("U.S. Bank")
1 Financial Square
Louisville, Kentucky 40202
Attention: David A. Wombwell, Senior Vice President

NATIONAL CITY BANK OF KENTUCKY("National City")
101 S. Fifth Street
Louisville, Kentucky 40202
Attention: Mr. Rob King, Senior Vice President

SCHEDULE 1.2

LIST OF GUARANTORS

SYPRIS TEST & MEASUREMENT, INC.,
a Delaware corporation (“ST&M”)
6120 Hanging Moss Road
Orlando, Florida 32807
Attention: President

SYPRIS TECHNOLOGIES, INC.,
a Delaware corporation (“ST”)
2820 West Broadway
Louisville, Kentucky 40211
Attention: President

SYPRIS ELECTRONICS, LLC, a Delaware limited
liability company (“SE”)
10901 Malcolm McKinley Drive
Tampa, Florida 33612
Attention: President

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation (“SDS”)
605 East Huntington Dr.
Monrovia, California 91016
Attention: President

SYPRIS TECHNOLOGIES MARION, LLC,
a Delaware limited liability company (“Marion”)
1550 Marion Agosta Road
Marion, Ohio 43302
Attn: President

SYPRIS TECHNOLOGIES KENTON, INC.,
a Delaware corporation (“STK”)
101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
Attention: President

**Exhibit 10.2**

2005C AMENDMENT TO LOAN DOCUMENTS

THIS 2005C AMENDMENT TO LOAN DOCUMENTS (this “Amendment”), is made and entered into as of August 3, 2005, by and among (i) JPMORGAN CHASE BANK, N.A. (successor by merger to BANK ONE, NA with its main office in Chicago, Illinois), a national banking association (the “Agent Bank”) (JPMORGAN CHASE BANK, N.A. may also be referred to as a “Bank”); (ii) the BANKS identified on Schedule 1.1 hereto (each a “Bank” and collectively, the “Banks”); (iii) SYPRIS SOLUTIONS, INC., a Delaware corporation, with its principal office and place of business and registered office in Louisville, Jefferson County, Kentucky (the “Borrower”) and (iv) the GUARANTORS identified on Schedule 1.2 hereto (each a “Guarantor” and collectively, the “Guarantors”).

P R E L I M I N A R Y   S T A T E M E N T:

A. Certain of the Guarantors and their Affiliates entered into a Loan Agreement dated as of March 21, 1997, with the Agent Bank (the “Original Loan Agreement”), whereby the Agent Bank extended in favor of the Guarantors a revolving line of credit in the amount of $20,000,000, a term loan in the amount of $10,000,000 and a swing line of credit subfacility in the amount of $5,000,000.

B. The predecessors to the Borrower and certain of the Guarantors entered into a 1997A Amended and Restated Loan Agreement dated as of November 1, 1997, with the Agent Bank (the “1997A Loan Agreement”), whereby the Agent Bank increased the revolving line of credit to $30,000,000 and the term loan to $15,000,000 and provided the swing line of credit subfacility in the amount of $5,000,000. The 1997A Loan Agreement was subsequently amended by, among other amendments, the 1998A Amendment to Loan Documents dated as of February 18, 1998.

C. The Borrower, certain of the Guarantors, the Agent Banks and the Banks entered into the 1999 Amended and Restated Loan Agreement dated as of October 27, 1999 (the “1999 Loan Agreement”), which amended, restated and replaced the Original Loan Agreement and the 1997A Loan Agreement, as amended. The 1999 Loan Agreement provided for (i) a revolving line of credit in the amount of $100,000,000, (ii) a swing line subfacility of $5,000,000 and (iii) a letter of credit subfacility of $15,000,000. The 1999 Loan Agreement was subsequently amended by the 2000A Amendment to Loan Documents dated as of November 9, 2000 (the “2000A Amendment”).

D. The Borrower, certain of the Guarantors, the Agent Bank and the Banks entered into the 2001A Amendment to Loan Documents dated as of February 15, 2001 and having an effective date of December 31, 2000 (the “2001A Amendment”) in order to (i) change certain financial covenants and (ii) make certain other changes as set forth therein.

E. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2002A Amendment to Loan Documents dated as of December 21, 2001 and having an effective date of January 1, 2002 (the "2002A Amendment") in order to (i) to restructure, reorganize and/or rename, as applicable, certain of the Guarantors, and to add a Guarantor and (ii) to amend the 1999 Loan Agreement and other Loan Documents to reflect such changes in the Guarantors and (iii) make certain other changes as set forth therein.

F. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2002B Amendment to Loan Documents dated as of July 3, 2002 (the "2002B Amendment") in order to (i) increase the revolving line of credit to $125,000,000, (ii) add a new participant Bank and (iii) make certain other changes as set forth therein.

G. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2003A Amendment to Loan Documents dated as of October 16, 2003 (the "2003A Amendment") in order to (i) extend the maturity of the line of credit from January 2, 2005 to October 16, 2008, (ii) to add a new Section 2.1G to the Loan Agreement providing a mechanism for Borrower to increase its line of credit by an additional $25,000,000 and (iii) to make certain other changes as set forth therein.

H. The Agent Bank and the Banks in May 2004 consented to the Borrower's issuance of $55,000,000 of senior notes pursuant to a note purchase agreement.

I. The Borrower in April 2004 created a new subsidiary, Sypris Technologies Kenton, Inc., a Delaware corporation ("STK"), and the Agent Bank and the Banks consented to the creation of STK as a subsidiary, on the condition that STK become a Guarantor under the Loan Agreement. STK became a Guarantor under the Loan Agreement by executing and delivering to the Agent Bank a Guaranty Agreement dated June 1, 2004, guarantying the obligations of the Borrower to the Banks (the "STK Guaranty").

J. The Borrower in June 2004 requested that the Banks consent to the Borrower's acquisition of a facility in Toluca, Mexico (the "Toluca Facility"). The Banks consented to the acquisition of the Toluca Facility. The Borrower created the following second tier subsidiary and third tier subsidiaries related to the Toluca Facility: (i) Sypris Technologies Mexican Holdings, LLC (the interests of which are held by Sypris Technologies, Inc.) and (ii) Sypris Technologies Mexico, S. de R.L. de C.V. and Sypris Technologies Toluca, S.A. de C.V. (the interests of which are held by Sypris Technologies Mexican Holdings, LLC and Sypris Technologies, Inc.) (all of the foregoing Subsidiaries are referred to as the "Toluca Subsidiaries").

K. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2005A Amendment to Loan Documents dated as of March 10, 2005 (the "2005A Amendment") in order to among other things, (i) to include provisions related to the Borrower's issuance of $55,000,000 of senior notes in May 2004, (ii) to amend one of the financial covenants of the Loan Agreement, (iii) to include a provision related to the

Toluca Facility and (iv) to make certain other changes. The 1999 Loan Agreement, as amended by the 2000A Amendment, 2001A Amendment, the 2002A Amendment, the 2002B Amendment, the 2003A Amendment and the 2005A Amendment, is referred to herein as the “Loan Agreement.”

L. The Borrower, the Guarantors, the Agent Bank and the Banks entered into the 2005B Amendment to Loan Documents dated as of May 10, 2005 (the “2005B Amendment”) in order to extend a deadline for taking certain action with respect to the Toluca Subsidiaries.

M. The Borrower, the Guarantors, the Agent Bank and the Banks wish to amend the Loan Documents in order to restate Section 7.7 of the Loan Agreement (Ratio of Adjusted Funded Debt to EBITDA). Terms not defined herein shall have the meanings set forth in the Loan Agreement.

N. Subject to the terms set forth herein, the Banks are agreeable to the amendments to the Loan Documents set forth herein.

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements set forth herein and for other good and valuable consideration, the mutuality, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. AMENDMENT TO LOAN AGREEMENT.

A. Amendment and restatement of Section 7.7 (Ratio of Adjusted Funded Debt to EBITDA). Section 7.7 of the Loan Agreement is amended and restated in its entirety as follows:

7.7 Ratio of Adjusted Funded Debt to EBITDA. The Borrower shall not permit the ratio of Adjusted Funded Debt to EBITDA for any period of four consecutive Fiscal Quarters, to exceed the following applicable maximum ratio as of the end of any Fiscal Quarter.

| **Fiscal Quarter Ending** | **Applicable Maximum Ratio** |
|---|---|
| 6/30/05 | 3.25 to 1.00 |
| 9/30/05 | 3.75 to 1.00 |
| 12/31/05 | 3.25 to 1.00 |
| 3/31/06 and all Fiscal Quarters ending thereafter | 3.00 to 1.00 |

B. Amendment and restatement of Compliance Certificate. The Compliance Certificate is amended and restated in its entirety by the Compliance Certificate attached hereto as Exhibit A.

C. Agreement Related to Toluca Subsidiaries. Notwithstanding the requirement of the Loan Agreement that all Subsidiaries of the Borrower become Guarantors, the Borrower, the Guarantors, the Banks and the Agent Bank agree that the Toluca Subsidiaries are not required to become Guarantors under the Loan Agreement at any time prior to September 30, 2005 (the "Deadline") but that the Toluca Subsidiaries must become Guarantors by the Deadline unless other alternative arrangements (such as a pledge of the interests in the Toluca Subsidiaries to the Agent Bank for the benefit of the Banks) reasonably satisfactory to the Agent Bank have been made prior to such Deadline. This provision supersedes and replaces a similar provision in the 2005B Amendment with respect to the Toluca Subsidiaries.

2. RATIFICATION. Except as specifically amended by the provisions hereinabove, the Loan Documents remain in full force and effect. The Borrower and Guarantors reaffirm and ratify all of their respective obligations to Agent Bank and the Banks under all of the Loan Documents, as amended and modified hereby, including, but not limited to, the Loan Agreement, the Guaranty Agreements, the Negative Pledge Agreement and all other agreements, documents and instruments now or hereafter evidencing and/or pertaining to the Loan Agreement. Each reference to all or any of the Loan Documents contained in any other of the Loan Documents shall be deemed to be a reference to such Loan Document, as modified hereby.

3. REPRESENTATIONS, WARRANTIES, AND COVENANTS OF THE BORROWER. To induce the Agent Bank and the Banks to enter into this Amendment, the Borrower represents and warrants to Agent Bank and the Banks as follows:

A. The Borrower has full power, authority, and capacity to enter into this Amendment, and this Amendment constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its respective terms.

B. No uncured Event of Default under the Notes or any of the other Loan Documents has occurred which continues unwaived by the Agent Bank, and no Potential Default exists as of the date hereof.

C. The Person executing this Amendment on behalf of the Borrower is duly authorized to do so.

D. The representations and warranties made by the Borrower in any of the Loan Documents are hereby remade and restated as of the date hereof.

E. Except as previously disclosed to the Agent Bank or disclosed in the Borrower's filings with the Securities and Exchange Commission, copies of which have been provided previously to the Agent Bank, there are no material actions, suits, legal, equitable, arbitration or administrative proceedings pending or threatened against the Borrower, the adverse determination of which could have a material adverse effect on the Loan Documents, the business operations or financial condition of the Borrower and the Guarantors taken as a whole, or the ability of the Borrower to fulfill its obligations under the Loan Documents.

4. REPRESENTATIONS, WARRANTIES, AND COVENANTS OF THE GUARANTORS. To induce the Agent Bank and the Banks to enter into this Amendment, the Guarantors represent and warrant to the Agent Bank and the Banks as follows:

A. each Guarantor has full power, authority, and capacity to enter into this Amendment, and this Amendment constitutes the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with their terms.

B. the Person executing this Amendment on behalf of each Guarantor is duly authorized to do so.

C. the representations and warranties made by each Guarantor in any of the Loan Documents are hereby remade and restated as of the date hereof.

D. except as previously disclosed to the Agent Bank, there are no material actions, suits, legal, equitable, arbitration or administrative proceedings pending or threatened against any Guarantor, the adverse determination of which could have a material adverse effect on the Loan Documents, the business operations or financial condition of the Borrower and the Guarantors taken as a whole or the ability of any Guarantor to fulfill its obligations under the Guaranty Agreement.

5. MISCELLANEOUS.

A. Amendment Fee. The Borrower shall pay to the Agent Bank, for the benefit of the Banks, ratably based upon their Revolving Credit Facility Pro Rata Shares, an amendment fee in the amount of Two Hundred Fifty Thousand Dollars ($250,000).

B. Other Fees and Expenses. The Borrower shall pay to or for the account of the Agent Bank the reasonable fees and expenses of Agent Bank’s counsel in negotiating, drafting and closing this Amendment.

C. Illegality. In case any one or more of the provisions contained in this Amendment should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

D. Changes in Writing. No modification, amendment or waiver of any provision of this Amendment nor consent to any departure by the Borrower or any of the Guarantors therefrom, will in any event be effective unless the same is in writing and signed by the Agent Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

E. Successors and Assigns. This Amendment will be binding upon and inure to the benefit of the Borrower, the Guarantors, the Agent Bank and the Banks and their respective successors and assigns; provided, however, that neither the Borrower nor the Guarantors may assign this Amendment in whole or in part without the prior written consent of the Agent Bank, and the Agent Bank and the Banks at any time may assign this Amendment in whole or in part, as provided in Section 11 of the Loan Agreement.

F. Counterparts. This Amendment may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument.

G. Precondition to Effectiveness of Amendment. This Amendment shall not take effect until the Agent Bank shall have determined, to its satisfaction, that the holders of the Senior Notes have approved an amendment to the Note Purchase Agreement, changing the Consolidated Net Debt to Consolidated EBITDA covenant therein, to be no more stringent than the ratio of Adjusted Funded Debt to EBITDA covenant set forth in this Amendment. Furthermore, the Banks hereby acknowledge that the holders of the Senior Notes have amended the Note Purchase Agreement to create a Fixed Charge Coverage Ratio, which Fixed Charge Coverage Ratio shall be no more stringent than the existing Fixed Charge Ratio as established by the Banks.

H. Effective Date. Once the precondition in Section 5G hereof has been satisfied, this Amendment is intended to be effective as of June 30, 2005 and at all times thereafter.

IN WITNESS WHEREOF, the Agent Bank, each Bank, the Borrower and each Guarantor has caused this Amendment to be duly executed as of the day and year first above written.

JPMORGAN CHASE BANK, N.A.
(successor by merger to BANK ONE, NA with main office in Chicago, Illinois), as the Agent Bank

By ______________________________

J. Duffy Baker
Senior Vice President

JPMORGAN CHASE BANK, N.A.
(successor by merger to BANK ONE, NA with main office in Chicago, Illinois), as a Bank

By ______________________________

J. Duffy Baker
Senior Vice President

BANK OF AMERICA, N.A.
as a Bank

By ______________________________

Brian P. Sallee
Vice President

LASALLE BANK NATIONAL ASSOCIATION
as a Bank

By ______________________________

A. Mark Mital
First Vice President

SUNTRUST BANK, N.A.
as a Bank

By ______________________________

Scott T. Corley
Managing Director

U.S. BANK NATIONAL ASSOCIATION f/k/a
FIRSTAR BANK, N.A.,
as a Bank

By ______________________________

David A. Wombwell
Senior Vice President

NATIONAL CITY BANK OF KENTUCKY
as a Bank

By ______________________________

Rob King
Senior Vice President

SYPRIS SOLUTIONS, INC. (the “Borrower”)

By ____________________________________

Anthony C. Allen
Vice President and Treasurer

SYPRIS TEST & MEASUREMENT, INC.,
a Delaware corporation (“ST&M”)
(as a “Guarantor”)

By ____________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES, INC.
a Delaware corporation (“ST”)
(as a “Guarantor”)

By ____________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS ELECTRONICS, LLC,
a Delaware limited liability company (“SE”)
(as a “Guarantor”)

By ____________________________________

Anthony C. Allen
Assistant Secretary

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation (“SDS”)
(as a “Guarantor”)

By ____________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES MARION, LLC,
a Delaware limited liability company
(“Marion”) (as a “Guarantor”)

By ____________________________

Anthony C. Allen
Assistant Secretary

SYPRIS TECHNOLOGIES KENTON, INC.
a Delaware corporation (“STK”)
(as a “Guarantor”)

By ____________________________

Anthony C. Allen
Assistant Secretary

SCHEDULE 1.1

LIST OF BANKS

JPMORGAN CHASE BANK, N.A. (successor to BANK ONE, NA) (“JPMorgan Chase Bank”)
416 West Jefferson Street
Louisville, Kentucky 40202
Attention:J. Duffy Baker, Senior Vice President

LASALLE BANK
NATIONAL ASSOCIATION (“LaSalle”)
135 South LaSalle
Chicago, Illinois 60603
Attention: Mr. A. Mark Mital, First Vice President

BANK OF AMERICA, N.A. (“Bank of America”)
Bank of America
Middle Market Banking
414 Union Street
Nashville, Tennessee 37219
Attention: Brian P. Sallee, Vice President

SUNTRUST BANK, N.A. (“SunTrust”)
201 Fourth Avenue North, 3rd Floor
Nashville, Tennessee 37219
Attention: Scott T. Corley, Managing Director

U.S. BANK NATIONAL ASSOCIATION (“U.S. Bank”)
1 Financial Square
Louisville, Kentucky 40202
Attention: David A. Wombwell, Senior Vice President

NATIONAL CITY BANK OF KENTUCKY(“National City”)
101 S. Fifth Street
Louisville, Kentucky 40202
Attention: Mr. Rob King, Senior Vice President

SCHEDULE 1.2

LIST OF GUARANTORS

SYPRIS TEST & MEASUREMENT, INC.,
a Delaware corporation (“ST&M”)
6120 Hanging Moss Road
Orlando, Florida 32807
Attention: President

SYPRIS TECHNOLOGIES, INC.,
a Delaware corporation (“ST”)
2820 West Broadway
Louisville, Kentucky 40211
Attention: President

SYPRIS ELECTRONICS, LLC, a Delaware limited
liability company (“SE”)
10901 Malcolm McKinley Drive
Tampa, Florida 33612
Attention: President

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation (“SDS”)
605 East Huntington Dr.
Monrovia, California 91016
Attention: President

SYPRIS TECHNOLOGIES MARION, LLC,
a Delaware limited liability company (“Marion”)
1550 Marion Agosta Road
Marion, Ohio 43302
Attn: President

SYPRIS TECHNOLOGIES KENTON, INC.,
a Delaware corporation (“STK”)
101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
Attention: President

**EXHIBIT A**

**FORM OF COMPLIANCE CERTIFICATE**

This Compliance Certificate is being delivered to JPMorgan Chase Bank, N.A., as Agent Bank, pursuant to Section 6.3C of that certain Amended and Restated Loan Agreement dated as of October 27, 1999, as amended, among Sypris Solutions, Inc. as Borrower (the "Borrower"), certain Guarantors (as defined in the Loan Agreement), the Agent Bank and the Banks (as defined in the Loan Agreement) (together with all amendments, modifications and supplements thereto and all restatements thereof, the "Loan Agreement"). All capitalized terms used herein without definition shall have the meanings assigned to those terms in the Loan Agreement. The undersigned officer, on behalf of the Borrower, certifies that as of the last day of the most recently ended Fiscal Quarter of the Borrower dated ____________, 20__ (the "Compliance Date"):

1. EBIT. The Borrower's EBIT for the previous four Fiscal Quarters, determined as of the Compliance Date was ________________, calculated as follows:

| | |
|---|---|
| (a) Net Income | ______________________________ |
| (b) Interest Expense | ______________________________ |
| (c) provisions for taxes based on income | ______________________________ |
| (d) Total (a) + (b) + (c) | ______________________________ |

2. EBITDA. The Borrower's EBITDA for the previous four Fiscal Quarters, determined as of the Compliance Date was ________________, calculated as follows:

| | |
|---|---|
| (a) Net Income | ______________________________ |
| (b) Interest Expense | ______________________________ |
| (c) provisions for taxes based on income | ______________________________ |
| (d) depreciation | ______________________________ |
| (e) amortization | ______________________________ |
| (f) Total (a) + (b) + (c) + (d) + (e) | ______________________________ |

3. Fixed Charge Coverage Ratio. The Borrower's Fixed Charge Coverage Ratio for the previous four Fiscal Quarters, determined as of the Compliance Date was ________________, calculated as follows [Reference Section 7.6 of the Loan Agreement]:

(a) EBIT (from 1(d)) ____________________

(b) Operating Lease Rentals ____________________

(c) (a) + (b) ____________________

(d) Interest Expense ____________________

(e) (b) + (d) ____________________

(f) (c) ÷ (e) ____________________

Required: The total in 3(f) must be equal to or greater than the applicable Minimum Ratio set forth below as of the end of the applicable Fiscal Quarter set forth below:

| Fiscal Quarter Ending | Applicable Minimum Ratio |
|---|---|
| 3/31/05 | 1.25 to 1.00 |
| 6/30/05 | 1.25 to 1.00 |
| 9/30/05 | 1.25 to 1.00 |
| 12/31/05 | 1.50 to 1.00 |
| 3/31/06 | 1.75 to 1.00 |
| 6/30/06 and thereafter | 2.00 to 1.00 |

4. Ratio of Adjusted Funded Debt to EBITDA. The ratio of the Borrower's Adjusted Funded Debt to EBITDA for the previous four Fiscal Quarters, determined as of the Compliance Date was ________________, calculated as follows [Reference Section 7.7 of the Loan Agreement]:

(a) Adjusted Funded Debt ____________________

(b) EBITDA (from 2(f)) ____________________

(c) (a) ÷ (b) ____________________

Required: The Borrower shall not permit the total in 4(c) for any period of four consecutive Fiscal Quarters, to exceed the following applicable maximum ratio as of the end of any Fiscal Quarter.

| Fiscal Quarter Ending | Applicable Maximum Ratio |
|---|---|
| 6/30/05 | 3.25 to 1.00 |
| 9/30/05 | 3.75 to 1.00 |
| 12/31/05 | 3.25 to 1.00 |
| 3/31/06 and all Fiscal Quarters ending thereafter | 3.00 to 1.00 |

5. Minimum Net Worth. The Borrower's Net Worth for the previous Fiscal Quarter, determined as of the Compliance Date was _______________ calculated as follows [Reference Section 7.8 of the Loan Agreement]:

| | |
|---|---|
| (a) Net Worth as of Compliance Date | ______________________ |
| (b) 85% of Net Worth as of 9/26/99 | ______________________ |
| (c) 50% of Net Income earned in each Fiscal Quarter ended subsequent to Closing Date | ______________________ |
| (d) 100% of equity raised or contributed | ______________________ |
| (e) (b) + (c) + (d) | ______________________ |

Required: The total in 5(a) must be equal to or greater than the total in 5(e).

6. Other Covenants. The Borrower has not, during the proceeding Fiscal Quarter ending on the Compliance Date, violated any of the other covenants contained in Sections 6 and 7 of the Loan Agreement.

The undersigned officer of the Borrower executing and delivering this Compliance Certificate on behalf of the Borrower further certifies that he has reviewed the Loan Agreement and has no knowledge of any event or condition which constitutes a Potential Default or an Event of Default under the Loan Agreement or the other Loan Documents other than [if any Potential Default or Event of Default has occurred, describe the same, the period of existence thereof and what action the Borrower has taken or propose to take with respect thereto].

IN WITNESS THEREOF, the Borrower, through a duly authorized officer, has executed this Compliance Certificate this __ day of __________, 20__.

SYPRIS SOLUTIONS, INC.

By ______________________________

Title: ______________________________

(the “Borrower”)

**Exhibit 10.3**

**SYPRIS SOLUTIONS, INC.**

**FIRST AMENDMENT**
**TO NOTE PURCHASE AGREEMENT**

$7,500,000 4.73% Senior Notes, Series A
Due June 30, 2009

$27,500,000 5.35% Senior Notes, Series B
Due June 30, 2011

$20,000,000 5.78% Senior Notes, Series C
Due June 30, 2014

Dated as of August 3, 2005

To the Holders of the Senior Notes
of Sypris Solutions, Inc.
Named in the Attached Schedule I

Ladies and Gentlemen:

Reference is made to the Note Purchase Agreement dated as of June 1, 2004 (the “Note Agreement”) among Sypris Solutions, Inc., a Delaware corporation (the “Company”), and each of the Purchasers named in Schedule A thereto pursuant to which the Company issued $7,500,000 aggregate principal amount of its 4.73% Senior Notes, Series A, due June 30, 2009, $27,500,000 aggregate principal amount of its 5.35% Senior Notes, Series B, due June 30, 2011 and $20,000,000 aggregate principal amount of its 5.78% Senior Notes, Series C, due June 30, 2014 (together, the “Notes”). You are referred to herein individually as a “Holder” and collectively as the “Holders.” Capitalized terms used and not otherwise defined in this First Amendment to Note Purchase Agreement (this “Amendment”) shall have the meanings ascribed to them in the Note Agreement, as amended hereby.

The Company has requested the amendment of Section 10.1 (Consolidated Net Debt) of the Note Agreement to better conform to its operations and its bank facility. The Holders have agreed to modify the Note Agreement on the terms and conditions set forth herein.

In consideration of the premises and for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Company and the Holders agree as follows:

**1. AMENDMENTS TO NOTE AGREEMENT**

1.1. Amendment of Section 10.1. Section 10.1 of the Note Agreement is amended to read in its entirety as follows:

**"10.1 Consolidated Net Debt; Fixed Charge Coverage Ratio.**

(a) The Company will not permit the ratio of Consolidated Net Debt to Consolidated EBITDA (for the Company's then most recently completed four fiscal quarters) as of the last day of any fiscal quarter to be greater than the following:

(i) 3.25 to 1.00 for the period of four fiscal quarters ending June 30, 2005;

(ii) 3.75 to 1.00 for the period of four fiscal quarters ending September 30, 2005;

(iii) 3.25 to 1.00 for the period of four fiscal quarters ending December 31, 2005; and

(iv) 3.00 to 1.00 for the period of four fiscal quarters ending March 31, 2006 and for the period of four fiscal quarters ending on each fiscal quarter thereafter.

If, during the period for which Consolidated EBITDA is being calculated, the Company or a Subsidiary has (i) acquired one or more Persons (or the assets thereof) or (ii) disposed of one or more Subsidiaries (or substantially all of the assets thereof), Consolidated EBITDA shall be calculated on a pro forma basis (including adjustments to reflect consolidation savings) as if all of such acquisitions and all such dispositions had occurred on the first day of such period."

(b) The Company shall not permit the Fixed Charge Coverage Ratio for any fiscal quarter to fall below the following applicable ratio calculated as of the end of the applicable fiscal quarter set forth below:

| Fiscal Quarter Ending | Applicable Minimum Ratio |
|---|---|
| 3/31/05 | 1.25 to 1.00 |
| 6/30/05 | 1.25 to 1.00 |
| 9/30/05 | 1.25 to 1.00 |
| 12/31/05 | 1.50 to 1.00 |
| 3/31/06 | 1.75 to 1.00 |
| 6/30/06 and thereafter | 2.00 to 1.00" |

1.2. Schedule B. The following defined terms are added to Schedule B:

**"EBIT"** means, as the end of any fiscal quarter, the sum of the amounts for such period of the Company's (i) Consolidated Net Income, (ii) Consolidated Interest Expense and (iii) provisions for taxes based on income for the previous four fiscal quarters, determined on a consolidated basis in accordance with GAAP.

**"Fixed Charge Coverage Ratio"** means, as of any date, the ratio of (i) the sum of the Company's EBIT plus Operating Lease Rentals to (ii) the sum of the Company's Consolidated Interest Expense, plus Operating Lease Rentals.

**"Operating Lease Rentals"** means the periodic expense for the portion of obligations with respect to non-capital leases determined on a consolidated basis in accordance with GAAP.

**2. REAFFIRMATION; REPRESENTATIONS AND WARRANTIES**

2.1. Reaffirmation of Note Agreement. The Company reaffirms its agreement to comply with each of the covenants, agreements and other provisions of the Note Agreement and the Notes, including the additions and amendments of such provisions effected by this Amendment.

2.2. Note Agreement. The Company represents and warrants that the representations and warranties contained in the Note Agreement are true and correct as of the date hereof, except (a) to the extent that any of such representations and warranties specifically relate to an earlier date and (b) for such changes, facts, transactions and occurrences that have arisen since June 1, 2004 in the ordinary course of business, (c) such other matters as have been previously disclosed in writing by the Company (including in its financial statements and notes thereto) to the Holders and (d) other changes that could not reasonably be expected to have a Material Adverse Effect, except for changes in Indebtedness permitted by the Note Agreement.

2.3. No Default or Event of Default. After giving effect to the transactions contemplated hereby, there will exist no Default or Event of Default.

2.4. Authorization. The execution, delivery and performance by the Company of this Amendment have been duly authorized by all necessary corporate action and do not require any registration with, consent or approval of, notice to or action by, any Person (including any Governmental Authority) in order to be effective and enforceable. The Note Agreement and this Amendment each constitute the legal, valid and binding obligations of the Company, enforceable in accordance with their respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

**3. EFFECTIVE DATE**

This Amendment shall become effective as of the date set forth above upon the satisfaction of the following conditions:

3.1. Consent of Holders to this Amendment. Execution by the Holders of at least a majority of the aggregate principal amount of the Notes outstanding and receipt by the Holders of a counterpart of this Amendment duly executed by the Company.

3.2. Amendment Fee. Each Holder shall have received payment of an amendment fee equal to 0.20% of the principal amount of the outstanding Notes held by such Holder.

3.3. Expenses. The Company shall have paid all fees and expenses of special counsel to the Holders.

**4. MISCELLANEOUS**

4.1. Ratification. The Note Agreement, as amended hereby, shall remain in full force and effect and is ratified, approved and confirmed in all respects.

4.2. Reference to and Effect on the Note Agreement. Upon the final effectiveness of this Amendment, each reference in the Note Agreement and in other documents describing or referencing the Note Agreement to the "Agreement," "Note Agreement," "hereunder," "hereof," "herein," or words of like import referring to the Note Agreement, shall mean and be a reference to the Note Agreement, as amended hereby.

4.3. Binding Effect. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto.

4.4. Governing Law. This Amendment shall be governed by and construed in accordance with Illinois law, excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

4.5. Counterparts. This Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but altogether only one instrument.

**IN WITNESS WHEREOF**, the Company and the Holders have caused this Amendment to be executed and delivered by their respective officer or officers thereunto duly authorized.

SYPRIS SOLUTIONS, INC.

By: ______________________________

Name: ______________________________

Title: ______________________________

HOLDERS:

THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

By: ______________________________

Name: ______________________________

Title: ______________________________

CONNECTICUT GENERAL LIFE INSURANCE COMPANY

By: CIGNA Investments, Inc. (authorized agent)

By: ______________________________

Name: ______________________________

Title: ______________________________

LIFE INSURANCE COMPANY OF NORTH AMERICA

By: CIGNA Investments, Inc. (authorized agent)

By: ______________________________

Name: ______________________________

Title: ______________________________

JEFFERSON PILOT FINANCIAL INSURANCE COMPANY

By: ______________________________

Name: ______________________________

Title: ______________________________

JEFFERSON-PILOT LIFE INSURANCE COMPANY

By: ______________________________

Name: ______________________________

Title: ______________________________

JEFFERSON PILOT LIFEAMERICA INSURANCE COMPANY

By: ______________________________

Name: ______________________________

Title: ______________________________

## SCHEDULE I

| Holder | Principal Amount Series A | Series B | Series C |
|---|---|---|---|
| The Guardian Life Insurance Company of America | | | $ 20,000,000 |
| Connecticut General Life Insurance Company | | $ 12,000,000 | |
| Life Insurance Company of North America | | 8,000,000 | |
| Jefferson Pilot Financial Insurance Company | $ 6,000,000 | | |
| Jefferson-Pilot Life Insurance Company | | 5,000,000 | |
| Jefferson Pilot LifeAmerica Insurance Company | 1,500,000 | 2,500,000 | |

# STANDARD TERMS OF AWARDS GRANTED UNDER THE TWO YEAR RESTRICTED STOCK PROGRAM ("PROGRAM") OF THE 2004 SYPRIS EQUITY PLAN ("PLAN")

**1. Awards** – All "Awards" granted under this Program will be Restricted Shares subject to, and governed by, the terms of the Plan, this Program and a valid, executed Award Agreement.

**2. Shares** – Initially, each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth herein. Shares will be held by the Company until their Vesting Dates, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote, and receive (subject to applicable Rules) cash dividends on, unvested Shares.

**3. Taxes** – The Participant must arrange for tax withholding in accordance with applicable Rules, to the satisfaction of the Committee, or immediately surrender then-vested Shares of equivalent market value.

**4. Vesting** – One hundred percent of the Award shall vest on the second anniversary of the Grant Date (the "Vesting Date"), unless forfeited before such Vesting Date; provided that in the event of death, all unvested Awards will be immediately vested.

**5. Forfeiture** – Each Restricted Share will terminate, expire and be forfeited as provided in Article V of the Plan. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)

**6. Leaves of Absence** – The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or on an approved leave of absence as a period of employment for purposes of the accrual of rights hereunder. Retiring after age 65 or qualifying to receive long-term disability benefits under the Company's then-current policies shall be approved leaves of absence.

**7. No Other Rights** – The Awards include no other rights beyond those expressly provided in the Plan, this Program or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.

**8. Definitions** – Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.

# STANDARD TERMS OF AWARDS GRANTED UNDER THE 1-3-5 RESTRICTED STOCK PROGRAM ("PROGRAM") OF THE 2004 SYPRIS EQUITY PLAN ("PLAN")

**1. Awards** – All "Awards" granted under this Program will be Restricted Shares subject to, and governed by, the terms of the Plan, this Program and a valid, executed Award Agreement.

**2. Shares** – Initially, each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth herein. Shares will be held by the Company until their Vesting Dates, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote, and receive (subject to applicable Rules) cash dividends on, unvested Shares.

**3. Taxes** – The Participant must arrange for tax withholding in accordance with applicable Rules, to the satisfaction of the Committee, or immediately surrender then-vested Shares of equivalent market value.

**4. Vesting** – Thirty percent of the Award shall vest on each of its first and third anniversaries of the Grant Date, and forty percent of the Award shall vest on the fifth anniversary of the Grant Date (each anniversary, a "Vesting Date"), unless forfeited before such Vesting Date; provided that in the event of death, all unvested Awards will be immediately vested.

**5. Forfeiture** – Each Restricted Share will terminate, expire and be forfeited as provided in Article V of the Plan. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)

**6. Leaves of Absence** – The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or on an approved leave of absence as a period of employment for purposes of the accrual of rights hereunder. Retiring after age 65 or qualifying to receive long-term disability benefits under the Company's then-current policies shall be approved leaves of absence.

**7. No Other Rights** – The Awards include no other rights beyond those expressly provided in the Plan, this Program or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.

**8. Definitions** – Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.

# EXECUTIVE LONG-TERM INCENTIVE

## AWARD AGREEMENT (ALTERNATE FORM)

### NON-QUALIFIED STOCK OPTIONS

Effective as of ______ ("Grant Date"), the Company hereby grants to **[Employee]** certain rights to purchase up to: **[# of Shares]** total Option Shares for **$[Price]** per Share until **[6th Anniversary of Grant Date]** ("Expiration Date") on the Terms of this Agreement, the attached Program, and the 2004 Sypris Equity Plan ("Plan") as follows:

| Vesting Dates | # of Options Vesting | Option Prices | Expiration Dates |
|---|---|---|---|
| [3rd Anniversary] | 30% | $ ____ | [6th Anniversary] |
| [4th Anniversary] | 30% | $ ____ | [6th Anniversary] |
| [5th Anniversary] | 40% | $ ____ | [6th Anniversary] |

### RESTRICTED STOCK

Effective as of ______ ("Grant Date"), the Company hereby grants to **[Employee]** certain rights to ownership of up to: **[# of Shares]** total Restricted Shares on the Terms of this Agreement, the attached Program, and the 2004 Sypris Equity Plan ("Plan") as follows:

| Vesting/Forfeiture Dates and Performance Criteria | # of Shares to be Vested or Forfeited |
|---|---|
| As of ______, the Company has reported net income of $______, for any fiscal year ending after the Grant Date.* | 33% |
| As of ______, the Company has reported net income of $______, for any fiscal year ending after the Grant Date.* | 33% |
| As of ______, the Company has reported net income of $______, for any fiscal year ending after the Grant Date.* | 34% |

* Subject to the Committee's final determination, that as of the dates set forth above, the criteria set forth above have been achieved as reported, independently audited and have not been materially restated thereafter, the "independent" members of the Committee (as defined in the NASD Manual) shall either approve the final vesting, or the forfeiture, of these Restricted Shares.

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

| SYPRIS SOLUTIONS, INC. | | PARTICIPANT | |
|---|---|---|---|
| **By:** | ____________ | **Signature:** | ____________ |
| **Name:** | ____________ | **Name:** | ____________ |
| **Title:** | ____________ | **Title:** | ____________ |

**STANDARD TERMS OF AWARDS GRANTED UNDER THE 2005 EXECUTIVE LONG-TERM INCENTIVE PROGRAM OF THE 2004 SYPRIS EQUITY PLAN**

1. **PURPOSE OF THE PROGRAM.** The Company's Executive Long-Term Incentive Program ("ELTIP") under the 2004 Sypris Equity Plan ("Plan") shall be effective for all Awards incorporating these Terms on or after July 1, 2005, to advance the Company's growth and prosperity by providing long-term financial incentives to its executives, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines.

2. **AWARDS.** Each ELTIP Participant will be eligible to receive an annual Award of Options and an annual Award of Restricted Shares as determined by the Committee.

3. **OPTIONS.** Initially, each "Option" is the right to purchase one Option Share at the Option Price, from its Vesting Date until its Expiration Date or forfeiture (subject to adjustments per the Plan). Options must be exercised with 48 hours advance written notice, unless waived by the Company.

   3.1. Option Price. "Option Price" means the closing price per Option Share on the Grant Date. The Option Price is payable to the Company in cash or any other method of payment authorized by the Committee in its discretion, which may include Stock (valued as the closing price per Share on the exercise date) or vested Options (valued as the closing price per Share on the exercise date, less the Option Price), in each case in accordance with applicable Rules. Similarly, the Participant must arrange for tax withholding in accordance with applicable Rules, to the satisfaction of the Committee.

   3.2. Option Shares. Initially, each "Option Share" is one Share of the Common Stock (subject to adjustments per the Plan). Option Shares may be certificated upon request, with any legends required by applicable Rules.

   3.3. Option Vesting. Unless otherwise determined by the Committee, Option Awards will vest 30% on the third anniversary of its Grant Date, 30% on the fourth anniversary of its Grant Date and 40% on the fifth anniversary of its Grant Date (each such anniversary, a "Vesting Date"), unless forfeited before such Vesting Date.

   3.4. Expiration Date. Each Option's "Expiration Date" will be the sixth anniversary of its Grant Date.

4. **RESTRICTED SHARES.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.

4.1. Restricted Share Vesting. Unless otherwise determined by the Committee, grants of Restricted Shares will vest approximately 33% on the third anniversary of its Grant Date, 33% on the fifth anniversary of its Grant Date and 34% on the seventh anniversary of its Grant Date (each such anniversary, a "Vesting Date"), unless forfeited before such Vesting Date.

4.2. Distribution. All Restricted Shares will be held by the Company until their Vesting Dates, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.

**5. ANNUAL REVIEW**. The Committee will review the terms and conditions of the ELTIP annually in February of each year. The Committee will also review and approve of the Award to be granted to each Participant for the then current year, taking into consideration the (i) Participant's contribution to the Company, (ii) results of the most recent national compensation survey data, and (iii) Company's performance with respect to the achievement of its long-term strategic goals, including those relating to market and customer share, geographic expansion, portfolio mix, capital structure and financial strength, managerial development, capital markets, financial variability and risk profile.

**6. REDUCTION IN JOB RESPONSIBILITIES**. If a Participant's job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the ELTIP with respect to future Awards, unless otherwise determined by the Committee.

**7. RETIREMENT OR DISABILITY**. In the event of any retirement after age 65 or qualification to receive long-term disability benefits under the Company's then current policies, such retirement or disability period shall be treated as a period of employment for purposes of the accrual of rights hereunder, including any vesting or exercise rights.

**8. LEAVES OF ABSENCE**. The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.

**9. OTHER TERMINATIONS**. If employment is terminated other than for retirement, death or disability, each unvested Option or Restricted Share will be forfeited immediately and the Participant will have up to thirty (30) days in which to exercise any vested Options. In the event of death, all unvested Awards will be immediately vested, and the Participant's representative or estate shall have one (1) year in which to exercise any Options.

**10. ADMINISTRATION**. The Committee shall have complete authority to administer or interpret the ELTIP or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the ELTIP or any Award Agreements (including to establish or amend any rules regarding the ELTIP that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the ELTIP will be final.

**11. MISCELLANEOUS.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.

11.1. No Other Rights. The Awards include no other rights beyond those expressly provided in the Plan, the ELTIP or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.

11.2. Taxes. The Participant must pay in cash, surrender Shares or Options of then-equivalent value, or otherwise arrange (to the Committee's satisfaction) for all tax withholding obligations related to any Award.

11.3. Delegation. The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.

**Exhibit 31(i).1**

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

I, Jeffrey T. Gill, certify that:

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

Date: August 5, 2005

By: /s/ Jeffrey T. Gill

Jeffrey T. Gill
President & Chief Executive Officer

**Exhibit 31(i).2**

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

I, T. Scott Hatton, certify that:

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

Date: August 5, 2005

By: /s/ T. Scott Hatton

T. Scott Hatton
Vice President & Chief Financial Officer

**Exhibit 32**

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

In connection with the Quarterly Report of Sypris Solutions Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions Inc., that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: August 5, 2005 | By: | /s/ Jeffrey T. Gill |
| | | Jeffrey T. Gill<br>President & Chief Executive Officer |
| Date: August 5, 2005 | By: | /s/ T. Scott Hatton |
| | | T. Scott Hatton<br>Vice President & Chief Financial Officer |

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

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