
**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**Amendment No. 1 to
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
(502) 329-2000**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Jeffrey T. Gill
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Telephone (502) 329-2000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 other than securities offered in connection with dividend or interest reinvestment plans, check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated March 11, 2004

PROSPECTUS

3,000,000 Shares



Common Stock

We are offering 3,000,000 shares of our common stock. Our common stock is quoted on the Nasdaq National Market under the symbol SYPR. On March 10, 2004, the last reported sale price for our common stock on the Nasdaq National Market was \$18.41 per share.

Investing in our common stock involves risks. See "[Risk Factors](#)" beginning on page 5.

	<i>Per share</i>	<i>Total</i>
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds, before expenses, to Sypris Solutions, Inc.	\$	\$

The underwriters have a 30-day right to purchase up to an additional 450,000 shares of our common stock from us to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. It is illegal for any person to tell you otherwise.

Needham & Company, Inc.

Robert W. Baird & Co.

Raymond James

The date of this prospectus is _____, 2004.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. We are not, and the underwriters are not, making an offer to sell or seeking offers to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of these securities.

In this prospectus, “Sypris,” “SYPR,” “we,” “us” and “our” refer to Sypris Solutions, Inc. and its subsidiaries and predecessors, collectively. “Sypris Solutions” and “Sypris” are our trademarks. All other trademarks, servicemarks or trade names referred to in this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

This summary highlights our business and other selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making an investment decision. You should read the entire prospectus carefully, including our financial statements and other information included or incorporated by reference in this prospectus, before deciding to invest. This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in those forward-looking statements as a result of factors described under the heading "Risk Factors" and elsewhere in this prospectus.

Our Business

We are a diversified provider of outsourced services and specialty products. We perform 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 & assemblies, and for users of test & measurement equipment. Revenue from our three core markets accounted for approximately 94% of our revenue during the year ended December 31, 2003, while revenue from our outsourced services accounted for approximately 83% of our revenue. We expect these percentages to increase in the future.

We focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We develop strong partnerships with industry leaders who embrace multi-year contractual relationships as a strategic component of their supply chain management and have the potential for long-term growth. The quality of these contracts, many of which are sole-source by part number and which are for terms of up to eight years, enable us to invest in leading-edge technologies to help our customers remain competitive.

The investments we make in advanced manufacturing and process technologies in support of our contracts provide us with the productivity, flexibility, capabilities and economies of scale that help differentiate us from the competition when it comes to cost, quality, reliability and customer service. For example, between 2000 and 2003 we invested approximately \$59 million to expand and automate the services we provide to our customers in the truck components & assemblies market. The automation substantially increased our output per man hour and the integration of new machining capabilities with our existing operations should enable us to reduce labor and shipping costs and minimize cycle times for our customers. In addition, the ability to use these assets to meet the production needs of a number of customers should help us to balance our risk and increase capacity utilization, thereby further reducing our total cost of production.

We have established positions of leadership in each of our core markets, which consist of the following:

Aerospace & Defense Electronics. We have been a supplier of manufacturing and technical services to major aerospace & defense companies and agencies of the U.S. Government for over 37 years. Our customers include Boeing Company, General Dynamics Corporation, Honeywell International, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation and Raytheon Company. We manufacture complex circuit cards, high-level assemblies and subsystems for applications where performance, precision and reliability are critical, including missile guidance systems, satellite communications systems and avionics. We also have a long-term relationship with the National Security Agency to design and build secure communications equipment and write encryption software. The defense budget for fiscal 2004 contains provisions to increase spending for missiles, smart weapons, sensors, surveillance, intelligence and secure communications, areas for which we have long provided essential services and products. Our aerospace & defense electronics business accounted for approximately 51% of net revenue in 2003.

Truck Components & Assemblies. We are the principal supplier of manufacturing services for the forging and machining of medium and heavy-duty truck axle shafts in North America. We provide these services under

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multi-year, sole-source contracts with ArvinMeritor, Inc. and Dana Corporation, the two primary providers of drive train assemblies for the leading truck manufacturers, including Ford Motor Company, Freightliner LLC, Mack Trucks, Inc., Navistar International Corporation, PACCAR, Inc. and Volvo Truck Corporation. We also supply Visteon Corporation with light axle shafts for Ford's F150, F250, F350 and Ranger series pickup trucks, Ford Expedition, Lincoln Navigator and the Ford Mustang GT. We continue to support our customers' strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies. Our truck components & assemblies business accounted for approximately 31% of net revenue in 2003.

Test & Measurement Services. We provide technical services for the calibration, certification and repair of test & measurement equipment in the U.S. Our customers include AT&T Corporation, Bose Corporation, Lucent Technologies, Inc., Nokia Corporation, Siemens AG, TRW Inc. and Tyco International, Ltd., which utilize these services to ensure their equipment is maintained in accordance with the requirements of certain manufacturing and quality assurance standards. We are the sole provider of calibration, certification and repair services for equipment used by the Federal Aviation Administration to maintain the radar systems and directional beacons at each of the airports it serves in the U.S., the Caribbean and the South Pacific. We also have a sole-source relationship with the National Weather Service to calibrate and certify the equipment that is used to maintain the NEXRAD Doppler radar systems at each of its advanced warning weather service radar stations. We also have a multi-year contract with AT&T Corporation to provide calibration and certification services at over 300 of its central and field switching locations. We are seeing an increased interest by large companies in awarding multi-site contracts for calibration services in order to accelerate vendor reduction programs and reduce costs. Our test & measurement services business accounted for approximately 12% of net revenue in 2003.

We believe the trend toward outsourcing is continuing because outsourcing frequently represents a more efficient, lower cost means for producing a product or delivering a service. We believe that our core markets will experience even greater growth in outsourcing in response to industry consolidation and global competition as companies increasingly embrace the use of outsourcing specialists as a strategic means to enhance operating flexibility, reduce costs, preserve capital and gain access to advanced manufacturing and process technologies.

Our objective is to increase our leadership position in each of our core markets. We intend to serve our customers and achieve this objective by continuing to:

- concentrate on our core markets;
- dedicate our resources to support strategic partnerships;
- pursue the strategic acquisition of customer-owned assets;
- grow through the addition of new value-added services; and
- invest to increase our competitiveness and that of our partners.

We believe that by maintaining a concentrated focus, we will benefit as companies increasingly favor outsourcing specialists who have the financial, managerial and capital resources to assume an increasingly greater role in the management of their supply chains.

Recent Developments

On December 31, 2003, we completed the first phase of a proposed two-phase transaction with Dana in which we entered into a new eight-year agreement to supply a wide range of drive train components to Dana for the light, medium and heavy-duty truck markets. In connection with this agreement, we acquired the property, plant, and equipment as well as certain component inventories associated with Dana's manufacturing plant in Morganton, North Carolina. In the proposed second phase of the transaction, which is evidenced by a letter of intent dated August 25, 2003, we expect to enter into an eight-year agreement with Dana for the supply of forged

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and machined components for use in the medium and heavy-duty truck markets effective as of the closing, which is expected to occur during 2004. As part of the proposed transaction, we plan to acquire a portion of Dana's manufacturing campus in Toluca, Mexico and certain production equipment currently located at other Dana facilities in the U.S.

On January 13, 2004, we signed a letter of intent with ArvinMeritor to supply trailer axle beams and a variety of drive train components to ArvinMeritor under a series of multi-year agreements, the first of which is expected to commence during 2004, with the balance expected to occur during the next two to three years in accordance with a predetermined transition plan. As part of the proposed transaction, we plan to acquire ArvinMeritor's Kenton, Ohio plant that specializes in the manufacture of trailer axle beams. In addition, the proposed transaction provides for a five-year extension of an existing five-year supply agreement that is otherwise expected to expire on December 31, 2004 under which we supply ArvinMeritor with axle shafts for medium and heavy-duty trucks.

The proposed agreements with Dana and ArvinMeritor remain subject to due diligence and board approvals among other contingencies, and in the case of ArvinMeritor's Kenton plant, the negotiation and approval of a new union collective bargaining agreement.

We are organized as a Delaware corporation. Our principal executive office is located at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222, and our telephone number is (502) 329-2000. We maintain a corporate web site at www.sypris.com. The information on our web site is not part of this prospectus.

The Offering

Unless otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their over-allotment option to purchase up to 450,000 additional shares of our common stock from us.

Common stock offered by Sypris Solutions, Inc. 3,000,000 shares

Common stock to be outstanding after this offering 17,329,753 shares

Use of proceeds The proceeds from the common stock offering will be used to pay down our credit facility. Available funds from our credit facility will be used for any completion of pending and future acquisitions and for general corporate purposes.

Nasdaq National Market symbol SYPR

Common stock to be outstanding after this offering is based on 14,329,753 shares outstanding as of March 3, 2004 and excludes options to purchase 2,330,566 shares of our common stock exercisable at a weighted average exercise price of \$9.06 per share and 1,358,995 shares of common stock reserved for future grant or issuance under our equity incentive compensation plans. Because of the expiration of our existing plans in 2004, a new equity incentive plan will be proposed by the Board of Directors for stockholder approval at our annual meeting on April 27, 2004. If approved, this plan would authorize the issuance of an additional 3,000,000 shares of common stock over the next ten years.

Summary Consolidated Financial Data
(in thousands, except per share data)

We derived the summary financial information below as of December 31, 2003 and for each of the years ended December 31, 2001, 2002 and 2003 from our audited financial statements included elsewhere in this prospectus.

The as adjusted information reflects the application of the net proceeds from the sale of 3,000,000 shares of our common stock in this offering at an assumed public offering price of \$18.41 per share, after deducting underwriting discounts and estimated offering expenses payable by us, and the repayment of \$51.7 million in outstanding debt.

	Years Ended December 31,		
	2001	2002	2003
Consolidated Income Statement Data:			
Net revenue	\$ 254,640	\$ 273,477	\$ 276,605
Gross profit	43,547	49,521	46,012
Operating income	13,030	18,956	14,941
Net income	6,367	11,439	8,135
Earnings per common share:			
Basic	\$ 0.65	\$ 0.87	\$ 0.57
Diluted	\$ 0.63	\$ 0.84	\$ 0.56
Shares used in computing earnings per common share:			
Basic	9,828	13,117	14,237
Diluted	10,028	13,664	14,653
December 31, 2003			
	<u>Actual</u>	<u>As Adjusted</u>	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 12,019	\$ 12,019	
Working capital	80,516	80,516	
Total assets	263,495	263,495	
Current portion of long-term debt	3,200	—	
Long-term debt, net of current portion	53,000	4,471	
Total stockholders' equity	144,781	196,510	

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all the other information in this prospectus before making an investment decision about our common stock. If any of the following risks actually occurs, our business, operating results or financial condition could be materially adversely affected, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Our business is dependent on multi-year contracts which contain terms that could negatively affect our future financial results.

A material portion of our business is conducted under multi-year contracts, which do not include minimum purchase requirements. As a result, we cannot predict the demand for our services and products under these contracts. In many instances, we may be required to make investments in order to service potential future requirements under these contracts and we may not be able to make those investments or those investments may prove to be less profitable than we anticipate. In general, under our contracts, start-up costs, the management of labor and equipment resources in connection with the establishment of new programs and any inability to accurately project required resources could adversely affect our gross margins, operating results and capital resources.

A substantial part of our revenue is derived from manufacturing services in which we provide material sourcing, procurement, testing and assembly, among other functions. In our aerospace & defense business, we sometimes bear the risk of component price increases, which could increase costs and reduce our operating income. The majority of our contracts are fixed-price type contracts. Under this type of contract, we bear the inherent risk that actual performance cost may exceed the fixed contract price. This is particularly true where the contract was awarded and the price finalized in advance of final completion of design. For these and other reasons, including competitive pressures attendant to the bidding process under which many of our U.S. Government contracts are awarded, contracts we enter into may prove to be unprofitable.

Several of our multi-year contracts have provisions that specify price reductions on a periodic basis during the life of the contract. Our ability to control costs, achieve productivity improvements and develop new processes will be essential if we are to maintain our profit margins during future reductions of prices under these contracts. If we are unable to offset these reductions in price with savings through increased operating efficiencies or from other sources, our financial performance will suffer.

In connection with certain of our multi-year contracts, we use the percentage of completion method of accounting, which involves substantial estimation processes, including estimates of future costs to complete contracts. Revisions of estimates are reflected in operating results in the period in which the factors causing the revisions become known. Accordingly, operating results are subject to the effect of these revisions.

Our multi-year contracts, some of which require a significant capital investment, may be terminated or our customers may delay orders under these contracts, which would reduce our revenues, cash flows and expected return on investment.

We often provide manufacturing services and products under contracts that contain detailed specifications, quality standards and other terms that we must comply with in performing our contract obligations. If we are unable to perform in accordance with the terms of any contract, the customer could seek to terminate that contract, or, at a minimum, downgrade our past performance rating, which increasingly has become the determinative factor among offerors in federal procurement competitions. Moreover, most of our U.S. Government contracts are subject to termination by the U.S. Government either at its convenience or upon our default. Termination-for-convenience provisions provide only for the recovery of costs incurred or committed, settlement expenses and profit on work completed prior to termination. Termination-for-default provisions

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provide only for the recovery of costs incurred for accepted items, and impose liability on the contractor for excess costs incurred by the U.S. Government in reprocurring undelivered items from another source. If any of our significant contracts were to be terminated or not renewed, we would lose substantial revenues and our operating results, as well as prospects for future business opportunities would be adversely affected.

We, like other government contractors, are subject to various audits, reviews and investigations, including private party “whistleblower” lawsuits, relating to our compliance with federal and state laws. Generally, claims arising out of these U.S. Government inquiries and voluntary disclosures can be resolved without resorting to litigation. However, should the business involved be charged with wrongdoing, or should the U.S. Government determine that the unit or division is not a “presently responsible contractor,” that business, and conceivably our company as a whole, could be temporarily suspended or, in the event of a conviction, debarred for up to three or more years from receiving new government contracts or government-approved subcontracts.

We are required to make substantial capital investments in order to supply manufacturing services to customers launching new programs. If a new program in which a substantial investment had been made were to be delayed or terminated, we could lose the benefit of the associated start-up costs, as well as the anticipated revenues from the program, and our operating results could be harmed. Moreover, the inability or unwillingness of any customer to perform under a significant contract, particularly certain of our multi-year contracts, could materially and adversely affect our financial condition and results of operations.

The demand for our services and products is subject to the needs of our customers, which could vary dramatically, resulting in reduced revenues and operating results.

Our customer orders can fluctuate dramatically for a variety of reasons, including anticipated and unanticipated product life cycle durations, new product introductions, unanticipated facility shutdowns by our customers and competitive conditions in our customers’ industries. These fluctuations may be in the form of reductions, delayed delivery or complete cancellations. Many of our customers will not commit to firm production schedules for more than one week in advance and we may be requested to accommodate delivery schedule modifications. As a result, we may be unable to accurately forecast the level of our customers’ service and product requirements, which in turn may affect, and in some instances impair, our ability to maintain stable utilization of our manufacturing capacity and manage our inventories. In addition, we have at times been required to increase or decrease staffing and incur other expenses to meet the fluctuating demands of our customers. Finally, many of our costs and operating expenses are fixed so that a reduction in customer demand could harm our gross profit and operating income. The fluctuation, cancellation and deferral of customers’ orders have had an adverse effect on our operating results in the past and there can be no assurance that we will not experience such effects in the future.

We recently entered into a multi-year supply agreement with Dana and we may sign additional multi-year contracts, but these contracts may not be successful.

We are looking for strategic opportunities to grow our business through multi-year supply agreements. In this regard, we recently signed an eight-year supply agreement with Dana and acquired a facility in Morganton, North Carolina along with certain manufacturing assets. Even when an acquired facility has already developed and marketed products, the products may not continue to be successful, product enhancements may not be made in a timely fashion and pre-acquisition due diligence may not have identified all possible issues that might arise with respect to the acquired facility or its products. Evaluating our business and prospects may be difficult because of the impact of the recent Dana transaction. There can be no assurance that we will be successful in integrating the operations associated with these transactions.

Failure to complete or achieve expected levels of revenue for our recently-proposed transactions could have a negative effect on us.

We have previously announced two proposed transactions which involve the acquisition of certain assets in Toluca, Mexico and Kenton, Ohio from Dana and ArvinMeritor, respectively, in connection with multi-year

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supply agreements. Our management has spent, and intends to continue to spend, significant resources to close these transactions. Our failure to close on one or both of these transactions, or our failure to realize the levels of revenue and return on investment expected from these transactions, could have a negative effect on our results of operations and ability to grow and expand our business. Because the extension of our existing supply agreement with ArvinMeritor from 2005 through the end of 2009 is an integral part of our proposal to acquire ArvinMeritor's Kenton facility, our failure to acquire that facility could negatively affect our negotiations to extend this supply agreement beyond 2004.

We have a high degree of dependence on the aerospace & defense and truck components & assemblies industries, and any negative developments in these industries could have a material adverse impact on our business.

We are dependent upon the continued growth, viability and financial stability of our customers, which are in turn substantially dependent upon the growth, viability and financial stability of the industries in which they operate, including the aerospace & defense and truck components & assemblies industries. These industries have been characterized by technological change and shortened product life cycles and recently have experienced pricing and profit pressures. In addition, our customers are affected by general economic conditions. Adverse changes in the industries in which our customers operate or a loss of market share by our customers could have a material adverse effect on our operating results. Our business may also be adversely affected by changes in funding levels for certain government programs and the manner in which services and products are acquired under these programs.

The aerospace & defense industries have historically been subject to cyclicality. Congress recently approved a supplemental appropriation in response to the war in Iraq, a significant portion of which is expected to be spent on defense. However, the overall U.S. military budget declined in real dollars from the mid-1980s through the late-1990s and the missile electronics component of the budget declined in absolute dollars during the first half of the 1990s. Any significant decline in defense spending, or changes in the allocations of defense appropriations, particularly in the areas of missile systems and secured electronic communications systems, could have an adverse impact on our results of operations.

We provide manufacturing services for a number of companies that supply components and subassemblies for use in the manufacture of medium and heavy-duty trucks, including ArvinMeritor and Dana. The automotive and truck markets are highly cyclical and can be subject to dramatic swings in demand, including changes in demand related to the onset of new government regulations. According to America's Commercial Transportation (ACT) Publications, the market for medium and heavy-duty trucks has declined significantly from the highs experienced in 1999, resulting in a decrease in production levels of approximately 37% from 1999 to 2003. The trucking industry has been impacted by the general downturn in the economy, the existence of large volumes of high quality used equipment, a lack of credit availability to expand fleets, higher fuel prices and driver wages and rising insurance costs. Should these factors continue in the future, the further decline in these markets could have an adverse impact on our results of operations. Many of our customers in this industry are undergoing restructuring, which creates uncertainty and therefore risk for our business.

Most of our sales come from a small number of customers and many of these customers are in industries that are experiencing recent consolidation. If we lose any of our customers, our net revenue could decline significantly.

Our five largest customers accounted for approximately 50% and 51% of our net revenue in 2002 and 2003, respectively. The aerospace & defense electronics industry, in particular, has been characterized by consolidation in the last several years. If any of our significant customers were to be involved in a business combination, it is possible that, subject to the terms of our multi-year supply agreements, the combined entity might choose to terminate business with us or originate new business with our competitors. If one or more of our major customers does not engage us to provide additional services and products, or if it reduces the amount of our services and

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products that it uses, and we are not able to sell our services and products to new customers at comparable levels, our revenue could decline materially. In addition, the non-payment or late payment of amounts due from our major customers could adversely affect us.

We generate a substantial amount of revenue from sales to agencies of the federal government, which can be negatively impacted by budgetary constraints and Congressional priorities.

We sell manufacturing services and products to a number of government agencies, which in the aggregate represented approximately 16% and 18% of net revenue during 2002 and 2003, respectively. We also serve as a contractor for a number of large aerospace & defense companies, including Boeing, General Dynamics, Honeywell, Lockheed Martin, Northrop Grumman and Raytheon, that participate in federally funded programs. Sales to these companies, in the aggregate, represented approximately 32% and 29% of net revenue during 2002 and 2003, respectively. Performance under government contracts has certain inherent risks that could have an adverse impact on our business, results of operations and financial condition.

Government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress typically appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year. As a result, at the beginning of a major program, a contract is typically only partially funded and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years. Due to the recent armed conflicts in Iraq and Afghanistan and other political and economic factors, future levels of defense spending cannot be predicted and delays or declines or changes in U.S. military expenditures could adversely affect our business, results of operations and financial condition, depending upon the programs affected, the timing and size of the changes, and our ability to offset the impact with new business or cost reductions.

Our success is substantially dependent upon the continuing trend of our customers to purchase the manufacturing services and products we provide.

Our success in originating business is dependent upon the continuing belief by our customers that outsourcing the services and products we provide is a means to reduce excess capacity, lower costs, improve quality and/or increase balance sheet productivity. Should structural or other changes occur in the industries we serve that cause outsourcing to be less attractive, our financial results could be harmed.

The markets for our services and products are subject to technological change. Our failure to respond timely or adequately to those changes may render our existing technology less competitive or obsolete, and our operating results may suffer.

The markets for our services and products are characterized by changing technology and continuing process development. The future success of our business will depend in large part upon our ability to maintain and enhance our technological capabilities, make required capital investments, develop and market services and products that meet changing customer needs, and successfully anticipate or respond to technological changes on a cost-effective and timely basis. We and other providers of outsourced services and products to the aerospace & defense electronics and truck components & assemblies industries could in the future encounter competition from new or revised technologies that render existing technology and equipment less competitive or obsolete. There can be no assurance that we will effectively respond to the technological requirements of the changing market, including the need for substantial additional capital expenditures that may be required as a result of those changes and as a result, our operating results may suffer.

We face substantial competition and our failure to compete successfully will limit our ability to retain or increase our market share.

We operate in a highly competitive environment and compete against numerous domestic and foreign companies. In addition, we are dependent upon the continuing trend of original equipment manufacturers, or

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OEMs, to outsource, and we consider the internal capabilities of our customers to be a source of substantial competition. We believe that the principal competitive factors in our markets include the availability of capacity, technological capability, flexibility and timeliness in responding to design and schedule changes, price, quality, delivery and financial strength. Our net revenue could decline if our competitors or customers are able to provide comparable manufacturing services or products at a lower cost, or if we fail to make the investments in our business necessary to provide the range and quality of manufacturing services and products our customers require.

Some of our competitors are larger and have greater financial and organizational resources, larger customer bases and greater brand or name recognition than we do. As a consequence, our competitors may be better able to respond to technological changes or customer needs or finance acquisitions or internal growth. If we fail to compete successfully, we may not be able to retain or increase our market share and our business could be seriously harmed. There can be no assurance that our business will not be adversely affected by increased competition, or that we will be able to maintain our profitability if the competitive environment changes.

We purchase certain components that are available from only a limited number of suppliers and/or are subject to allocation among users, and any interruption in the supply of these components could adversely affect our profitability.

Some of our manufacturing services or products require one or more components that are available from a limited number of providers or from sole-source providers. In the past, some of the materials we use, including capacitors and memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers have been forced to allocate available quantities among their customers and we have not been able to obtain all of the materials desired. Our inability to obtain these or any other needed materials could slow production or assembly, delay shipments to our customers, increase costs and reduce operating income.

Growth in our operations may strain our resources. If we are unable to successfully manage our growth, our business could be seriously harmed.

If we are unable to successfully manage our growth or if we have problems implementing our new systems or controls, our business could be seriously harmed. This growth has placed, and our future growth may place, a significant strain on our management and other resources. To manage this growth, we will be required to implement new operational and financial systems, procedures and controls and expand and train our employee base. We cannot assure you that our management or systems will be adequate to support our existing or future operations. If we are unable to manage our growth and assimilate new operations cost effectively, our profitability could decline. Growth in our business will also likely require us to invest in manufacturing equipment to improve our manufacturing processes and efficiency. We may have limited experience or expertise in installing or operating such equipment, which could negatively impact our ability to deliver products on time or with acceptable costs. In addition, a material portion of our manufacturing equipment requires significant maintenance to operate effectively and we may experience maintenance and repair issues with our manufacturing equipment. We may also be required to relocate equipment between facilities, which could negatively impact our production processes.

Our growth strategy includes acquiring complementary businesses. Most of our acquisitions require the approval of our bank group. We cannot assure you that we will be able to successfully identify suitable acquisition opportunities or finance and complete any particular acquisition, combination or other transaction on acceptable terms and prices. Furthermore, acquisitions may involve a number of risks for us, including:

- diversion of management's attention;
- difficulties in integrating systems, operations and cultures;
- potential loss of key employees and customers of the acquired companies;
- lack of experience operating in the geographic market of the acquired business;

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- an increase in our expenses and working capital requirements;
- risks of entering into markets or producing products where we have limited or no experience, including difficulties in integrating purchased technologies and products with our technologies and products;
- our ability to improve productivity and implement cost reductions;
- our ability to secure collective bargaining agreements with employees; and
- exposure to unanticipated liabilities.

We must integrate acquisitions successfully in order to maintain profitability of the acquired businesses and operations.

If we are unable to obtain additional capital on favorable terms, our growth could be adversely affected.

Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including the pace at which we grow our business and acquire new facilities. One method we have used to obtain multi-year supply agreements is to buy a customer's non-core manufacturing assets and produce products for them. In addition to the net proceeds we will receive from this offering, we may need to raise substantial additional funds in order to grow our business. We cannot be certain that we will be able to obtain additional financing on favorable terms or at all. Additional equity financing could result in dilution to existing holders, including holders of common stock purchased in this offering. If additional financing is obtained in the form of debt, the terms of the debt could place restrictions on our ability to operate or increase the financial risk of our capital structure. Our ability to borrow under our current credit facility is conditioned upon our compliance with various financial covenants.

If we are unable to raise additional funds when needed, our ability to operate and grow our business could be impeded. Our ability to obtain additional financing will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. These factors may make the timing, amount, terms and conditions of additional financing unattractive for us.

The unavailability or increase in cost of utilities would negatively affect our business and the businesses of our customers.

We and our customers depend on a constant supply of electricity and natural gas from utility providers for the operation of our respective businesses and facilities. During the third quarter of 2003, we and many of our customers experienced a severe power outage which reduced both our ability to manufacture and deliver products and our customers' demand for products. If we or our customers experience future interruptions in service from these providers, our production and/or delivery of products will be negatively affected. Additionally, due to the heavy consumption of energy in our production process and the businesses of our customers, if the cost of energy significantly increases, our results of operations, and those of our customers, could be negatively impacted.

Our competitiveness could be challenged and our business could be negatively impacted should we fail to maintain satisfactory labor relations.

We currently have collective bargaining agreements, covering approximately 390 employees, or approximately 23% of total employees, with the United Steelworkers of America, the International Association of Machinists, the International Brotherhood of Electrical Workers, and the International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers, AFL-CIO. Although we believe overall that our relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably or that we will not experience a work stoppage, which could adversely affect our results of operations.

Due to the nature of our business, we may incur product liability claims.

We face an inherent risk of exposure to product liability claims in the event that the failure of our products results, or is alleged to result, in bodily injury or property damage. We cannot assure you that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend such claims. Although we are currently covered by insurance against product liability claims, we cannot assure you that such coverage will be adequate for liabilities ultimately incurred or that it will continue to be available on terms acceptable to us. In addition, if any of the products of which our components are a part are alleged to be defective, we may be required to participate in a recall involving such products. Each vehicle manufacturer has its own policy regarding product recalls and other product liability actions relating to its suppliers. However, as suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, vehicle manufacturers are increasingly looking to their suppliers for contribution when faced with product liability claims. A successful claim brought against us in excess of our available insurance coverage, or a requirement to participate in a product recall, may have a material adverse effect on our business.

We are subject to risks associated with environmental regulations, which expose us to potential liability.

We are subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals and substances used in our operations. If we fail to comply with present or future regulations, the following adverse effects could occur:

- we could be forced to alter manufacturing processes;
- we could be fined substantial amounts;
- our production could be suspended; or
- we could be forced to discontinue certain operations.

One method we have used to obtain multi-year supply agreements is to buy a customer's non-core manufacturing assets and produce products for them. Groundwater and other contamination has occurred at certain of our current and former facilities during the operation of those facilities by their former owners and this contamination may occur at future facilities we operate or acquire. Although we typically receive environmental indemnification agreements from previous owners of these facilities, there is no assurance that the indemnification of us by the former owners of those facilities for any contamination will be adequate to protect us from liability.

In particular, our Marion, Ohio facility is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the state voluntary action program standards applicable to the site. We continue to test and assess this site to determine the extent of this contamination by the prior owners of the facility. A leased facility we formerly occupied in Tampa, Florida is subject to remediation activities related to groundwater contamination involving methyl chloride and other volatile organic compounds which occurred prior to our use of the facility, and such contamination extends beyond the boundaries of the facility. The prior operator of the facility has entered into a consent order with the State of Florida and agreed to remediate the contamination, the full scope of which has not yet been determined. We previously acquired certain business assets formerly located at a leased facility in Littleton, Colorado, where chlorinated solvents had been disposed of on site by a prior owner of the business at the site, contaminating the groundwater at and around the site. The seller of the assets to us is operating a remediation system on the site approved by the State of Colorado and has entered into a consent order with the EPA providing for additional investigation at the site. Our Morganton, North Carolina facility is subject to soil contamination involving petroleum compounds. Under our purchase agreement for this facility, Dana has agreed to indemnify us for environmental violations that existed as of the closing provided that we notify Dana of these violations prior to December 31, 2005.

Our ability to operate effectively could be impaired if we were to lose key personnel or fail to attract and retain qualified employees.

Our future success will depend to a large extent upon the efforts and abilities of key senior management, managerial and technical employees. The loss of services of certain of these key employees could have a material adverse effect on our business. Our future success will also be influenced by our ability to continue to attract and retain qualified employees. We generally do not enter into employment agreements with our employees and have limited the use of employment agreements to executive recruitment and the retention of key management associated with an acquisition.

Risks Related to this Offering

Our stock price has been volatile, which may make it more difficult to realize a gain on your investment in our stock.

The market price of our common stock has been volatile. The value of our common stock may decline regardless of our operating performance or prospects. The trading price of our common stock could be subject to wide fluctuations in response to:

- our perceived prospects;
- variations in our operating results and our achievement of key business targets;
- changes in securities analysts' recommendations or earnings estimates;
- differences between our reported results and those expected by investors and securities analysts;
- announcements of new contracts by our competitors;
- market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors; and
- general economic or stock market conditions unrelated to our operating performance.

A small group of our existing stockholders owns a significant amount of our stock, and their interests may differ from other stockholders.

Immediately after this offering, members of the Gill family, as a group, will own approximately 49% of our common stock. As a result, the Gill family, should they vote as a group, has the ability to significantly influence the election of our board of directors or the approval or disapproval of matters submitted to a vote of stockholders, including proposals regarding any merger, consolidation or other change of control transaction or a sale of all or substantially all of our assets. Due to the expected record date for the stockholders entitled to participate in our next annual meeting, it is unlikely that shares acquired in this offering will be entitled to vote at that meeting.

Our management will have broad discretion over the use of the capital resources made available by this offering and you may not agree with the way they are used.

While we currently intend to use the net proceeds of this offering to reduce borrowings under our credit facility, we may subsequently choose to make additional borrowings under or expand that facility for a variety of purposes, including to finance acquisitions or other expansions of our business, and for general corporate purposes including any completion of the ArvinMeritor Kenton transaction and the Dana Toluca, Mexico transaction. The effect of the offering will be to increase capital resources available to our management, and our management may allocate these capital resources as it determines is necessary. You will be relying on the judgment of our management with regard to the use of the capital resources generated by this offering.

Our stock price may decline if additional shares are sold in the market after the offering.

Future sales of substantial amounts of shares of our common stock by our existing stockholders in the public market, or the perception that these sales could occur, could adversely affect the prevailing market price of our common stock and could impair our ability to raise additional capital through future sales of equity securities. Holders of 8,584,893 shares of our common stock have agreed with the underwriters to refrain from selling their shares for a period of 90 days after this offering. Increased sales of our common stock in the market after expiration of the lock-up agreements could exert significant downward pressure on our stock price.

Our anti-takeover provisions and the concentration of ownership of our common stock may deter potential acquirers and may depress our stock price.

Certain provisions of our certificate of incorporation and by-laws may discourage, delay or prevent a change of control, or changes in our management, that stockholders consider favorable. Such provisions include:

- a provision authorizing the issuance by our board of “blank check” preferred stock without any action by our stockholders;
- a classified board of directors with staggered, three-year terms; and
- a requirement for a vote of not less than 80% of voting shares outstanding to call a special meeting of stockholders.

Additionally, because members of the Gill family will continue to hold substantial voting power after the offering, they may be able to prevent most changes of control. Moreover, in 2001, we adopted a stockholder rights plan, which could substantially deter a takeover attempt on terms we deem unacceptable. Lastly, the Delaware General Corporation Law imposes limitations on persons proposing to merge with or acquire us. If a change of control or change in management is delayed or prevented, the market price of our common stock could decline.

FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements including statements concerning the future of our industries, product development, business strategy, the possibility of future acquisitions, continued acceptance and growth of our products and dependence upon significant customers. These statements can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue” or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or include other forward-looking information. You should not place undue reliance on these forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus. The risk factors noted above and other factors noted throughout this prospectus could cause our actual results to differ significantly from the results contained in any forward-looking statement.

In this prospectus, we 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 economic analysis. We have not independently verified the data and cannot assure you of the accuracy of the data we have included.

USE OF PROCEEDS

The net proceeds to us from the sale of the 3,000,000 shares of common stock offered with this prospectus will be approximately \$51.7 million, assuming a public offering price of \$18.41 per share and after deduction of the underwriting discounts and estimated offering expenses to be paid by us.

We intend to use the net proceeds from the offering to pay down outstanding debt under our credit facility. Available funds from our credit facility will be used for any completion of pending and future acquisitions and for general corporate purposes. The weighted average interest rate on borrowings under our credit facility, which expires in October 2008, was approximately 2.8% at March 3, 2004.

We may subsequently choose to make additional borrowings under or expand our credit facility for a variety of purposes, including to finance acquisitions or other business expansions.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol "SYPR." The following table sets forth, for the periods indicated, the high and low closing sale prices per share of the common stock as reported by the Nasdaq National Market.

	<u>High</u>	<u>Low</u>
Year ended December 31, 2002:		
First Quarter	\$ 16.35	\$ 12.50
Second Quarter	21.35	15.30
Third Quarter	16.03	10.00
Fourth Quarter	12.28	9.94
Year ended December 31, 2003:		
First Quarter	\$ 11.25	\$ 6.88
Second Quarter	10.75	7.50
Third Quarter	16.61	10.25
Fourth Quarter	17.75	12.78
Year ending December 31, 2004:		
First Quarter (through March 10, 2004)	\$ 21.90	\$ 17.12

The last reported sale price of our common stock on the Nasdaq National Market on March 10, 2004 was \$18.41 per share. As of March 3, 2004, there were 1,121 holders of record of our common stock.

DIVIDEND POLICY

On September 22, 2002, our Board of Directors declared an initial quarterly cash dividend of \$0.03 per common share outstanding. Cash dividends of \$0.03 per common share have been paid quarterly since the initial dividend was declared in 2002. Dividends may be paid on common stock only when, as and if declared by our Board of Directors in its sole discretion.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2003 and as adjusted to reflect the sale of 3,000,000 shares of our common stock offered by this prospectus at an assumed public offering price of \$18.41 per share, after deducting underwriting discounts and offering expenses payable by us, and the repayment of \$51.7 million in outstanding debt.

	December 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents	\$ 12,019	\$ 12,019
Current portion of long-term debt	\$ 3,200	\$ —
Long-term debt, net of current portion	\$ 53,000	\$ 4,471
Stockholders' equity:		
Preferred stock, par value \$.01 per share, 981,600 shares authorized; no shares issued	—	—
Series A preferred stock, par value \$.01 per share, 18,400 shares authorized; no shares issued	—	—
Common stock, non-voting, par value \$.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$.01 per share, 30,000,000 shares authorized; 14,283,323 shares issued and outstanding, actual; 17,283,323 shares issued and outstanding, as adjusted	143	173
Additional paid-in capital	83,541	135,240
Retained earnings	63,443	63,443
Accumulated other comprehensive income (loss)	(2,346)	(2,346)
Total stockholders' equity	144,781	196,510
Total capitalization	\$ 197,781	\$ 200,981

The outstanding share information excludes outstanding options to purchase 2,345,385 shares of common stock exercisable at a weighted-average exercise price per share, as of December 31, 2003, of \$8.96 and 1,375,011 shares of common stock reserved for future issuance under our equity incentive compensation plans. Because of the expiration of our existing plans in 2004, a new equity incentive plan will be proposed by the Board of Directors for stockholder approval at our annual meeting on April 27, 2004. If approved, this plan would authorize the issuance of an additional 3,000,000 shares of common stock over the next ten years.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition should be read together with the other financial information and consolidated financial statements included in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in the forward-looking statements as a result of a variety of factors, including those discussed in "Risk Factors" and elsewhere in this prospectus.

Overview

We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design, testing and other technical services, typically under multi-year, sole-source contracts with major companies and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment. Revenue from our three core markets accounted for approximately 94% of our revenue for the year ended December 31, 2003, while revenue from our outsourced services accounted for approximately 83% of our revenue. We expect these percentages to increase in the future.

We have four major operating subsidiaries that are grouped into two reportable segments, the Electronics Group and the Industrial Group. The Electronics Group is comprised of Sypris Data Systems, Inc., Sypris Electronics, LLC and Sypris Test & Measurement, Inc. Revenue from this group is derived primarily from the sale of manufacturing services, technical services and products to customers in the markets for aerospace & defense electronics and test & measurement services. The Industrial Group consists solely of Sypris Technologies, Inc., which generates revenue primarily from the sale of manufacturing services to customers in the market for truck components & assemblies and from the sale of products to the energy and chemical markets.

Our objective is to become the leading outsourcing specialist in each of our core markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment. We have focused our efforts on establishing long-term relationships with industry leaders who embrace multi-year contractual relationships as a strategic component of their supply chain management.

Recent Contract Awards. The pursuit of multi-year contractual relationships with industry leaders in each of our core market segments is a key component of our strategy. We focus primarily on those candidates that will enable us to consolidate positions of leadership in our existing markets, further develop strategic partnerships with leading companies, and expand our capability and capacity to increase our value-added service offerings. The quality of these contracts has enabled us to invest in leading-edge technologies that we believe will serve as an important means for differentiating ourselves in the future from the competition when it comes to cost, quality, reliability and customer service.

We recently announced the closing of a transaction with Dana as well as letters of intent for transactions we expect to close in 2004 with Dana and ArvinMeritor.

On December 31, 2003, we completed the first phase of a proposed two-phase transaction with Dana in which we entered into a new eight-year agreement to supply a wide range of drive train components for the light, medium and heavy-duty truck markets to Dana. In connection with this agreement, we acquired the property, plant, and equipment and certain component inventories associated with Dana's manufacturing plant in Morganton, North Carolina for a purchase price of approximately \$22 million. In addition, the parties agreed to a three-year extension of an existing seven-year supply agreement that we originally entered into on May 31, 2001. In the proposed second phase of the transaction, which is evidenced by a letter of intent signed on August 25, 2003, we expect to enter into an eight-year agreement with Dana for the supply of forged and machined components for use in the medium and heavy-duty truck markets effective as of the closing, which is expected to occur during 2004. As part of the proposed transaction, we plan to acquire a portion of Dana's manufacturing campus in Toluca, Mexico and certain production equipment located at other Dana facilities in the U.S. The first phase of the transaction with Dana is expected to generate approximately \$55 to \$60 million of revenue per year, or approximately \$440 million over the term of the contract while the three-year contract extension currently

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represents approximately \$50 million of revenue per year, or \$150 million over the new period. Should we complete the second phase of the transaction with Dana successfully, the total outsourcing arrangement excluding the contract extension is expected to result in revenue of approximately \$130 million per year, based upon current market conditions.

On January 13, 2004, we signed a letter of intent with ArvinMeritor to supply trailer axle beams and a variety of drive train components to ArvinMeritor under a series of multi-year agreements, the first of which is expected to close during 2004, with the balance scheduled to occur during the next two to three years in accordance with a predetermined transition plan. As part of the proposed transaction, we plan to acquire ArvinMeritor's Kenton, Ohio plant that specializes in the manufacture of trailer axle beams. In addition, the proposed transaction provides for a five-year extension of an existing five-year supply agreement that is otherwise expected to expire on December 31, 2004 under which we supply ArvinMeritor with axle shafts for medium and heavy-duty trucks. Should we complete the proposed transaction with ArvinMeritor successfully, the total outsourcing arrangement is expected to generate approximately \$75 million of revenue per year, based upon current market conditions.

The proposed second phase of the Dana transaction and the proposed ArvinMeritor transaction remain subject to due diligence, negotiation and execution of definitive agreements and board approvals among other contingencies, and in the case of ArvinMeritor's Kenton plant, the negotiation and approval of a new union collective bargaining agreement.

The expected revenues from these transactions are based upon current market volumes and neither Dana nor ArvinMeritor have an obligation to purchase a particular level of services under either the recently executed or proposed contracts and there can be no assurance that the expected revenue will be realized. The prices contained in these agreements for our services are fixed for an initial term and generally reduced thereafter in accordance with schedules contained in the agreements. We believe these price reductions will not materially affect our profitability. We purchase raw steel and fabricated steel parts for these agreements at the direction of our customers, with any periodic changes in the price of steel being reflected in the prices we are paid for our services, such that we neither benefit from nor are harmed by any future changes in the price of steel. The agreements also provide for us to share in the benefits of any cost reduction suggestions that we make that are accepted by our customers.

Accounting Policies. Our significant accounting policies are described in Note 1 to the consolidated financial statements included elsewhere in this prospectus. We believe our most critical accounting policies include revenue recognition and cost estimation on certain contracts for which we use percentage of completion methods of accounting, as described immediately below.

The complexity of the estimation process and all issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion methodologies affect the amounts reported in our financial statements. A number of internal and external factors affect our cost of sales estimates, including labor rate and efficiency variances, revised estimates of warranty costs, estimated future material prices and customer specification and testing requirement changes. If our business conditions were different, or if we used different assumptions in the application of this and other accounting policies, it is likely that materially different amounts would be reported in our financial statements.

Net Revenue. The majority of our outsourced services revenue is derived from manufacturing services contracts under which we supply products to our customers according to specifications provided under our contracts. We generally recognize revenue for these outsourced services, as well as our product sales, when we ship the products, at which time title generally passes to the customer.

Contract revenue in our Electronics Group is recognized using the percentage of completion method, generally using units-of-delivery as the basis to measure progress toward completing the contract. Revenue is recognized on these contracts when units are delivered to the customer, with unit revenue based upon unit prices as set forth in the applicable contracts. The costs attributed to contract revenue are based upon the estimated

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average costs of all units to be shipped. The cumulative average costs of units shipped to date are adjusted through current operations as estimates of future costs to complete change. Revenue under certain other multi-year fixed price contracts is recorded using achievement of performance milestones or cost-to-cost as the basis to measure progress toward completing the contract. The basis for the measurement of progress toward completion is applied consistently to contracts with similar performance characteristics. Amounts representing contract change orders or claims are included in revenue when these costs are reliably estimated and realization is probable. We recognize all other revenue as product is shipped and title passes or when the service is provided to the customer. Our net revenue includes adjustments for estimated product warranty and allowances for returns by our customers.

Generally, the percentage of completion method based on units of delivery is applied by our Electronics Group for outsourced services provided under multi-year contracts with aerospace & defense customers. Approximately 53%, 44% and 35% of total net revenue was recognized under the percentage of completion method based on units of delivery during 2001, 2002 and 2003, respectively. Approximately 5% of total net revenue was recognized under the percentage of completion method based on milestones or cost-to-cost during 2003.

Cost of Sales. Cost of sales consists primarily of our payments to our suppliers, compensation, payroll taxes and employee benefits for service and manufacturing personnel, and purchasing and manufacturing overhead costs. The contracts for which our Electronics Group recognizes net revenue under the percentage of completion method involve the use of estimates for cost of sales. We compare estimated costs to complete an entire contract to total net revenue for the term of the contract to arrive at an estimated gross margin percentage for each contract. Each month, the estimated gross margin percentage is applied to the cumulative net revenue recognized on the contract to arrive at cost of sales for the period.

These estimates require judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. These estimates are complicated and subject to many variables. Contract costs include material, labor and subcontract costs, as well as an allocation of indirect costs. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable.

Management reviews these estimates monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period in which the change is known. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. Additionally, our reserve for excess and obsolete inventory is primarily based upon forecasted demand for our products and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

Impairments. Consistent with Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets,” goodwill is tested at least annually for impairment by calculating the estimated fair value of each business with which goodwill is associated. The estimated fair value is based on a discounted cash flow analysis that requires judgment in our evaluation of the business and establishing an appropriate discount rate and terminal value to apply in the calculations. In selecting these and other assumptions, for each business we consider historical performance, forecasted operating results, general market conditions and industry considerations specific to the business. We likely would compute a materially different fair value for a business if different assumptions were used or if circumstances were to change.

We evaluate long-lived assets for impairment and assess their recoverability based upon our estimate of future cash flows. If facts and circumstances lead us to believe that the cost of one of our assets may be impaired, we will write down that carrying amount to fair value to the extent necessary. In determining an estimate of future cash flows, we consider historical performance, forecasted operating results, general market conditions and industry considerations specific to the assets. We likely would compute a materially different estimate of future cash flows if different assumptions were used or if circumstances were to change.

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Results of Operations

The tables presented below, which compare our results of operations from one year to another, present the results for each year, the change in those results from one year to another in both dollars and percentage change and the results for each year 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 year 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 year to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one year 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.”

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

	Years Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Years Ended December 31,	
	2002	2003	Favorable (Unfavorable)	Favorable (Unfavorable)	2002	2003
(in thousands, except percentage data)						
Net revenue:						
Electronics Group	\$ 186,562	\$ 180,733	\$ (5,829)	(3.1)%	68.2%	65.3%
Industrial Group	86,915	95,872	8,957	10.3	31.8	34.7
Total	273,477	276,605	3,128	1.1	100.0	100.0
Cost of sales:						
Electronics Group	148,766	144,467	4,299	2.9	79.7	79.9
Industrial Group	75,190	86,126	(10,936)	(14.5)	86.5	89.8
Total	223,956	230,593	(6,637)	(3.0)	81.9	83.4
Gross profit:						
Electronics Group	37,796	36,266	(1,530)	(4.0)	20.3	20.1
Industrial Group	11,725	9,746	(1,979)	(16.9)	13.5	10.2
Total	49,521	46,012	(3,509)	(7.1)	18.1	16.6
Selling, general and administrative	27,114	26,711	403	1.5	9.9	9.7
Research and development	3,354	4,166	(812)	(24.2)	1.3	1.5
Amortization of intangible assets	97	194	(97)	(100.0)	0.0	0.0
Operating income	18,956	14,941	(4,015)	(21.2)	6.9	5.4
Interest expense, net	2,742	1,693	1,049	38.3	1.0	0.6
Other (income) expense, net	(159)	230	(389)	NM	(0.1)	0.1
Income before income taxes	16,373	13,018	(3,355)	(20.5)	6.0	4.7
Income taxes	4,934	4,883	51	1.0	1.8	1.8
Net income	\$ 11,439	\$ 8,135	\$ (3,304)	(28.9)%	4.2%	2.9%

Net Revenue. Our backlog increased \$44.8 million to \$199.0 million at December 31, 2003, on \$321.7 million in net orders in 2003 compared to \$265.8 million in 2002. We expect to convert approximately 80% of the backlog at December 31, 2003 to revenue during 2004.

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Net revenue decreased in the Electronics Group due to lower revenue from manufacturing services, partially offset by higher revenue from other outsourced services and product sales. Manufacturing services decreased \$10.3 million because certain contracts with aerospace & defense customers were completed during 2002 which more than offset the revenue earned from new contract awards in 2003 and increased demand on certain other contracts. Net revenue from other outsourced services increased \$3.9 million in 2003 due to an increase in engineering services. Net revenue from product sales increased \$0.6 million in 2003 driven by higher quantities of data systems products, which benefited from higher spending by intelligence agencies. Backlog for our Electronics Group increased \$10.4 million to \$125.8 million at December 31, 2003, on \$191.5 million in net orders in 2003 compared to \$183.8 million in 2002. We expect to convert approximately 69% of the backlog at December 31, 2003 to revenue during 2004.

Net revenue in the Industrial Group increased due to higher sales of light axle shafts and new components for medium and heavy-duty trucks. We began full production of light axle shafts under our contract with Visteon during the second quarter of 2002 so 2003 benefited from the full year effect of this contract. In 2003, we began shipping to Dana additional drive train components parts for medium and heavy-duty trucks. Backlog for our Industrial Group increased \$34.4 million to \$73.2 million at December 31, 2003, on \$130.2 million in net orders in 2003 compared to \$82.0 million in 2002. Backlog and net orders in 2003 increased primarily due to the Dana contract that closed on December 31, 2003. We expect to convert substantially all this backlog at December 31, 2003 to revenue during 2004.

Gross Profit. Our Electronics Group experienced lower gross profit from manufacturing services and other outsourced services, partially offset by higher gross profit from products sales. Gross profit from manufacturing services decreased due to lower revenue and lower gross margins. Gross margins were lower primarily due to costs recognized during the third quarter related to warranty costs on an end-of-life program, expenses related to resolving technical problems on a custom manufacturing program and write-off of program costs related to the termination of an unprofitable contract. Gross profit from other outsourced services decreased due to lower gross margins in our test & measurement services business. Gross profit from product sales was higher due to the mix of higher value products and programs.

Gross profit for our Industrial Group decreased due to lower gross margins. Gross margins were lower due to equipment maintenance and efficiency issues for certain automated equipment and a higher concentration of lower-margin Class 5-7 truck components. The Industrial Group experienced a difficult third quarter in 2003 during which gross profit decreased \$2.3 million as compared to the third quarter of 2002. During the third quarter of 2003, productivity for the Industrial Group decreased primarily as a result of the Northeast electricity blackout in August 2003 and lower sales quantities to Visteon and Dana. These lower sales quantities were driven by Visteon's longer than normal annual plant shutdown and Dana's rebalancing of inventory levels in anticipation of a potential labor-related work stoppage.

Selling, General and Administrative. Selling, general and administrative expense decreased \$0.4 million in 2003 and decreased as a percentage of net revenue to 9.7% from 9.9% in 2002. We controlled our spending on selling, general and administrative in consideration of the 1.1% increase in net revenue from 2002 to 2003.

Research and Development. The increase in research and development costs is driven by development of a new data system product line within our Electronics Group. We expect to complete the development of these products in 2004, and sold limited quantities in 2003.

Amortization of Intangible Assets. Amortization of intangible assets increased in 2003 primarily due to certain identifiable intangible assets acquired during 2003.

Interest Expense, Net. Interest expense decreased in 2003 due to the repayment of debt and a lower weighted average interest rate. We used proceeds from our 2002 stock offering to repay \$52.5 million of our outstanding debt, reducing our weighted average debt outstanding to \$31.1 million during 2003 from \$49.8 million during 2002. The weighted average interest rate decreased to 5.4% in 2003 from 5.8% in 2002 due to the July 2003 expiration of interest rate swap rate agreements with higher than market interest rates.

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Income Taxes. Our effective income tax rate increased to 37.5% in 2003 from 30.1% for 2002. The lower effective tax rate in 2002 was primarily due to a reduction in the valuation allowance on deferred tax assets.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

	Years Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Years Ended December 31,	
	2001	2002	Favorable (Unfavorable)	Favorable (Unfavorable)	2001	2002
(in thousands, except percentage data)						
Net revenue:						
Electronics Group	\$ 207,282	\$ 186,562	\$ (20,720)	(10.0)%	81.4%	68.2%
Industrial Group	47,358	86,915	39,557	83.5	18.6	31.8
Total	254,640	273,477	18,837	7.4	100.0	100.0
Cost of sales:						
Electronics Group	169,897	148,766	21,131	12.4	82.0	79.7
Industrial Group	41,196	75,190	(33,994)	(82.5)	87.0	86.5
Total	211,093	223,956	(12,863)	(6.1)	82.9	81.9
Gross profit:						
Electronics Group	37,385	37,796	411	1.1	18.0	20.3
Industrial Group	6,162	11,725	5,563	90.3	13.0	13.5
Total	43,547	49,521	5,974	13.7	17.1	18.1
Selling, general and administrative	26,134	27,114	(980)	(3.7)	10.3	9.9
Research and development	3,054	3,354	(300)	(9.8)	1.2	1.3
Amortization of intangible assets	1,329	97	1,232	92.7	0.5	0.0
Operating income	13,030	18,956	5,926	45.5	5.1	6.9
Interest expense, net	4,111	2,742	1,369	33.3	1.6	1.0
Other (income) expense, net	(358)	(159)	(199)	(55.6)	(0.1)	(0.1)
Income before income taxes	9,277	16,373	7,096	76.5	3.6	6.0
Income taxes	2,910	4,934	(2,024)	(69.6)	1.1	1.8
Net income	\$ 6,367	\$ 11,439	\$ 5,072	79.7%	2.5%	4.2%

Net Revenue. Our backlog decreased \$8.1 million to \$154.2 million at December 31, 2002, on \$265.8 million in net orders in 2002 compared to \$242.1 million in 2001.

Net revenue decreased in the Electronics Group due to lower revenue from manufacturing services and other outsourced services. Manufacturing services decreased \$14.7 million due to lower aerospace & defense shipments during 2002 and the completion of a commercial contract in the fourth quarter of 2001. Net revenue from other outsourced services decreased \$5.4 million in 2002 due to a 16% decline in revenue for test & measurement services. Weak economic conditions and a slowdown in the telecommunications, semiconductor, and commercial avionics markets negatively affected demand for test & measurement services from our customers. Net revenue from product sales decreased \$0.6 million in 2002 due to reduced sales quantities for magnetics products. Backlog for our Electronics Group decreased \$3.1 million to \$115.4 million at December 31, 2002, on \$183.8 million in net orders in 2002 compared to \$183.5 million in 2001.

Net revenue in the Industrial Group increased \$39.6 million in 2002 due to the full year effect of the May 2001 contract with Dana and the addition of a contract with Visteon. The contract with Dana for fully machined, medium and heavy-duty truck axle shafts and other drive train components, generated outsourced services

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revenue totaling \$38.1 million in 2002, as compared to \$16.5 million in 2001. Under the contract with Visteon we began supplying light axle shafts for pickup trucks and sport utility vehicles during the first quarter of 2002. Backlog for our Industrial Group decreased \$5.0 million to \$38.8 million at December 31, 2002, on \$82.0 million in net orders in 2002 compared to \$58.6 million in 2001. Net orders in 2002 increased primarily due to the contracts with Dana and Visteon.

Gross Profit. Gross profit was higher for our Electronics Group driven by higher gross margin as compared to 2001. Gross margin increased due to cost reductions, improved manufacturing efficiencies and a more favorable revenue mix in 2002 as compared to 2001. Most of the gross margin improvement was offset in gross profit by lower revenue.

Gross profit for our Industrial Group increased due to revenue growth from contracts with Dana and Visteon. While gross margin improved in 2002 compared to 2001, we believe start-up costs and manufacturing inefficiencies related to our initial production under the Visteon contract limited the gross profit contribution from this business.

Selling, General and Administrative. Selling, general and administrative expense increased in 2002 due to the additional management and administrative infrastructure to support the growth in our Industrial Group, partially offset by reduced selling expenses in our Electronics Group. During the fourth quarter of 2002, selling, general and administrative expense was 8.8% of net revenue, primarily due to a reduction in our incentive bonus expense based on performance measures defined in our incentive plans.

Research and Development. The increase in research and development costs is driven by development of a new data system product line within our Electronics Group.

Amortization of Intangible Assets. In 2002, we amortized intangible assets other than goodwill and indefinite-lived intangible assets. We recognized substantially less amortization expense in 2002 because amortization of goodwill and indefinite-lived intangible assets ceased when we adopted SFAS No. 142 effective January 1, 2002.

Interest Expense, Net. Interest expense decreased in 2002 due to the repayment of debt and a lower weighted average interest rate. We used proceeds from our stock offering during March and April 2002 to repay \$52.5 million of our outstanding debt, reducing our weighted average debt outstanding to \$49.8 million during 2002 from \$74.5 million during 2001. The weighted average interest rate decreased to 5.8% in 2002 from 7.4% in 2001. There was no capitalized interest for 2002 as compared to \$1.8 million for 2001.

Income Taxes. Our effective income tax rate decreased to 30.1% in 2002 from 31.4% for 2001. The lower effective tax rate was due to a reduction in the valuation allowance on deferred tax assets totaling \$0.7 million in 2002 compared to \$0.3 million in 2001.

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Quarterly Results

The following table presents our unaudited condensed consolidated statements of income data for each of the eight quarters in the period ended December 31, 2003. We have prepared this data on the same basis as our audited consolidated financial statements and, in our opinion, include all normal recurring adjustments necessary for a fair presentation of this information. You should read these unaudited quarterly results in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. The consolidated results of operations for any quarter are not necessarily indicative of the results to be expected for any subsequent period.

	2002				2003			
	First	Second	Third	Fourth	First	Second	Third	Fourth
(in thousands, except per share data)								
Net revenue:								
Electronics Group	\$ 44,076	\$ 49,297	\$ 46,341	\$ 46,848	\$ 35,689	\$ 45,544	\$ 46,468	\$ 53,032
Industrial Group	18,457	24,212	24,416	19,830	23,226	25,077	22,430	25,139
Total	62,533	73,509	70,757	66,678	58,915	70,621	68,898	78,171
Cost of sales:								
Electronics Group	35,388	40,280	36,111	36,987	28,390	35,821	38,304	41,952
Industrial Group	16,016	20,347	20,672	18,155	20,574	21,759	21,025	22,768
Total	51,404	60,627	56,783	55,142	48,964	57,580	59,329	64,720
Gross profit:								
Electronics Group	8,688	9,017	10,230	9,861	7,299	9,723	8,164	11,080
Industrial Group	2,441	3,865	3,744	1,675	2,652	3,318	1,405	2,371
Total	11,129	12,882	13,974	11,536	9,951	13,041	9,569	13,451
Selling, general and administrative	6,514	7,188	7,522	5,890	6,149	7,036	6,925	6,601
Research and development	831	932	773	818	1,022	1,066	1,030	1,048
Amortization of intangible assets	51	3	21	22	21	21	67	85
Operating income	3,733	4,759	5,658	4,806	2,759	4,918	1,547	5,717
Interest expense, net	1,082	660	470	530	486	547	384	276
Other (income) expense, net	(29)	(31)	(9)	(90)	67	85	65	13
Income before income taxes	2,680	4,130	5,197	4,366	2,206	4,286	1,098	5,428
Income taxes	855	1,325	1,663	1,091	827	1,607	412	2,037
Net income	\$ 1,825	\$ 2,805	\$ 3,534	\$ 3,275	\$ 1,379	\$ 2,679	\$ 686	\$ 3,391
Earnings per common share:								
Basic	\$ 0.18	\$ 0.20	\$ 0.25	\$ 0.23	\$ 0.10	\$ 0.19	\$ 0.05	\$ 0.24
Diluted	\$ 0.17	\$ 0.19	\$ 0.24	\$ 0.23	\$ 0.10	\$ 0.19	\$ 0.05	\$ 0.23
Shares used in computing earnings per common share:								
Basic	10,169	13,971	14,121	14,151	14,184	14,213	14,241	14,267
Diluted	10,742	14,696	14,621	14,478	14,407	14,430	14,799	14,868

Liquidity, Capital Resources and Financial Condition

Net cash provided by operating activities increased \$13.7 million to \$27.3 million in 2003. We made contributions to pension plans totaling \$7.5 million in 2002, which included a voluntary contribution totaling \$5.7 million, compared to contributions totaling less than \$1.0 million in each of 2001 and 2003. Increases in our working capital resulted in a decrease in net cash flow totaling \$8.1 million, \$6.8 million and \$1.0 million in 2001, 2002 and 2003, respectively.

Net cash used in investing activities increased \$25.6 million to \$45.8 million in 2003 driven by net assets acquired totaling \$21.8 million in connection with the Dana Morganton transaction and capital expenditures for our Electronics Group and Industrial Group totaling \$10.6 million and \$11.8 million, respectively. Capital expenditures for our Electronics Group were principally comprised of manufacturing, assembly and test

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equipment. Our Industrial Group's capital expenditures included forging, machining, and centralized tooling equipment in support of our truck components & assemblies operations. Capital expenditures for the Industrial Group in 2002 and 2001 totaled \$12.0 million and \$19.5 million, respectively, which included new forging and machining equipment to increase and expand the range of production capabilities. In 2001, the Industrial Group acquired certain assets of Dana's Marion, Ohio facility for \$11.5 million, and received \$5.4 million in proceeds from sale and leaseback transactions for certain machinery and equipment. Capital expenditures for the Electronics Group in 2002 and 2001 totaled \$7.5 million and \$7.9 million, respectively. We also received \$1.4 million in 2001 for the sale of certain assets by our Electronics Group.

Net cash provided by financing activities increased \$12.4 million to \$18.2 million in 2003 due to borrowings in connection with assets acquired for the Dana Morganton contract, partially offset by \$1.7 million in dividends paid. In 2002, we received net proceeds totaling \$55.7 million from our public stock offering that was used primarily to reduce debt. In 2001, we borrowed \$22.5 million, primarily to fund capital expenditures and the acquisition of certain assets from Dana.

We had total availability for borrowings and letters of credit under the revolving credit facility of \$68.8 million at December 31, 2003, which, when combined with our unrestricted cash balance of \$12.0 million, provides for total cash and borrowing capacity of \$80.8 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 principal commitments at December 31, 2003 consisted of repayments of borrowings under the credit agreement and obligations under operating leases for certain of our real property and equipment. We also had purchase commitments totaling approximately \$3.9 million at December 31, 2003, primarily for manufacturing equipment. The following table provides information about the payment dates of our contractual obligations at December 31, 2003, excluding current liabilities except for the current portion of long-term debt (amounts in thousands):

	2004	2005	2006	2007	2008	2009 & Thereafter
Revolving credit facility	\$3,200	\$ —	\$ —	\$ —	\$ 53,000	\$ —
Operating leases	6,428	6,489	5,963	5,590	4,489	2,947
Total	\$9,628	\$6,489	\$5,963	\$5,590	\$ 57,489	\$ 2,947

We believe that, without taking into account the proceeds from this offering, 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 without taking into account the proceeds from this offering. 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.

Recent Accounting Pronouncements

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and 138. SFAS No. 133, and its subsequent amendments, requires us to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives that are not hedges must be

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adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value must be recognized currently in earnings. In 2001, we entered into interest rate swap agreements, which were deemed to be effective hedges in accordance with SFAS No. 133. These swap agreements expired in July 2003.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 141 also specifies criteria for the recognition of identifiable intangible assets separately from goodwill. We applied the provisions of SFAS No. 141 to all business combinations subsequent to the effective date.

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. We adopted the Interpretation in the fourth quarter 2003 and such adoption did not affect our financial statements.

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 (1.0% at December 31, 2003) based upon our leverage ratio. An increase in interest rates of 100 basis points would result in additional interest expense approximating \$0.6 million on an annualized basis, based upon our debt outstanding at December 31, 2003. Fluctuations in foreign currency exchange rates have historically had little impact on us 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, and it is not expected to affect operations in the foreseeable future.

BUSINESS

General

We are a diversified provider of outsourced services and specialty products. We perform 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 & assemblies, and for users of test & measurement equipment. Revenue from our three core markets accounted for approximately 94% of our revenue during the year ended December 31, 2003, while revenue from our outsourced services accounted for approximately 83% of our revenue. We expect these percentages to increase in the future.

We focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry leaders who embrace multi-year contractual relationships as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number and are for terms of up to eight years, enable us to invest in leading-edge technologies to help our customers remain competitive. The productivity, flexibility and economies of scale that result become an important means for differentiating ourselves from the competition when it comes to cost, quality, reliability and customer service.

Aerospace & Defense Electronics. We are an established supplier of manufacturing services for the production of complex circuit cards, high-level assemblies and subsystems. We have long-term relationships with many of the leading aerospace & defense contractors, including Boeing Company, General Dynamics Corporation, Honeywell International, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation and Raytheon Company. We manufacture these complex electronic assemblies under multi-year contracts for the missile guidance systems of the AMRAAM and Brimstone missile programs, and for the main color display systems for the cockpit of the AH-64D Apache Longbow attack helicopter. We also have a long-term relationship with the National Security Agency to design and build secure communications equipment and write encryption software. The defense budget for fiscal 2004 contains provisions to increase spending for missiles, smart weapons, sensors, surveillance, intelligence and secure communications, areas for which we have long provided essential services and products. Our aerospace & defense electronics business accounted for approximately 51% of net revenue in 2003.

Truck Components & Assemblies. We are the principal supplier of manufacturing services for the forging and machining of medium and heavy-duty truck axle shafts and other drive train components in North America. We produce these axle shafts and components under multi-year, sole-source contracts with ArvinMeritor, Inc. and Dana Corporation, the two primary providers of drive train assemblies for use by the leading truck manufacturers, including Ford Motor Company, Freightliner LLC, Mack Trucks, Inc., Navistar International Corporation, PACCAR, Inc. and Volvo Truck Corporation. We also supply Visteon Corporation with light axle shafts for Ford's F150, F250, F350 and Ranger series pickup trucks, Ford Expedition, Lincoln Navigator and the Ford Mustang GT. We continue to support our customers' strategies to outsource non-core operations by taking on additional components and additional value added operations for drive train assemblies. Our truck components & assemblies business accounted for approximately 31% of net revenue in 2003.

Test & Measurement Services. We provide technical services for the calibration, certification and repair of test & measurement equipment in the U.S. We have a multi-year, sole-source contract with the Federal Aviation Administration to calibrate and certify the equipment that is used to maintain the radar systems and directional beacons at over 500 airports in the U.S., the Caribbean and the South Pacific. We also have a multi-year, sole-source contract with the National Weather Service to calibrate the equipment that is used to maintain the NEXRAD Doppler radar systems at over 130 advanced warning weather service radar stations in 45 states, the Caribbean and Guam. We also have a multi-year contract with AT&T Corporation to provide calibration and certification services at over 300 of its central and field switching locations. We are seeing an increased interest by large companies in awarding multi-site contracts for calibration services in order to accelerate vendor reduction programs and reduce costs. Our test & measurement services business accounted for approximately 12% of net revenue in 2003.

Recent Developments

On December 31, 2003, we completed the first phase of a proposed two-phase transaction with Dana in which we entered into a new eight-year agreement to supply a wide range of drive train components for the light, medium and heavy-duty truck markets to Dana. In connection with this agreement, we acquired the property, plant, and equipment as well as certain component inventories associated with Dana's manufacturing plant in Morganton, North Carolina. In the proposed second phase of the transaction, which is evidenced by a letter of intent dated August 25, 2003, we expect to enter into an eight-year agreement with Dana for the supply of forged and machined components for use in the medium and heavy-duty truck markets effective as of the closing, which is expected to occur during 2004. As part of the proposed transaction, we plan to acquire a portion of Dana's manufacturing campus in Toluca, Mexico and certain production equipment currently located at other Dana facilities in the U.S.

On January 13, 2004, we signed a letter of intent with ArvinMeritor to supply trailer axle beams and a variety of drive train components to ArvinMeritor under a series of multi-year agreements, the first of which is expected to close during 2004, with the balance scheduled to occur during the next two to three years in accordance with a predetermined transition plan. As part of the proposed transaction, we plan to acquire ArvinMeritor's Kenton, Ohio plant that specializes in the manufacture of trailer axle beams. In addition, the proposed transaction provides for a five-year extension of an existing five-year supply agreement that is otherwise expected to expire on December 31, 2004 under which we supply ArvinMeritor with axle shafts for medium and heavy-duty trucks.

The proposed agreements with Dana and ArvinMeritor remain subject to due diligence, negotiation and execution of definitive agreements and board approvals among other contingencies, and in the case of ArvinMeritor's Kenton plant, the negotiation and approval of a new union collective bargaining agreement.

Industry Overview

We believe the trend toward outsourcing is continuing across a wide range of industries and markets as outsourcing specialists assume a strategic role in the supply chain of companies of all types and sizes. We expect the growth in outsourcing expenditures to continue increasing at a rate far higher than the expansion in the overall economy.

We believe the trend toward outsourcing is continuing because outsourcing frequently represents a more efficient, lower cost means for manufacturing a product or delivering a service when compared to more vertically integrated alternatives. While the rate of acceptance of the outsourcing model may vary by industry, we believe the following benefits of outsourcing are driving this general trend.

Reduced Total Operating Costs and Invested Capital. Outsourcing specialists are frequently able to produce products and/or deliver services at a reduced total cost relative to that of their customers because of the ability to allocate the expense for a given set of fixed capacity, including assets, people and support systems, across multiple customers with diversified needs. In turn, these outsourcing specialists can achieve higher utilization of their resources and achieve greater productivity, flexibility and economies of scale.

Access to Advanced Manufacturing Capabilities and Processes and Increased Productivity. The ability to use a fixed set of production assets for a number of customers enables outsourcing specialists to invest in the latest technology as a means to further improve productivity, quality and cycle times. The magnitude of these investments can be prohibitive absent the volume and reliability of future orders associated with having a broad array of customers for the use of those assets.

Focus on Core Competencies. Companies are under intense competitive pressure to constantly rationalize their operations, invest in and strengthen areas in which they can add the greatest value to their customers and divest or outsource areas in which they add lesser value. By utilizing the services of outsourcing specialists, these companies can react more quickly to changing market conditions and allocate valuable capital and other resources to core activities, such as research and development, sales and marketing or product integration.

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Improved Supply Chain Management. We believe that the trend in outsourcing favors specialists who have the financial, managerial and capital resources to assume an increasingly greater role in the management of the supply chain for the customer. By utilizing fewer and more capable suppliers, companies are able to greatly simplify the infrastructure required to manage these suppliers, thereby reducing their costs and improving margins.

Our Markets

Aerospace & Defense Electronics. The consolidation of defense contractors over the past decade has added to the increased demand for outsourcing specialists. The consolidated companies, some of which have developed highly leveraged balance sheets as a result of mergers and acquisitions, have been motivated to seek new ways to raise margins, increase profitability and enhance cash flow. Accordingly, outsourcing specialists, including Sypris, have been successful in building new relationships with companies that previously relied more on internal resources. We believe this trend will continue and that our extensive experience, clearances, certifications and qualifications in the manufacturing of aerospace & defense electronics will serve to differentiate us from many of the more traditional outsource suppliers. We also believe that we are well positioned to take advantage of additional outsourcing activity that may flow from the prime contractors that are awarded contracts related to increased defense appropriations and expenditures as a result of increased focus on national defense and homeland security.

The nature of providing outsourced manufacturing services to the aerospace & defense electronics industry differs substantially from the traditional commercial outsourced manufacturing services industry. The cost of failure can be extremely high, the manufacturing requirements are typically complex and products are produced in relatively small quantities. Companies that provide these manufacturing services are required to maintain and adhere to a number of strict certifications, security clearances and traceability standards that are comprehensive.

Truck Components & Assemblies. The truck components & assemblies market consists of the original equipment manufacturers, or OEMs, including DaimlerChrysler Corporation, Ford, Freightliner, General Motors Corporation, Mack, Navistar, PACCAR and Volvo, and a deep and extensive supply chain of companies of all types and sizes that are classified into different levels or tiers. Tier I companies represent the primary suppliers to the OEMs and includes ArvinMeritor, Dana, Delphi Automotive Systems Corporation, Eaton Corporation, and Visteon, among others. Many of the Tier I companies are confronted with excess capacity, high hourly wage rates, costly benefit packages and aging capital equipment. Below this group of companies reside numerous suppliers who either supply the OEMs directly or supply the Tier I companies. In all segments of the truck components & assemblies market, however, suppliers are under intense competitive pressure to improve product quality and to reduce capital expenditures, production costs and inventory levels.

In an attempt to gain a competitive advantage, many OEMs have been reducing the number of suppliers they utilize. These manufacturers are choosing stronger relationships with fewer suppliers who are capable of investing to support their operations. In response to this trend, many suppliers have combined with others to gain the critical mass required to support these needs. As a result, the number of Tier I suppliers is being reduced, but in many cases the aggregate production capacity of these companies has yet to be addressed. We believe that as Tier I suppliers seek to eliminate excess capacity, they will increasingly choose outsourcing as a means to enhance their financial performance and as a result, companies such as Sypris will be presented with new business and acquisition opportunities.

Test & Measurement Services. The widespread adoption of the International Organization for Standardization (ISO) and Quality Standards (QS), among others, has been underway for many years. A critical component of basic manufacturing discipline and these quality programs is the periodic calibration and certification of the test & measurement equipment that is used to measure process performance. The investment

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in this equipment and the skills required to support the calibration and certification process has historically been performed offsite by the manufacturers of the equipment, or onsite by internal operations, even though the productive use of the assets and people is difficult to justify since equipment is often certified on an annual, or in some cases, biennial basis.

We believe that test & measurement services will be increasingly outsourced to independent specialists who can use the manpower and equipment across a diversified base of customers, reduce investment requirements and improve profitability on a national scale.

Our Business Strategy

Our objective is to improve our leadership position in each of our core markets by increasing the number of multi-year contracts with related customers and investing in highly automated production capacity to remain competitive on a global scale. We intend to serve our customers and achieve this objective by continuing to:

Concentrate on our Core Markets. We will continue to focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We have been an established supplier of manufacturing and technical services to major aerospace & defense companies and agencies of the U.S. Government for over 37 years. We are the principal supplier of medium and heavy-duty truck axle shafts in North America, and we are the sole provider of calibration, certification and repair services for equipment used by the Federal Aviation Administration to maintain the radar systems and directional beacons at each of the airports it serves in the U.S., the Caribbean and the South Pacific.

Dedicate our Resources to Support Strategic Partnerships. We will continue to dedicate our resources to support the needs of industry leaders who embrace multi-year contractual relationships as a strategic component of their supply chain management and have the potential for long-term growth. We prefer contracts that are sole-source by part number so we can work closely with the customer to the mutual benefit of both parties. In recent years, we have entered into multi-year manufacturing services agreements with Boeing, General Dynamics, Honeywell, Lockheed Martin, Northrup Grumman and Raytheon. We have also announced the award of sole-source supply agreements with ArvinMeritor, Visteon and Dana that run through year-end of 2004, 2006 and 2011, respectively, and we have executed a letter of intent with ArvinMeritor to extend that agreement through year-end of 2009. Our success in establishing outsourcing partnerships with key customers has led to additional contracts and we believe that if we continue to successfully perform on these contracts, we will have additional growth opportunities with these and other customers.

Pursue the Strategic Acquisition of Customer-Owned Assets. We will continue to pursue the strategic acquisition of customer-owned assets that serve to consolidate our position of leadership in our core markets, create or strengthen our relationships with leading companies and expand our range of value-added services in return for multi-year supply agreements. Since these assets are integrated with our core businesses, we generally are able to use these assets to support other customers, thereby improving asset utilization and achieving greater productivity, flexibility and economies of scale. In recent years, we have completed two such transactions with Dana and have proposed transactions pending with Dana and ArvinMeritor.

Grow Through the Addition of New Value-Added Services. We will continue to grow through the addition of new value-added manufacturing capabilities and the introduction of additional components in the supply chain that enable us to provide a more complete solution by improving quality and reducing product cost, inventory levels and cycle times for our customers. We offer a variety of state-of-the-art machining capabilities to our customers in the truck components & assemblies market that enable us to reduce labor and shipping costs and minimize cycle times for our customers over the long-term. ArvinMeritor, Dana and Visteon have entered into contracts for these services, which we believe may provide us with significant additional opportunities for growth in the future.

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Invest to Increase our Competitiveness and that of our Partners. We will continue to invest in advanced manufacturing and process technologies to reduce the cost of the services we provide for our customers on an ongoing basis. We continue to expand and automate the services we provide to our customers in the truck components & assemblies market, with approximately \$59 million invested from 2000 to 2003. The automation substantially increased our output per man hour and enabled us to offer our customers reduced pricing that helped them to remain competitive on a global scale. Our ability to leverage this capability across a number of customers in the future will further improve our capacity utilization, absorption of overhead and reduce our manufacturing costs.

We believe that the number and duration of our strategic relationships enable us to invest in our business with greater certainty and with less risk than others who do not benefit from the type of longer term contractual commitments we receive from many of our major customers. The investments we make in support of these contracts provide us with the productivity, flexibility, technological edge and economies of scale that we believe will help to differentiate us from the competition in the future when it comes to cost, quality, reliability and customer service.

Our Services and Products

We are a diversified provider of outsourced services and specialty products. Our services consist of manufacturing, technical and other services and products that are delivered as part of our customers' overall supply chain management. The information below is representative of the types of products we manufacture, services we provide and the customers and industries for which we provide such products or services.

Aerospace & Defense Electronics:

Boeing	Complex circuit cards for the Brimstone missile guidance systems.
Honeywell	Complex circuit cards for the color display systems of the AH-64D Apache Longbow attack helicopter.
Lockheed Martin	Space electronics for the space shuttle and the international space station, and data systems for a fleet ballistic missile program.
National Security Agency	Secure communications equipment, recording systems and encryption software.
Raytheon	Complex circuit cards and high level assemblies for use in satellite communications systems, the AMRAAM (advanced, medium-range, air attack missile) missile guidance system, and secure tactical communication systems.

Truck Components & Assemblies:

ArvinMeritor	Axle shafts for medium and heavy-duty trucks.
Dana	Axle shafts, drive train components and steer axle components for use in light, medium and heavy-duty trucks.
Visteon	Axle shafts for pickup trucks and sport utility vehicles.

Test & Measurement Services:

AT&T	Calibration and certification services at over 300 central and field switching locations.
Federal Aviation Administration	Calibration and certification services at over 500 airports.
Lockheed Martin	Testing of electronic components for use in space and defense applications.
National Weather Service	Calibration and certification services for over 130 advanced warning weather radar stations.

Manufacturing Services

Our manufacturing services typically involve the fabrication or assembly of a product or subassembly according to specifications provided by our customers. We purchase raw materials or components from both independent suppliers and from our customers in connection with performing our manufacturing services.

Our manufacturing capabilities are enhanced by advanced quality and manufacturing techniques, lean manufacturing, just-in-time procurement and continuous flow manufacturing, statistical process control, total quality management, stringent and real-time engineering change control routines and total cycle time reduction techniques.

Electronics Manufacturing Services. We provide our customers with a broad variety of solutions, from low-volume prototype assembly to high-volume turnkey manufacturing. We employ a multi-disciplined engineering team that provides comprehensive manufacturing and design support to customers. The manufacturing solutions we offer include design conversion and enhancement, materials procurement, system assembly, testing and final system configuration.

Our manufacturing services contracts for the aerospace & defense electronics market are generally sole-source by part number. Where we are the sole-source provider by part number, we are the exclusive provider to our customer of certain products for the duration of the manufacturing contract.

Industrial Manufacturing Services. We provide our customers with a wide range of capabilities, including automated forging, extruding, machining, induction hardening, heat-treating and testing services to meet the exacting requirements of our customers. We also design and fabricate production tooling, manufacture prototype products and provide other value-added services for our customers.

Our manufacturing services contracts for the truck components & assemblies markets are generally sole-source by part number. Part numbers may be specified for inclusion in a single model or a range of models. Where we are the sole-source provider by part number, we are the exclusive provider to our customer of the specific parts and for any replacements for these parts that may result from a design or model change for the duration of the manufacturing contract.

Technical Services

Test & Measurement Services. We calibrate, repair and certify the test & measurement equipment that is used to maintain wireless communication equipment, control tower radar and direction beacons, NEXRAD Doppler advanced warning weather service radar systems, digital oscilloscopes, microwave equipment and fiber optic measuring equipment, among others. The applications cover the maintenance of cellular communications systems, air traffic control systems, broadband telecommunication systems and quality certification programs in manufacturing operations. We also perform a wide-range of testing services on a contract basis, including radio frequency, microwave and mixed signal component testing, environmental testing, dynamics testing and failure analysis, among others. We provide our customers with services that exceed the scope of most manufacturing service companies, including software development, design services, prototype development, product re-engineering, feature enhancement, product ruggedization, cost reduction, product miniaturization, and electro-magnetic interference and shielding.

Products

In addition to our outsourced services, we provide some of our customers with specialized products including digital and analog data systems and encryption devices used in military applications, magnetic meters and sensors used in commercial and laboratory environments and high-pressure closures and joints used in pipeline and chemical systems. With the growth of our services business, our products business has increasingly become a smaller portion of our overall net revenue. We expect this trend to continue in the future.

Our Customers

Our customers include large, established companies and agencies of the federal government. We provide some customers with a combination of outsourced services and products, while other customers may be in a single category of our service or product offering. Our five largest customers in 2003, which accounted for 51% of net revenue, were ArvinMeritor, Dana, Honeywell, Raytheon and Visteon. Our five largest customers in 2002, which accounted for 50% of net revenue, were ArvinMeritor, Dana, Honeywell, Raytheon and Visteon. Our five largest customers in 2001, which accounted for 46% of net revenue, were ArvinMeritor, Dana, Honeywell, Lockheed Martin and Raytheon.

For the year ended December 31, 2003, the U.S. Government and Government Agencies, including the National Security Agency, collectively represented approximately 18% of our net revenue, Dana represented approximately 15% of our net revenue and Raytheon represented approximately 14% of our net revenue.

Sales and Business Development

Our principal sources of new business originate from the expansion of existing relationships, referrals and direct sales through senior management, direct sales personnel, domestic and international sales representatives, distributors and market specialists. We supplement these selling efforts with a variety of sales literature, advertising in numerous trade media and participation in trade shows. We also utilize engineering specialists extensively to facilitate the sales process by working with potential customers to reduce the cost of the service they need. Our specialists achieve this objective by working with the customer to improve their product's design for ease of manufacturing, reducing the amount of set-up time or material that may be required to produce the product, or by developing software that can automate the test and/or certification process. The award of contracts or programs can be a lengthy process, which in some circumstances can extend well beyond 12 months. In addition, we have and will continue to selectively acquire assets from our customers in exchange for multi-year supply agreements and then leverage the newly acquired manufacturing capabilities to additional customers.

Our objective is to increase the value of the services we provide to the customer on an annual basis beyond the contractual terms that may be contained in a supply agreement. To achieve this objective, we commit to the customer that we will continuously look for ways to reduce the cost, improve the quality, reduce the cycle time and improve the life span of the products and/or services we supply the customer. Our ability to deliver on this commitment over time is expected to have a significant impact on customer satisfaction, loyalty and follow-on business.

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Manufacturing and Facilities

Our principal manufacturing services operations are engaged in electronics manufacturing services for our aerospace & defense customers and industrial manufacturing services for our truck components & assemblies customers.

The following chart indicates the significant facilities that we own or lease, the location and size of each such facility and the manufacturing certifications that each facility possesses. The facilities listed below (other than the corporate office) are used principally as manufacturing facilities.

Location	Market Served	Own or Lease (Expiration)	Approximate Square Feet	Certifications
<i>Corporate Office:</i>				
Louisville, Kentucky		Lease (2014)	10,800	
<i>Manufacturing Facilities:</i>				
Louisville, Kentucky	Truck Components & Assemblies	Own	467,000	QS 9000
Tampa, Florida	Aerospace & Defense Electronics	Lease (2007)	308,000	ISO 9001 AS 9100 NASA-STD-8739 MIL-Q-9858A MIL-STD-2000A MIL-STD 45662 MIL-STD 801D
Marion, Ohio	Truck Components & Assemblies	Own	255,000	QS 9000
Morganton, North Carolina	Truck Components & Assemblies	Own	350,000	QS 9000
Orlando, Florida	Test & Measurement Services	Own	62,000	ISO 9001 ISO 9002 ISO 17025/Guide 25 MIL-STD 750 MIL-STD 883 MIL-STD 202 MIL-STD 810
San Dimas, California	Aerospace & Defense Electronics	Lease (2015)	26,300	ISO 9001

In addition, we lease space in 21 other facilities primarily utilized to provide technical services, all of which are located in the U.S. We also own 10 ISO-certified mobile calibration units and one ISO-certified transportable field calibration unit that are utilized to provide test & measurement services at customer locations throughout the U.S., the Caribbean and the South Pacific. We believe that our facilities and equipment are in good condition and reasonably suited and adequate for our current needs.

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Below is a listing and description of the various manufacturing certifications or specifications that we utilize at our facilities.

<u>Certification/Specification</u>	<u>Description</u>
ISO 9001	A certification process comprised of 20 quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 9002	A certification process similar to the ISO 9001 requirements, but it applies principally to manufacturing services as opposed to engineering services.
AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
QS 9000	A certification process developed by the nation's major automakers that focuses on continuous improvement, defect reduction, variation reduction and elimination of waste.
ISO 17025/Guide 25	A certification process commonly referred to as A2LA, which sets out general provisions that a laboratory must address to carry out specific calibrations or tests and provides laboratories with direction for the development of a fundamental quality management system.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
MIL	A specification that signifies specific functions or processes that are conducted in compliance with military specifications, such as a quality program, high-reliability soldering, calibration and metrology, and environmental testing.

Backlog

Our order backlog at December 31, 2003 was \$199.0 million as compared to order backlog at December 31, 2002 of \$154.2 million. Backlog for the Electronics Group and the Industrial Group at December 31, 2003 was \$125.8 million and \$73.2 million, respectively. Backlog for the Electronics Group and the Industrial Group at December 31, 2002 was \$115.4 million and \$38.8 million, respectively. Backlog consists of firm purchase orders with scheduled delivery dates and quantities. Total backlog at December 31, 2003 included \$160.2 million for orders that are expected to be filled within 12 months. Our backlog has varied from quarter to quarter and may vary significantly in the future as a result of the timing of significant new orders and/or shipments, order cancellations, material availability and other factors.

Competition

The outsourced manufacturing services markets that we serve are highly competitive and we compete against numerous domestic companies in addition to the internal capabilities of some of our customers. In the aerospace & defense electronics market, we compete primarily against companies including LaBarge, Inc., Primus Technologies Corporation, SMTEK International, Inc., Sparton Corporation and Teledyne Technologies Incorporated. In the truck components & assemblies market, we compete primarily against companies including Mid-West Forge, Inc., Spencer Forge and Machine, Inc. and Traxle Manufacturing, Inc., who serve as suppliers to many Tier I and smaller companies. In the test & measurement services market, we compete primarily against companies including SIMCO Electronics, Transcat, Inc., Davis Inotek Instruments, and a variety of small, local, independent laboratories. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours.

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We believe that the principal competitive factors in our markets include the availability of capacity, technological capability, flexibility and timeliness in responding to design and schedule changes, price, quality, delivery and financial strength. Although we believe that we generally compete favorably with respect to each of these factors, some of our competitors are larger and have greater financial and operating resources than we do. Some of our competitors have greater geographic breadth and range of services than we do. We also face competition from manufacturing operations of our current and potential customers, who continually evaluate the relative benefits of internal manufacturing compared to outsourcing. We believe our competitive position to be good and the barriers to entry to be high in the markets we serve.

Suppliers

We attempt to utilize standard parts, components and materials that are available from multiple vendors. However, certain components and materials used in our manufacturing services are currently available only from single sources, and other components and materials are available from only a limited number of sources. Despite the risks associated with purchasing from single sources or from a limited number of sources, we have made the strategic decision to select single source or limited source suppliers in order to obtain lower pricing, receive more timely delivery and maintain quality control. In cases where unanticipated customer demand or supply shortages occur, we attempt to arrange for alternative sources of supply, where available, or defer planned production to meet the anticipated availability of the critical component or material.

Raw steel and fabricated steel parts are a major component of our cost of sales and net revenue for the truck components & assemblies business. We purchase the majority of our steel for use in this business at the direction of our customers, with any periodic changes in the price of steel being reflected in the prices we are paid for our services, such that we neither benefit from nor are harmed by any future changes in the price of steel.

There can be no assurance that supply interruptions will not slow production, delay shipments to our customers or increase costs in the future, any of which could adversely affect our financial results.

Research and Development

Our research and development activities are mainly related to our product lines that serve the aerospace & defense electronics market. Most of the expenditures related to our outsourced services are for process improvements and are not reflected in research and development expense. Accordingly, our research and development expense represents a relatively small percentage of our net revenue. We invested \$3.1 million, \$3.4 million and \$4.2 million in research and development in 2001, 2002 and 2003, respectively. We also utilize our research and development capability to develop processes and technologies for the benefit of our customers.

Employees

As of December 31, 2003, we had a total of approximately 1,730 employees, 1,260 engaged in manufacturing and providing our technical services, 60 engaged in sales and marketing, 190 engaged in engineering and 220 engaged in administration. Approximately 390 of our employees are covered by collective bargaining agreements with various unions that expire on various dates through 2006. Although we believe overall that our relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably or that we will not experience a work stoppage, which could adversely affect our results of operations.

Patents, Trademarks and Licenses

We own and are licensed under a number of patents and trademarks that we believe are sufficient for our operations. Our business as a whole is not materially dependent upon any one patent, trademark, license or technologically related group of patents or licenses.

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We regard our manufacturing processes and certain designs as proprietary trade secrets and confidential information. We rely largely upon a combination of trade secret laws, non-disclosure agreements with customers, suppliers and consultants, and our internal security systems, confidentiality procedures and employee confidentiality agreements to maintain the trade secrecy of our designs and manufacturing processes.

Government Regulation

Our operations are subject to compliance with regulatory requirements of federal, state and local authorities, including regulations concerning labor relations, export and import regulations, health and safety matters and protection of the environment. While compliance with applicable regulations has not adversely affected our operations in the past, there can be no assurance that we will continue to be in compliance in the future or that these regulations will not change. Current costs of compliance are not material to us.

We must comply with detailed government procurement and contracting regulations and with U.S. Government security regulations, certain of which carry substantial penalty provisions for nonperformance or misrepresentation in the course of negotiations. Our failure to comply with our government procurement, contracting or security obligations could result in penalties or our suspension or debarment from government contracting, which would have a material adverse effect on our results of operations.

We are required to maintain U.S. Government security clearances at several of our locations. These clearances could be suspended or revoked if we were found not to be in compliance with applicable security regulations. Any such revocation or suspension would delay our delivery of products to customers. Although we have adopted policies directed at ensuring our compliance with applicable regulations and there have been no suspensions or revocations at any of our facilities, there can be no assurance that the approved status of our facilities will continue without interruption.

We are also subject to comprehensive and changing federal, state and local environmental requirements, including those governing discharges to the air and water, the handling and disposal of solid and hazardous wastes and the remediation of contamination associated with releases of hazardous substances. We use hazardous substances in our operations and as is the case with manufacturers in general, if a release of hazardous substances occurs on or from our properties, we may be held liable and may be required to pay the cost of remedying the condition. The amount of any resulting liability could be material.

Legal Proceedings

We are involved from time to time in litigation and other legal proceedings incidental to our business. There are currently no material pending legal proceedings to which we are a party.

Environmental Matters

Our Marion, Ohio facility is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the State of Ohio voluntary action program standards applicable to the site. We continue to test and assess this site to determine the extent of this contamination by the prior owners of the facility. Under our purchase agreement for this facility, Dana has agreed to indemnify us for environmental conditions that existed on the site as of closing and as to which we notified Dana prior to December 31, 2002.

A leased facility we formerly occupied in Tampa, Florida is currently subject to remediation activities related to groundwater contamination involving methylene chloride and other volatile organic compounds which occurred prior to our use of the facility. The contamination extends beyond the boundaries of the facility. In December 1986, Honeywell, a prior operator of the facility, entered into a consent order with the Florida

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Department of Environmental Regulation under which Honeywell agreed to remediate the contamination, the full scope of which has not yet been determined. We purchased the assets of a business formerly located on this leased site and operated that business from 1993 until December 1994. Philips Electronics, the seller of those assets, has agreed to indemnify us with respect to environmental matters arising from groundwater contamination at the site prior to our use of the facility.

In December 1992, we acquired certain business assets formerly located at a leased facility in Littleton, Colorado. Certain chlorinated solvents disposed of on the site by Honeywell, a previous owner of the business, have contaminated the groundwater at and around the site. Alliant Techsystems, from which we acquired the business assets, operates a remediation system approved by the State of Colorado and has also entered into a consent order with the EPA providing for additional investigation at the site. Alliant Techsystems has agreed to indemnify us with respect to these matters.

Our Morganton, North Carolina facility is subject to soil contamination involving petroleum compounds. We continue to test and assess this site to determine the extent of any contamination at this site. Under our purchase agreement for this facility, Dana has agreed to indemnify us for environmental violations that existed on the site as of closing and as to which we notify Dana prior to December 31, 2005.

MANAGEMENT

Executive Officers and Directors

Our executive officers and directors and their ages as of March 3, 2004 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Robert E. Gill	78	Chairman of the Board
Jeffrey T. Gill	48	President, Chief Executive Officer and Director
Kathy Smith Boyd	50	Vice President; President and Chief Executive Officer of Sypris Test & Measurement, Inc.
James G. Cocke	56	Vice President; President and Chief Executive Officer of Sypris Electronics, LLC
John M. Kramer	61	Vice President; President and Chief Executive Officer of Sypris Technologies, Inc.
G. Darrell Robertson	61	Vice President; President and Chief Executive Officer of Sypris Data Systems, Inc.
Anthony C. Allen	45	Vice President of Finance and Information Systems and Assistant Secretary
Richard L. Davis	50	Senior Vice President
David D. Johnson	48	Vice President, Chief Financial Officer and Treasurer
John R. McGeeney	47	General Counsel and Secretary
Henry F. Frigon	69	Director
R. Scott Gill	45	Director
William L. Healey	59	Director
Roger W. Johnson	69	Director
Sidney R. Petersen	73	Director
Robert Sroka	54	Director

Robert E. Gill has served as Chairman of the Board of Sypris and its predecessor since 1983, and as President and Chief Executive Officer of its predecessor from 1983 to 1992. Prior to 1983, Mr. Gill served in a number of senior executive positions, including Chairman, President and Chief Executive Officer of Armor Elevator Company, Vice President of A. O. Smith Corporation and President and Chief Executive Officer of Elevator Electric Company. Mr. Gill holds a BS degree in Electrical Engineering from the University of Washington and an MBA from the University of California at Berkeley. He is Chairman of the Executive Committee. Robert E. Gill is the father of Jeffrey T. Gill and R. Scott Gill.

Jeffrey T. Gill has served as President and Chief Executive Officer of Sypris and its predecessor since 1992, and as Executive Vice President of its predecessor from 1983 to 1992. Mr. Gill holds a BS degree in Business Administration from the University of Southern California and an MBA from Dartmouth College. A director of Sypris and its predecessor since 1983, Mr. Gill is a member of the Executive Committee. Jeffrey T. Gill is the son of Robert E. Gill and the brother of R. Scott Gill.

Kathy Smith Boyd has served as a Vice President of Sypris and as President and Chief Executive Officer of its subsidiary, Sypris Test & Measurement, since April 2003. Ms. Boyd served as Corporate Vice President for Global Services and Solutions for Acterna, a communications test and measurement company, from 2000 to 2002, as Vice President and General Manager of the North American Consulting Business of Hewlett Packard from 1998 to 2000, and in a variety of management positions with Hewlett Packard from 1985 to 1998. Ms. Boyd holds a BA degree in History and Psychology from Moravian College.

James G. Cocke has served as a Vice President of Sypris, and as President and Chief Executive Officer of its subsidiary, Sypris Electronics, since 2000. Mr. Cocke served as Vice President of Finance, Contracts and Program Management for Sypris Electronics from 1997 to 2000, and as Manager of the Services Division of

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Sypris Test & Measurement, a subsidiary of Sypris, from 1995 to 1997. Prior to 1995, Mr. Cocke served in a number of senior management positions with SAIC, CAE Link Corporation, Smiths Industries and E-Systems. Mr. Cocke holds a BS degree in Business and an MS in Accounting from Roosevelt University.

John M. Kramer has served as a Vice President of Sypris since 2000, and as President and Chief Executive Officer of its subsidiary, Sypris Technologies, since 1985. Prior to 1985, Mr. Kramer served in a number of senior management positions with Sypris Technologies, Xerox and Ford Motor Company. Mr. Kramer holds a BS degree in Management from the University of Louisville.

Darrell Robertson has served as a Vice President of Sypris, and as President and Chief Executive Officer of its subsidiary, Sypris Data Systems, since 2000. Mr. Robertson served as an Executive Consultant for Atlantic Management Associates and as Managing Partner for TMT Acquisition, both small business consulting firms, from 1998 to 2000, as President of Aydin Telemetry from 1997 to 1998, and as Vice President of Controlotron Corporation from 1994 to 1996. Prior to 1994, Mr. Robertson served in a number of senior executive positions with Republic Electronics Company and Aeroflex Laboratories. Mr. Robertson holds BS and MS degrees in Electrical Engineering from Purdue University.

Anthony C. Allen has served as Vice President of Finance and Information Systems and Assistant Secretary since 2003. Mr. Allen served as Vice President, Controller and Assistant Secretary of Sypris from 1997 to 2003. He served as Vice President of Finance of Sypris' predecessor from 1994 to 1998 and as Vice President and Controller from 1987 to 1994. Prior to 1987, Mr. Allen served in a variety of management positions with Armor Elevator. Mr. Allen holds a Bachelors degree in Business Administration from Eastern Kentucky University and an MBA from Bellarmine University. He is a certified public accountant in the state of Kentucky.

Richard L. Davis has served as Senior Vice President of Sypris since 1997, as Secretary from 1998 to 2003 and as Vice President and Chief Financial Officer of its predecessor from 1985 to 1997. Prior to 1985, Mr. Davis served in a number of management positions with Armor Elevator and Coopers and Lybrand. Mr. Davis holds a BS degree in Business Administration from Indiana University and an MBA from the University of Louisville. He is a certified public accountant in the state of Kentucky.

David D. Johnson has served as Vice President, Chief Financial Officer and Treasurer of Sypris since 1997. Mr. Johnson served as Vice President and Chief Financial Officer of Sypris Electronics from 1996 until its merger with Sypris in 1998. Prior to 1996, he served in a number of senior management positions with Molex Incorporated and KPMG Peat Marwick. Mr. Johnson holds a BA degree in Economics from Stanford University.

John R. McGeeney has served as General Counsel and Secretary of Sypris since June 2003. Mr. McGeeney served as of Counsel to Middleton and Reutlinger, a law firm, in 2003, and as General Counsel for Inviva, Inc., an insurance holding company, from 2000 to 2002. Mr. McGeeney also served in several senior leadership positions, including General Counsel and Secretary, with ARM Financial Group, a financial services company, from 1994 to 1999, and as Counsel and Assistant General Counsel for Capital Holding Corporation, a financial services company, from 1988 to 1994. Mr. McGeeney holds a BA degree from Amherst College and a JD degree from the University of Notre Dame Law School.

Henry F. Frigon has served as a director of Sypris since 1997 and of Sypris Electronics from 1994 until its merger with Sypris in 1998. Mr. Frigon has served as a private investor and business consultant since 1994. Mr. Frigon served as Chairman of CARSTAR, a national provider of collision repair services, from 2000 to 2001, and as its President and Chief Executive Officer from 1998 to 2000. Prior to 1994, Mr. Frigon served in a number of senior executive positions, including Executive Vice President-Corporate Development and Strategy, and Chief Financial Officer of Hallmark Cards, and President and Chief Executive Officer of BATUS. Mr. Frigon also serves as a director of H&R Block, Buckeye Technologies, Dimon, Tuesday Morning and Packaging Corporation of America. He is Chairman of the Compensation Committee and a member of the Executive and Nominating and Governance Committees.

R. Scott Gill has served as a director of Sypris and its predecessor since 1983. Mr. Gill has served as a Managing Broker with Coldwell Banker Residential Brokerage since 2003. Mr. Gill served as a Managing Broker and Associate with Koenig & Strey GMAC Real Estate, a residential real estate firm from 1999 to 2003.

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Mr. Gill served as Project Manager for IA Chicago, an architectural design firm, from 1998 to 1999, as Senior Vice President and Secretary of Sypris from 1997 to 1998, and as Vice President and Secretary of its predecessor from 1983 to 1998. Mr. Gill is a member of the Executive Committee. R. Scott Gill is the son of Robert E. Gill and the brother of Jeffrey T. Gill.

William L. Healey has served as a director of Sypris since 1997. Mr. Healey has served as President and Chief Executive Officer of Cal Quality Electronics, an electronics manufacturing company, since 2002. Mr. Healey served as a private investor and consultant from 1999 to 2002. He served as Chairman of the Board of Smartflex Systems, an electronics manufacturing company, from 1996 to 1999 and as its President and Chief Executive Officer from 1989 to 1999. Prior to 1989, Mr. Healey served in a number of senior executive positions with Silicon Systems, including Senior Vice President of Operations. Mr. Healey also serves as a director of Microsemi Corporation. He is Chairman of the Nominating and Governance Committee.

Roger W. Johnson has served as a director of Sypris since 1997 and of Sypris Electronics from 1996 until its merger with Sypris in 1998. Mr. Johnson is currently a private investor, educator and business consultant. Mr. Johnson served as Chairman of the Board and Chief Executive Officer of Collectors Universe, a provider of services to dealers and collectors of high-end collectibles, from 2001 to 2002. Mr. Johnson served as Chief Executive Officer of YPO International (Young Presidents Organization) from 1998 to 2000 and as Administrator of the General Services Administration from 1993 to 1996. Prior to 1993, Mr. Johnson served in a number of senior executive positions, including Chairman of the Board and Chief Executive Officer of Western Digital Corporation. Mr. Johnson also serves as a director of the Needham Funds, an affiliate of Needham & Company, Inc., Insulectro, Maxtor Corporation and Computer Access Technology Corporation. He is Chairman of the Audit and Finance Committee and a member of the Nominating and Governance Committee.

Sidney R. Petersen has served as a director of Sypris since 1997 and of Sypris Electronics from 1994 until its merger with Sypris in 1998. Mr. Petersen retired as Chairman of the Board and Chief Executive Officer of Getty Oil in 1984, where he served in a variety of increasingly responsible management positions since 1955. He is a member of the Compensation and Audit and Finance Committees.

Robert Sroka has served as a director of Sypris since 1997. Mr. Sroka has served as Managing Director of Corporate Solutions Group, an investment banking firm, since December 2003, and as Managing Partner of Lighthouse Partners, a private investment and business consulting company, since 1998. Mr. Sroka served as Managing Director of Investment Banking-Mergers and Acquisitions for J.P. Morgan from 1994 to 1998. Prior to 1994, Mr. Sroka served in a variety of senior executive positions with J.P. Morgan, including Vice President-Investment Banking and Vice President-Corporate Finance. Mr. Sroka also serves as non-executive Chairman of the Board of Avado Brands. He is a member of the Compensation and Audit and Finance Committees.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is LaSalle Bank, N.A.

Listing

Our common stock is listed on the Nasdaq National Market under the symbol "SYPR."

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have 17,329,753 shares of common stock outstanding, assuming no exercise of options outstanding as of March 3, 2004. Of these shares, the 3,000,000 shares sold in this offering and an additional 5,744,851 currently outstanding shares will be freely transferable without restriction or further registration under the Securities Act, except for any shares purchased or held by our existing "affiliates," as that term is defined in Rule 144 under the Securities Act. Holders of 8,584,902 shares of our common stock will be subject to volume limitations under Rule 144, because the shares are held by our existing affiliates and are subject to the 90-day lockup agreement with the underwriters.

UNDERWRITING

We have entered into an underwriting agreement with the underwriters named below. Needham & Company, Inc., Robert W. Baird & Co. Incorporated and Raymond James & Associates, Inc. are acting as representatives of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase from us the number of shares of common stock set forth opposite its name below.

<u>Underwriters</u>	<u>Number of Shares</u>
Needham & Company, Inc.	
Robert W. Baird & Co. Incorporated	
Raymond James & Associates, Inc.	
Stifel, Nicolaus & Company, Incorporated	
	<u>3,000,000</u>

The representatives have advised us that the underwriters propose to offer the shares of common stock to the public at the public offering price per share set forth on the cover page of this prospectus. The underwriters may offer shares to securities dealers, who may include the underwriters, at that public offering price less a concession of up to \$ per share. The underwriters may allow, and those dealers may reallow, a concession to other securities dealers of up to \$ per share. After the offering to the public, the offering price and other selling terms may be changed by the representatives.

We have granted an option to the underwriters to purchase up to 450,000 additional shares of common stock at the public offering price per share, less the underwriting discounts and commissions set forth on the cover page of this prospectus. This option is exercisable during the 30-day period after the date of this prospectus. The underwriters may exercise this option only to cover over-allotments made in connection with this offering. If this option is exercised, each of the underwriters will purchase approximately the same percentage of the additional shares as the number of shares of common stock to be purchased by that underwriter, as shown in the table above, bears to the total shown.

The following table shows the per share and total underwriting discount to be paid to the underwriters by us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	<u>Per Share</u>	<u>Total No Exercise</u>	<u>Total Full Exercise</u>
Paid by Sypris Solutions, Inc.	\$	\$	\$

We estimate that the total expenses of the offering, excluding the underwriting discounts and commissions, will be approximately \$325,000.

The underwriting agreement provides that we will indemnify the underwriters against certain liabilities that may be incurred in connection with this offering, including liabilities under the Securities Act, or to contribute payments that the underwriters may be required to make in respect thereof.

We have agreed not to offer, sell, contract to sell, grant options to purchase, or otherwise dispose of any shares of our common stock or securities exchangeable for or convertible into our common stock for a period of 90 days after the date of this prospectus without the prior written consent of Needham & Company, Inc. This agreement does not apply to the issuance of additional options or shares under our stock option or employee stock purchase plans. Our directors, officers and three other stockholders who collectively hold in the aggregate 8,584,902 shares of common stock, have agreed not to, directly or indirectly, sell, hedge, or otherwise dispose of any shares of common stock, options to acquire shares of common stock or securities exchangeable for or

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convertible into shares of common stock, for a period of 90 days after the date of this prospectus without the prior written consent of Needham & Company, Inc. Needham & Company, Inc. may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to these lock-up agreements.

In connection with this offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock. Specifically, the underwriters may over-allot in connection with this offering by selling more shares than are set forth on the cover page of this prospectus. This creates a short position in our common stock for their own account. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. To close out a short position or to stabilize the price of our common stock, the underwriters may bid for, and purchase, common stock in the open market. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter or dealer repays selling concessions allowed to it for distributing our common stock in this offering because the underwriters repurchase that stock in stabilizing or short covering transactions.

Finally, the underwriters may bid for, and purchase, shares of our common stock in market making transactions, including “passive” market making transactions as described below.

These activities may stabilize or maintain the market price of our common stock at a price that is higher than the price that might otherwise exist in the absence of these activities. The underwriters are not required to engage in these activities, and may discontinue any of these activities at any time without notice. These transactions may be effected on the Nasdaq National Market or otherwise.

In connection with this offering, some of the underwriters and selling group members, if any, or their affiliates may engage in passive market making transactions in our common stock on the Nasdaq National Market immediately prior to the commencement of sales in this offering, in accordance with Rule 103 of Regulation M under the Exchange Act. Rule 103 generally provides that:

- a passive market maker may not effect transactions or display bids for our common stock in excess of the highest independent bid price by persons who are not passive market makers;
- net purchases by a passive market maker on each day are generally limited to 30% of the passive market maker’s average daily trading volume in our common stock during a specified two-month prior period or 200 shares, whichever is greater, and must be discontinued when that limit is reached; and
- passive market making bids must be identified as such.

Passive market making may stabilize or maintain the market price of our common stock at a level above that which might otherwise prevail and, if commenced, may be discontinued at any time.

Upon consummation of the offering, affiliates of Needham & Company, Inc. will own 2.8% of our common stock.

Certain of the underwriters and their affiliates have in the past provided, and may in the future provide, investment banking and other financial and banking services to us for which they have in the past received, and may in the future receive, customary fees. Roger W. Johnson, a director of Sypris, is also a director of Needham Funds, an affiliate of Needham & Company, Inc.

LEGAL MATTERS

The validity of the shares offered hereby will be passed upon for us by Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky. Certain legal matters for the underwriters will be passed upon by Piper Rudnick LLP, New York, New York.

EXPERTS

Our consolidated financial statements at December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003 appearing elsewhere in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report appearing elsewhere herein and, are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 under the Securities Act of 1933 with the SEC for the shares we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits and schedules for additional information. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to, or incorporated into, the registration statement for copies of the actual contract, agreement or other document.

We also file annual, quarterly and special reports, proxy statements and other information with the SEC. Our filings are available to the public over the Internet at the SEC's web site at "<http://www.sec.gov>." You can read and copy any document that we file with the SEC at its public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549. You can also obtain copies of the documents at prescribed rates by writing to the SEC's Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the operation of the SEC's public reference facilities. You also can inspect copies of our filings at The Nasdaq Stock Market at 1735 K Street, N.W., Washington, D.C. 20006.

The SEC allows us to "incorporate by reference" into this prospectus information from our other SEC filings. This means that we can disclose important information to you by referring you to those filings, and the information incorporated by reference is considered to be part of this prospectus. In addition, some information that we file with the SEC after the date of this prospectus will automatically update, and in some cases supersede, the information in this prospectus or otherwise incorporated by reference in this prospectus. We are incorporating by reference the information contained in the following SEC filings:

- our annual report on Form 10-K for the year ended December 31, 2003, as amended by Form 10-K/A filed on March 11, 2004;
- the description of our common stock contained in our report on Form 8-K/A filed May 13, 1998, including any amendments or reports filed for the purpose of updating such description;
- the description of our Series A Preferred Stock purchase rights contained in our registration statement on Form 8-A filed October 23, 2001, including any amendment or report filed for the purpose of updating such description; and
- any filings we make with the SEC under section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before the termination of this offering. Information in these filings will be incorporated as of the filing date.

We will provide without charge to each person, including any beneficial owner of common stock to whom this prospectus is delivered, a copy of these filings, other than exhibits unless those exhibits are specifically incorporated by reference herein. You should direct any requests for documents to Sypris Solutions, Inc., 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222, Attention: Investor Relations, telephone (502) 329-2000.

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SYPRIS SOLUTIONS, INC.
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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Sypris Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. as of December 31, 2002 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sypris Solutions, Inc. at December 31, 2002 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Louisville, Kentucky
January 30, 2004

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

	Years ended December 31,		
	2001	2002	2003
Net revenue:			
Outsourced services	\$ 209,874	\$ 229,629	\$ 230,632
Products	44,766	43,848	45,973
Total net revenue	254,640	273,477	276,605
Cost of sales:			
Outsourced services	181,818	195,576	203,080
Products	29,275	28,380	27,513
Total cost of sales	211,093	223,956	230,593
Gross profit	43,547	49,521	46,012
Selling, general and administrative	26,134	27,114	26,711
Research and development	3,054	3,354	4,166
Amortization of intangible assets	1,329	97	194
Operating income	13,030	18,956	14,941
Interest expense, net	4,111	2,742	1,693
Other (income) expense, net	(358)	(159)	230
Income before income taxes	9,277	16,373	13,018
Income tax expense	2,910	4,934	4,883
Net income	\$ 6,367	\$ 11,439	\$ 8,135
Earnings per common share:			
Basic	\$ 0.65	\$ 0.87	\$ 0.57
Diluted	\$ 0.63	\$ 0.84	\$ 0.56
Shares used in computing earnings per common share:			
Basic	9,828	13,117	14,237
Diluted	10,028	13,664	14,653

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

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

	December 31,	
	2002	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,403	\$ 12,019
Accounts receivable, net	37,951	45,484
Inventory, net	64,443	61,932
Other current assets	9,187	11,370
Total current assets	123,984	130,805
Property, plant and equipment, net	75,305	106,683
Goodwill	14,277	14,277
Other assets	10,039	11,730
	<u>\$ 223,605</u>	<u>\$ 263,495</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,356	\$ 29,598
Accrued liabilities	16,035	17,491
Current portion of long-term debt	7,000	3,200
Total current liabilities	46,391	50,289
Long-term debt	30,000	53,000
Other liabilities	10,179	15,425
Total liabilities	86,570	118,714
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$.01 per share, 981,600 shares authorized; no shares issued	—	—
Series A preferred stock, par value \$.01 per share, 18,400 shares authorized; no shares issued	—	—
Common stock, non-voting, par value \$.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$.01 per share, 30,000,000 shares authorized; 14,158,077 and 14,283,323 shares issued and outstanding in 2002 and 2003, respectively	142	143
Additional paid-in capital	82,575	83,541
Retained earnings	57,017	63,443
Accumulated other comprehensive income (loss)	(2,699)	(2,346)
Total stockholders' equity	137,035	144,781
	<u>\$ 223,605</u>	<u>\$ 263,495</u>

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

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

	Years ended December 31,		
	2001	2002	2003
Cash flows from operating activities:			
Net income	\$ 6,367	\$ 11,439	\$ 8,135
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,856	11,386	12,831
Deferred income taxes	479	3,684	6,009
Provision for excess and obsolete inventory	432	727	832
Provision for doubtful accounts	122	231	191
Other noncash charges	59	339	846
Contributions to pension plans	(754)	(7,451)	(586)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(8,474)	1,576	(7,724)
Inventory	(3,519)	(4,559)	6,219
Other current assets	(416)	(863)	(2,427)
Accounts payable	3,648	(1,010)	3,154
Accrued and other liabilities	671	(1,898)	(205)
Net cash provided by operating activities	8,471	13,601	27,275
Cash flows from investing activities:			
Capital expenditures	(27,623)	(19,747)	(22,521)
Proceeds from sale of assets	6,816	211	175
Purchase of net assets of acquired entities	(11,486)	—	(23,300)
Changes in nonoperating assets and liabilities	(650)	(662)	(171)
Net cash used in investing activities	(32,943)	(20,198)	(45,817)
Cash flows from financing activities:			
Net increase (decrease) in debt under revolving credit agreements	22,500	(50,500)	19,200
Cash dividends paid	—	(424)	(1,709)
Proceeds from issuance of common stock	530	56,692	667
Net cash provided by financing activities	23,030	5,768	18,158
Net decrease in cash and cash equivalents	(1,442)	(829)	(384)
Cash and cash equivalents at beginning of year	14,674	13,232	12,403
Cash and cash equivalents at end of year	\$ 13,232	\$ 12,403	\$ 12,019

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except for share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at January 1, 2001	9,709,669	\$ 97	\$ 24,401	\$ 40,060	\$ (353)	\$ 64,205
Net income	—	—	—	6,367	—	6,367
Adjustment in minimum pension liability, net of tax of \$828	—	—	—	—	(1,124)	(1,124)
Change in fair value of interest rate swap agreements, net of tax of \$309	—	—	—	—	(419)	(419)
Comprehensive income (loss)	—	—	—	6,367	(1,543)	4,824
Issuance of shares under Employee Stock Purchase Plan	52,206	1	256	—	—	257
Exercise of stock options	136,800	1	566	—	—	567
Stock option tax benefit	—	—	267	—	—	267
Balance at December 31, 2001	9,898,675	99	25,490	46,427	(1,896)	70,120
Net income	—	—	—	11,439	—	11,439
Adjustment in minimum pension liability, net of tax of \$582	—	—	—	—	(873)	(873)
Change in fair value of interest rate swap agreements, net of tax of \$99	—	—	—	—	70	70
Comprehensive income (loss)	—	—	—	11,439	(803)	10,636
Cash dividends, \$0.06 per common share	—	—	—	(849)	—	(849)
Issuance of common shares	4,100,000	41	55,615	—	—	55,656
Issuance of shares under Employee Stock Purchase Plan	37,695	1	335	—	—	336
Exercise of stock options	123,983	1	758	—	—	759
Stock option tax benefit	—	—	377	—	—	377
Retire unvested restricted shares	(2,276)	—	—	—	—	—
Balance at December 31, 2002	14,158,077	142	82,575	57,017	(2,699)	137,035
Net income	—	—	—	8,135	—	8,135
Adjustment in minimum pension liability, net of tax of \$2	—	—	—	—	4	4
Change in fair value of interest rate swap agreements, net of tax of \$210	—	—	—	—	349	349
Comprehensive income	—	—	—	8,135	353	8,488
Cash dividends, \$0.12 per common share	—	—	—	(1,709)	—	(1,709)
Issuance of shares under Employee Stock Purchase Plan	38,160	—	353	—	—	353
Exercise of stock options	87,086	1	456	—	—	457
Stock option tax benefit	—	—	157	—	—	157
Balance at December 31, 2003	14,283,323	\$ 143	\$ 83,541	\$ 63,443	\$ (2,346)	\$ 144,781

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

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Significant Accounting Policies

Consolidation Policy

The accompanying consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, “Sypris” or the “Company”). All significant intercompany accounts and transactions have been eliminated.

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 & assemblies, and for users of test & measurement equipment.

Use of Estimates

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

Cash Equivalents

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

Inventory

Contract inventory is stated at actual production costs, reduced by the cost of units for which revenue has been recognized. Gross contract inventory is considered work in process. Progress payments under long-term contracts are specified in the contracts as a percentage of cost and are liquidated as contract items are completed and shipped. Other inventory is stated at the lower of cost or market. The first-in, first-out method was used for determining the cost of inventory excluding contract inventory and certain other inventory, which was determined using the last-in, first-out method (“LIFO”) (see Note 4). The Company’s reserve for excess and obsolete inventory is primarily based upon forecasted demand for its product sales, and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

Property, Plant and Equipment

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

Interest cost is capitalized for qualifying assets during the period in which the asset is being installed and prepared for its intended use. Capitalized interest cost is amortized on the same basis as the related depreciation.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill

Beginning in 2002 with the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets,” goodwill is no longer amortized, but instead tested at least annually for impairment. Prior to 2002, goodwill was amortized using the straight-line method over its estimated period of benefit of 15 years (see “Adoption of Recently Issued Accounting Standards” below). Goodwill is reported net of accumulated amortization of approximately \$4,146,000 at December 31, 2002 and 2003.

Long-lived Assets

The Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company’s management to believe that the cost of one of its assets may be impaired, the Company will write down that carrying amount to fair value to the extent necessary.

Revenue Recognition

A portion of the Company’s business is conducted under long-term, fixed-price contracts with aerospace & defense companies and agencies of the U.S. Government. Contract revenue is recognized using the percentage of completion method, generally using units-of-delivery as the basis to measure progress toward completing the contract. The costs attributed to contract revenue are based upon the estimated average costs of all units to be shipped. The cumulative average costs of units shipped to date are adjusted through current operations as estimates of future costs to complete change (see “Contract Accounting” below). Revenue under certain other long-term fixed price contracts is recorded using achievement of performance milestones or cost-to-cost as the basis to measure progress toward completing the contract. Amounts representing contract change orders or claims are included in revenue when such costs are reliably estimated and realization is probable.

Revenue recognized under the percentage of completion method of accounting totaled approximately \$134,478,000, \$120,424,000 and \$111,341,000 for the years ended December 31, 2001, 2002 and 2003, respectively. In 2001 and 2002, substantially all such amounts were accounted for under the units-of-delivery method. In 2003, approximately 88% of such amount was accounted for based on units of delivery and approximately 12% was accounted for based on milestones or cost-to-cost. All other revenue is recognized as product is shipped and title passes, or when services are rendered.

Contract Accounting

For long-term contracts, the Company capitalizes in inventory direct material, direct labor and factory overhead as incurred. Selling costs are expensed as incurred. Costs to complete long-term contracts are estimated on a monthly basis. Estimated margins at completion are applied to cumulative contract revenue to arrive at costs charged to operations.

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

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Product Warranty Costs

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

Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's customer base consists of various departments or agencies of the U.S. Government, aerospace & defense companies under contract with the U.S. Government and a number of customers in diverse industries across geographic areas, primarily in North America. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral on its commercial accounts receivable. Credit losses are provided for in the consolidated financial statements and consistently have been within management's expectations. Approximately 43% of accounts receivable outstanding at December 31, 2003 are due from the Company's four largest customers.

The Company recognized revenue from contracts with the U.S. Government and its agencies of approximately \$40,046,000, \$44,185,000 and \$49,143,000 during the years ended December 31, 2001, 2002 and 2003, respectively. The Company's largest customers for the year ended December 31, 2001 were Raytheon Company and Honeywell International, Inc., which represented approximately 21% and 11%, respectively, of the Company's total net revenue. The Company's largest customers for the year ended December 31, 2002 were Raytheon Company and Dana Corporation, which represented approximately 19% and 14%, respectively, of the Company's total net revenue. The Company's largest customers for the year ended December 31, 2003 were Dana Corporation and Raytheon Company, which represented approximately 15% and 14%, respectively, of the Company's total net revenue. No other single customer accounted for more than 10% of the Company's total net revenue for the years ended December 31, 2001, 2002 or 2003.

Stock Based Compensation

Stock options are granted under various stock compensation programs to employees and independent directors (see Note 11). The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	Years ended December 31,		
	2001	2002	2003
	(in thousands, except for per share data)		
Net income	\$ 6,367	\$ 11,439	\$ 8,135
Pro forma stock-based compensation expense, net of tax	1,390	1,591	1,624
Pro forma net income	\$ 4,977	\$ 9,848	\$ 6,511
Pro forma earnings per common share:			
Basic	\$ 0.51	\$ 0.75	\$ 0.46
Diluted	\$ 0.50	\$ 0.72	\$ 0.44

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivative Financial Instruments

In 2001, the Company entered into interest rate swap agreements, which were deemed to be effective hedges in accordance with SFAS No. 133, "Accounting of Derivative Instruments and Hedging Activities" (see Note 7). All derivatives on the consolidated balance sheets are reported at fair value and changes in the fair value, net of income tax, were recognized in other comprehensive income (loss) on the consolidated statements of stockholders' equity.

Adoption of Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 141 also specifies criteria for the recognition of identifiable intangible assets separately from goodwill. The Company applied the provisions of SFAS No. 141 to all business combinations subsequent to the effective date (see Note 2).

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The nonamortization of goodwill has increased the Company's net income and earnings per share beginning in 2002. Following are pro forma results assuming goodwill had not been amortized prior to January 1, 2002 (in thousands, except for per share data):

	Years ended December 31,		
	2001	2002	2003
Reported net income	\$ 6,367	\$ 11,439	\$ 8,135
Adjustment for amortization of goodwill, net of tax	782	—	—
Adjusted net income	\$ 7,149	\$ 11,439	\$ 8,135
Basic earnings per common share as reported	\$ 0.65	\$ 0.87	\$ 0.57
Adjustment for amortization of goodwill, net of tax	0.08	—	—
Adjusted basic earnings per common share	\$ 0.73	\$ 0.87	\$ 0.57
Diluted earnings per common share as reported	\$ 0.63	\$ 0.84	\$ 0.56
Adjustment for amortization of goodwill, net of tax	0.08	—	—
Adjusted diluted earnings per common share	\$ 0.71	\$ 0.84	\$ 0.56

There has been no change to the carrying value of the Company's goodwill since January 1, 2002. Goodwill, net of accumulated amortization, at December 31, 2003 for the Electronics Group and the Industrial Group was approximately \$13,837,000 and \$440,000, respectively. The Company's other intangible assets subject to amortization and the related amortization expense are not material to the Company's consolidated financial position or results of operations, respectively.

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

decide whether to consolidate that entity. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The Company adopted the Interpretation in the fourth quarter 2003 and such adoption did not effect the financial statements.

(2) Acquisitions

On May 31, 2001, the Company acquired from Dana Corporation certain assets and liabilities of the Marion Forge plant. The business produces fully machined, medium and heavy-duty truck axle shafts and other drive train components for integration into subassemblies and is included with Sypris Technologies in the Industrial Group. The transaction was accounted for as a purchase, in which the purchase price of \$11,486,000 was allocated based on the fair values of the assets and liabilities acquired. The purchase price was allocated primarily to property, plant and equipment. The results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date. The acquisition was financed by the Company's Credit Agreement (see Note 7).

On December 31, 2003, the Company acquired from Dana Corporation certain assets and liabilities of a plant that will expand Sypris Technologies' manufacturing capabilities in certain light, medium and heavy-duty truck steer axles and other drive train components. The transaction was accounted for as a purchase, in which the purchase price of \$22,297,000 was allocated based on the fair values of the assets and liabilities acquired. The results of operations of the acquired business will be included in the consolidated financial statements beginning January 1, 2004. The acquisition was financed by the Company's Credit Agreement (see Note 7). The Company paid Dana \$21,780,000 on the closing date and \$517,000 in January 2004. Following are the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, which are subject to refinement (in thousands):

Current assets	\$ 4,540
Property, plant and equipment	17,746
Other assets	1,727
	<hr/>
Total assets acquired	24,013
Current liabilities assumed	(1,716)
	<hr/>
Net assets acquired	<u>\$22,297</u>

Other assets represents the estimated fair value of an eight-year supply agreement with Dana Corporation that the Company will amortize on a straight-line basis over the life of the contract.

(3) Accounts Receivable

Accounts receivable consists of the following:

	December 31,	
	2002	2003
	(in thousands)	
Commercial	\$34,108	\$39,978
U.S. Government	4,366	6,100
	<hr/>	<hr/>
	38,474	46,078
Allowance for doubtful accounts	(523)	(594)
	<hr/>	<hr/>
	<u>\$37,951</u>	<u>\$45,484</u>

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 2002 and 2003, of \$2,930,000 and \$4,508,000, respectively.

(4) Inventory

Inventory consists of the following:

	December 31,	
	2002	2003
	(in thousands)	
Raw materials	\$18,493	\$22,394
Work in process	14,769	15,854
Finished goods	4,588	3,052
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	34,778	36,569
Progress payments related to long-term contracts and programs	(2,737)	(9,851)
LIFO reserve	(1,007)	(940)
Reserve for excess and obsolete inventory	(4,441)	(5,146)
	<u>\$64,443</u>	<u>\$61,932</u>

The preceding amounts include inventory valued under the LIFO method that totaled approximately \$12,663,000 and \$11,476,000 at December 31, 2002 and 2003, respectively.

(5) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
	2002	2003
	(in thousands)	
Land and land improvements	\$ 1,736	\$ 2,173
Buildings and building improvements	19,132	23,420
Machinery, equipment, furniture and fixtures	119,740	148,733
Construction in progress	6,201	15,539
	<u>146,809</u>	<u>189,865</u>
Accumulated depreciation	(71,504)	(83,182)
	<u>\$ 75,305</u>	<u>\$ 106,683</u>

Depreciation expense totaled approximately \$8,468,000, \$11,280,000 and \$12,637,000 for the years ended December 31, 2001, 2002 and 2003, respectively. Approximately \$494,000 and \$3,488,000 was included in accounts payable for capital expenditures at December 31, 2002 and 2003, respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(6) Accrued Liabilities

Accrued liabilities consists of the following:

	December 31,	
	2002	2003
	(in thousands)	
Employee benefit plan accruals	\$ 4,585	\$ 5,219
Salaries, wages and incentives	3,735	1,708
Other	7,715	10,564
	<u>\$ 16,035</u>	<u>\$ 17,491</u>

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

(7) Long-Term Debt

The Company has a credit agreement with a syndicate of banks (the "Credit Agreement") that was entered into in October 1999 and amended most recently in October 2003. The Credit Agreement provides for a revolving credit facility with an aggregate commitment of \$125,000,000 through October 2008. We had total availability for borrowings and letters of credit under the revolving credit facility of \$68,800,000 at December 31, 2003, which, when combined with our unrestricted cash balance of \$12,019,000, provides for total cash and borrowing capacity of \$80,819,000. The credit agreement includes an option to increase the amount of available credit to \$150,000,000, subject to the lead bank's approval. Current maturities of long-term debt at December 31, 2002 and 2003 represent amounts due under a short-term borrowing arrangement included in the Credit Agreement. Standby letters of credit up to a maximum of \$15,000,000 may be issued under the Credit Agreement, and no significant amounts were outstanding at December 31, 2002 and 2003.

Under the terms of the Credit Agreement, interest rates are determined at the time of borrowing and are based on the London Interbank Offered Rate plus a margin of 1.0% to 2.0%; or the greater of the prime rate or the federal funds rate plus 0.5%, plus a margin up to 0.75%. The Company also pays a fee of 0.20% to 0.25% on the unused portion of the aggregate commitment. The margins applied to the respective interest rates and the commitment fee are adjusted quarterly and are based on the Company's ratio of funded debt to earnings before interest, taxes, depreciation and amortization. The weighted average interest rate for outstanding borrowings at December 31, 2003 was 2.7%. The weighted average interest rates for borrowings during the years ended December 31, 2001, 2002 and 2003 were 7.4%, 5.8% and 5.4%, respectively.

The Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charge coverage and leverage ratios and minimum levels of net worth. As of December 31, 2003, the Company was in compliance with all covenants.

On July 26, 2001, the Company entered into interest rate swap agreements with three banks that effectively converted a portion of its floating rate debt to a fixed rate basis for a period of two years, thus reducing the impact of interest rate changes on interest expense. The swap agreements, which expired on July 25, 2003, had a combined notional amount of \$30,000,000 whereby the Company paid a fixed rate of interest of 4.52% and received a variable 30-day LIBOR rate. The differential paid or received was accrued as interest rates changed and was recognized as an adjustment to interest expense in the consolidated income statements. The aggregate fair market value of all interest rate swap agreements was approximately \$559,000 at December 31, 2002, which was included in accrued liabilities on the consolidated balance sheet.

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interest incurred, net of amounts capitalized, during the years ended December 31, 2001, 2002 and 2003 totaled approximately \$4,021,000, \$2,923,000 and \$1,729,000, respectively. Capitalized interest for the year ended December 31, 2001 was \$1,763,000. The Company had no capitalized interest in 2002 or 2003. Interest paid during the years ended December 31, 2001, 2002 and 2003 totaled approximately \$5,623,000, \$2,763,000 and \$1,328,000, respectively.

(8) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding at December 31, 2002 and 2003 under the Credit Agreement approximates fair value because borrowings are for terms less than six months and have rates that reflect currently available terms and conditions for similar debt.

(9) Employee Benefit Plans

The Company sponsors noncontributory defined benefit pension plans (the "Pension Plans") covering certain employees of Sypris Technologies. The Pension Plans covering salaried and management employees provide pension benefits that are based on the employees' highest five-year average compensation within ten years before retirement. The Pension Plans covering hourly employees and union members generally provide benefits at stated amounts for each year of service. The Company's funding policy is to make the minimum annual contributions required by the applicable regulations; however, the Company made a voluntary contribution to the Pension Plans totaling \$5,660,000 in 2002. The Pension Plans' assets are primarily invested in equity securities and fixed income securities.

The following table details the components of pension expense:

	Years ended December 31,		
	2001	2002	2003
		(in thousands)	
Service cost	\$ 358	\$ 172	\$ 137
Interest cost on projected benefit obligation	1,939	2,306	2,265
Net amortizations and deferrals	247	339	611
Expected return on plan assets	(1,961)	(2,329)	(2,430)
	<u>\$ 583</u>	<u>\$ 488</u>	<u>\$ 583</u>

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	December 31,	
	2002	2003
(in thousands)		
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 31,983	\$ 35,237
Service cost	172	137
Interest cost	2,306	2,265
Actuarial loss	2,394	1,450
Benefits paid	(1,618)	(1,765)
	<u>\$ 35,237</u>	<u>\$ 37,324</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 24,789	\$ 29,480
Actual return on plan assets	(1,142)	3,958
Company contributions	7,451	586
Benefits paid	(1,618)	(1,765)
	<u>\$ 29,480</u>	<u>\$ 32,259</u>
Funded status of the Plans:		
Benefit obligation at end of year	\$ 35,237	\$ 37,324
Fair value of plan assets at end of year	29,480	32,259
	<u>(5,757)</u>	<u>(5,065)</u>
Funded status of plan (underfunded)	(5,757)	(5,065)
Unrecognized actuarial loss	8,074	7,714
Unrecognized prior service cost	694	365
	<u>\$ 3,011</u>	<u>\$ 3,014</u>
Net asset recognized	\$ 3,011	\$ 3,014
Balance sheet assets (liabilities):		
Prepaid benefit cost	\$ 4,876	\$ 4,685
Intangible asset	36	—
Accrued benefit liability	(5,661)	(5,425)
Accumulated other comprehensive loss	3,760	3,754
	<u>\$ 3,011</u>	<u>\$ 3,014</u>
Net amount recognized	\$ 3,011	\$ 3,014
Pension plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 20,622	\$ 22,304
Accumulated benefit obligation	20,284	22,100
Fair value of plan assets	14,627	16,677
Projected benefit obligation and net periodic pension cost assumptions:		
Discount rate	6.75%	6.25%
Rate of compensation increase	4.00	4.00
Expected long-term rate of return on plan assets	8.50	8.25
Weighted average asset allocation:		
Equity securities	38%	63%
Debt securities	62	37
	<u>100%</u>	<u>100%</u>
Total	100%	100%

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company uses November 30 as the measurement date for the Pension Plans. Total estimated contributions expected to be paid to the plans during 2004 range from \$1,500,000 to \$2,000,000. The expected long-term rates of return on plan assets for determining net periodic pension cost for 2002 and 2003 were chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various assets categories to the target asset allocation of the plan. The target asset allocation of plan assets is equity securities ranging 55-65% and fixed income securities ranging 35-45% of total investments.

The Company sponsors a defined contribution plan (the "Defined Contribution Plan") for substantially all employees of the Company. The Defined Contribution Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Defined Contribution Plan allows the Company to match participant contributions and provides discretionary contributions. Contributions to the Defined Contribution Plan in 2001, 2002 and 2003 totaled approximately \$1,933,000, \$2,267,000 and \$2,737,000, respectively.

The Company has self-insured medical plans (the "Medical Plans") covering substantially all employees. The number of employees participating in the Medical Plans was approximately 1,350, 1,300 and 1,325 at December 31, 2001, 2002 and 2003, respectively. The Medical Plans limit the Company's annual obligations to fund claims to specified amounts per participant and in the aggregate. The Company is adequately insured for amounts in excess of these limits. Employees are responsible for payment of a portion of the premiums. During 2001, 2002 and 2003, the Company charged approximately \$5,890,000, \$6,677,000 and \$7,223,000, respectively, to operations related to reinsurance premiums, medical claims incurred and estimated, and administrative costs for the Medical Plans. Claims paid during 2001, 2002 and 2003 did not exceed the aggregate limits.

(10) Commitments and Contingencies

The Company leases certain of its real property and certain equipment, vehicles and computer hardware under operating leases with terms ranging from month-to-month to ten years and which contain various renewal and rent escalation clauses. Future minimum annual lease commitments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2003 are as follows (in thousands):

2004	\$ 6,428
2005	6,489
2006	5,963
2007	5,590
2008	4,489
2009 and thereafter	2,947
	<hr/>
	\$ 31,906

Rent expense for the years ended December 31, 2001, 2002 and 2003 totaled approximately \$5,550,000, \$7,387,000 and \$7,485,000, respectively.

The Company entered into agreements for the sale and leaseback of certain specific manufacturing and testing equipment during 2001. The terms of the operating leases range from five to nine years and the Company has the option to purchase the equipment at the expiration of the respective lease term at a fixed price based upon the equipment's estimated residual value. Lease payments on these operating leases are guaranteed by the Company. Proceeds from the sale and leaseback transactions during 2001 were approximately \$5,420,000 and the transactions resulted in a deferred loss of approximately \$787,000. Deferred losses on sales and leaseback transactions are amortized on a straight-line basis over the term of the respective leases. Cumulative deferred losses including deferred losses incurred prior to 2001, net of amortization, was approximately \$1,039,000 and \$835,000 as of December 31, 2002 and 2003, respectively. Future minimum annual lease commitments related to these leases are included in the above schedule.

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2003, the Company had outstanding purchase commitments of approximately \$3,904,000, primarily for the acquisition of manufacturing equipment.

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.

(11) Stock Option and Purchase Plans

The Company has certain stock compensation plans under which options to purchase common stock may be granted to officers, key employees and non-employee directors. Options may be granted at not less than the market price on the date of grant. Options are exercisable in whole or in part up to two years after the date of grant and ending ten years after the date of grant. The following table summarizes option activity for the three years ended December 31, 2003:

	Shares	Exercise Price Range	Weighted Average Exercise Price
Balance at January 1, 2001	1,553,737	\$1.72 – 31.00	\$ 7.79
Granted	632,819	3.88 – 13.27	6.15
Exercised	(164,616)	1.72 – 8.75	3.06
Forfeited	(174,980)	6.25 – 11.76	8.21
Balance at December 31, 2001	1,846,960	1.72 – 31.00	7.61
Granted	362,391	9.95 – 19.00	14.32
Exercised	(127,561)	1.72 – 10.50	6.23
Forfeited	(144,425)	6.25 – 16.03	9.39
Balance at December 31, 2002	1,937,365	1.72 – 31.00	8.83
Granted	690,811	6.88 – 16.10	8.78
Exercised	(104,730)	1.72 – 10.50	5.04
Forfeited	(178,061)	3.36 – 16.03	9.17
Balance at December 31, 2003	2,345,385	\$3.88 – 31.00	\$ 8.96

The following table summarizes certain weighted average data for options outstanding and currently exercisable at December 31, 2003:

Exercise Price Range	Outstanding			Exercisable	
	Shares	Weighted Average Exercise Price	Remaining Contractual Life	Shares	Weighted Average Exercise Price
\$3.88 – \$5.00	125,120	\$ 4.63	5.6	102,870	\$ 4.59
\$5.12 – \$7.00	438,970	6.14	5.2	103,590	6.19
\$7.37 – \$10.00	1,212,208	8.43	5.7	520,593	8.64
\$10.06 – \$15.00	466,794	12.19	6.0	79,069	10.87
\$15.59 – \$20.00	96,805	17.24	7.1	55,805	18.13
\$23.00 – \$31.00	5,488	27.38	1.3	5,488	27.38
Total	2,345,385	\$ 8.96	5.7	867,415	\$ 8.80

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's stock compensation program also provides for the grant of performance-based stock options to key employees ("Performance Options"). The terms and conditions of the Performance Options grants provide for the determination of the exercise price and the beginning of the vesting period to occur when the fair market value of the Company's common stock achieves certain targeted price levels. Performance Options to purchase 56,000 shares and 116,000 shares of common stock were granted during 2001 and 2003, respectively. The Company did not grant Performance Options in 2002. Performance Options to purchase 32,000 shares, 49,000 shares and 28,000 shares of common stock were forfeited in 2001, 2002 and 2003, respectively. One targeted price level of the Performance Options was achieved in 2002, resulting in determination of the exercise price and beginning of the vesting period for options to purchase 52,000 shares of common stock. Performance Options for which the targeted price level has not been achieved total 416,000 shares, 315,000 shares and 403,000 shares at December 31, 2001, 2002 and 2003, respectively, and are excluded from disclosures of options outstanding.

The aggregate number of shares of common stock reserved for issuance under the Company's stock compensation programs as of December 31, 2002 and 2003 was 4,750,000. The aggregate number of shares available for future grant as of December 31, 2002 and 2003 was 2,013,261 and 1,375,011, respectively.

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

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value for options granted by the Company during 2001, 2002 and 2003 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Years ended December 31,		
	2001	2002	2003
Expected life (years)	8	7	7
Expected volatility	75.2%	74.8%	75.0%
Risk-free interest rates	4.93%	3.83%	3.69%
Expected dividend yield	—	1.09%	0.95%

The weighted average Black-Scholes value of options granted under the stock option plans during 2001, 2002 and 2003 was \$4.71, \$9.39 and \$5.76 per share, respectively.

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

The Company has a stock purchase plan that provides substantially all employees who have satisfied the eligibility requirements the opportunity to purchase shares of the Company's common stock on a compensation deduction basis. The purchase price is the lower of 85% of the fair market value of the common stock on the first

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

or last business day of the purchase period. Payroll deductions may not exceed \$6,000 for any six-month cycle. The stock purchase plan expires January 31, 2006. At December 31, 2002 and 2003, there were 159,209 shares and 121,049 shares, respectively, available for purchase under the plan. During 2001, 2002 and 2003, a total of 52,206 shares, 37,695 shares and 38,160 shares, respectively, were issued under the plan.

(12) Stockholders' Equity

On March 26, 2002, the Company completed a public stock offering of 3,600,000 shares of its common stock and, on April 19, 2002, an additional 500,000 shares were issued through the exercise of an over-allotment option. The shares were sold at \$14.50 per share and generated proceeds, after underwriting discounts and expenses, of approximately \$55,656,000. Proceeds from the offering were primarily used to repay debt. On May 7, 2002, the Company's stockholders approved an amendment to increase the Company's authorized common stock from 20,000,000 shares to 30,000,000 shares.

The Company has a stockholder rights plan, under which each stockholder owns one right for each outstanding share of common stock owned. Each right entitles the holder to purchase one one-thousandth of a share of a new series of preferred stock at an exercise price of \$63.00. The rights trade along with, and not separately from, the shares of common stock unless they become exercisable. If any person or group acquires or makes a tender offer for 15% or more of the common stock of the Company (except in transactions approved by the Company's Board of Directors in advance) the rights become exercisable, and they will separate, become tradable, and entitle stockholders, other than such person or group, to acquire, at the exercise price, preferred stock with a market value equal to twice the exercise price. If the Company is acquired in a merger or other business combination with such person or group, or if 50% of its earning power or assets are sold to such person or group, each right will entitle its holder, other than such person or group, to acquire, at the exercise price, shares of the acquiring company's common stock with a market value of twice the exercise price. The rights will expire on October 23, 2011, unless redeemed or exchanged earlier by the Company, and will be represented by existing common stock certificates until they become exercisable.

As of December 31, 2003, 18,400 shares of the Company's preferred stock were designated as Series A Preferred Stock in connection with the adoption of the stockholder rights plan. There are no shares of Series A Preferred Stock currently outstanding. The holders of Series A Preferred Stock will have voting rights, be entitled to receive dividends based on a defined formula and have certain rights in the event of the Company's dissolution. The shares of Series A Preferred Stock shall not be redeemable. However, the Company may purchase shares of Series A Preferred Stock in the open market or pursuant to an offer to a holder or holders.

Cumulative losses recorded in other comprehensive income (loss) for adjustments in the minimum pension liability, net of tax, totaled \$1,477,000, \$2,350,000 and \$2,346,000 at December 31, 2001, 2002 and 2003, respectively. Cumulative losses recorded in other comprehensive income (loss) for the aggregate fair market value of all swap agreements, net of tax, totaled \$419,000 and \$349,000 at December 31, 2001 and 2002, respectively.

(13) Income Taxes

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

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The components of income tax expense (benefit) are as follows:

	Years ended December 31,		
	2001	2002	2003
	(in thousands)		
Current:			
Federal	\$2,161	\$1,184	\$ (847)
State	270	66	(279)
	2,431	1,250	(1,126)
Deferred:			
Federal	706	3,427	4,938
State	(227)	257	1,071
	479	3,684	6,009
	\$2,910	\$4,934	\$ 4,883

The Company files a consolidated federal income tax return which includes all subsidiaries. Income taxes paid during 2001, 2002 and 2003 totaled approximately \$1,962,000, \$3,656,000 and \$2,250,000, respectively. The Company received approximately \$2,108,000, \$208,000 and \$1,760,000 in federal income tax refunds during 2001, 2002 and 2003, respectively.

At December 31, 2003, the Company had approximately \$9,862,000 of state net operating loss carryforwards available to offset future state taxable income. Such carryforwards reflect income tax losses incurred (in thousands) which will expire on December 31 of the following years:

2009	\$2,839
2010	560
2011	5,999
2017	464
	\$9,862

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

	Years ended December 31,		
	2001	2002	2003
	(in thousands)		
Federal tax at the statutory rate	\$3,154	\$5,567	\$4,426
State income taxes, net of federal tax benefit	238	646	522
Change in valuation allowance for deferred tax asset	(300)	(677)	—
Research and development tax credit	(338)	(330)	(146)
Other	156	(272)	81
	\$2,910	\$4,934	\$4,883

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred income tax assets and liabilities are as follows:

	December 31,	
	2002	2003
	(in thousands)	
Deferred tax assets:		
Compensation and benefit accruals	\$ 1,190	\$ 747
Inventory valuation	1,042	1,201
State net operating loss carryforwards	689	560
Contract provisions	572	—
Accounts receivable allowance	199	226
Interest rate swap agreements	210	—
Other	103	—
	4,005	2,734
Deferred tax liabilities:		
Depreciation	(4,115)	(8,652)
Contract provisions	—	(240)
Defined benefit pension plan	(258)	(231)
Other	—	(200)
	(4,373)	(9,323)
Net deferred tax liability	\$ (368)	\$(6,589)

The valuation allowance for deferred tax assets decreased by \$300,000 and \$677,000 in 2001 and 2002, respectively. Management believes it is more likely than not that the Company's future earnings will be sufficient to ensure the realization of deferred tax assets for federal and state purposes.

(14) Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by using the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options.

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

	Years ended December 31,		
	2001	2002	2003
	(in thousands, except for per share data)		
Shares outstanding:			
Weighted average shares outstanding	9,828	13,117	14,237
Effect of dilutive employee stock options	200	547	416
	10,028	13,664	14,653
Net income applicable to common stock	\$ 6,367	\$ 11,439	\$ 8,135
Earnings per common share:			
Basic	\$ 0.65	\$ 0.87	\$ 0.57
Diluted	\$ 0.63	\$ 0.84	\$ 0.56

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(15) Segment Information

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial Group. The segments are each managed separately because of the distinctions between the products, services, markets, customers, technologies, and workforce skills of the segments. The Electronics Group provides a wide range of manufacturing and technical services for a diversified customer base as an outsourced service provider. The Electronics Group also manufactures complex data storage systems, magnetic instruments, current sensors, and other electronic products. The Industrial Group provides manufacturing services for a variety of customers that outsource forged and finished steel components and subassemblies. The Industrial Group also manufactures high-pressure closures and other fabricated products. Revenue derived from outsourced services for the Electronics Group accounted for 67%, 55% and 52% of total net revenue in 2001, 2002 and 2003, respectively. Revenue derived from outsourced services for the Industrial Group accounted for 15%, 29% and 31% of total net revenue in 2001, 2002 and 2003, respectively. There was no intersegment net revenue recognized for all years presented. The following table presents financial information for the reportable segments of the Company:

	Years ended December 31,		
	2001	2002	2003
	(in thousands)		
Net revenue from unaffiliated customers:			
Electronics Group	\$207,282	\$186,562	\$180,733
Industrial Group	47,358	86,915	95,872
	<u>\$254,640</u>	<u>\$273,477</u>	<u>\$276,605</u>
Gross profit:			
Electronics Group	\$ 37,385	\$ 37,796	\$ 36,266
Industrial Group	6,162	11,725	9,746
	<u>\$ 43,547</u>	<u>\$ 49,521</u>	<u>\$ 46,012</u>
Operating income:			
Electronics Group	\$ 12,903	\$ 14,447	\$ 12,062
Industrial Group	3,563	8,210	6,895
General, corporate and other	(3,436)	(3,701)	(4,016)
	<u>\$ 13,030</u>	<u>\$ 18,956</u>	<u>\$ 14,941</u>
Total assets:			
Electronics Group	\$121,228	\$114,305	\$121,560
Industrial Group	73,820	90,781	121,429
General, corporate and other	16,396	18,519	20,506
	<u>\$211,444</u>	<u>\$223,605</u>	<u>\$263,495</u>
Depreciation and amortization:			
Electronics Group	\$ 7,951	\$ 6,885	\$ 7,134
Industrial Group	1,694	4,224	5,425
General, corporate and other	211	277	272
	<u>\$ 9,856</u>	<u>\$ 11,386</u>	<u>\$ 12,831</u>
Capital expenditures:			
Electronics Group	\$ 7,917	\$ 7,518	\$ 10,621
Industrial Group	19,547	12,009	11,790
General, corporate and other	159	220	110
	<u>\$ 27,623</u>	<u>\$ 19,747</u>	<u>\$ 22,521</u>

The Company's export sales from the U.S. totaled \$23,890,000, \$25,437,000 and \$22,250,000 in 2001, 2002 and 2003, respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(16) Quarterly Financial Information (Unaudited)

The following is an analysis of certain items in the consolidated income statements by quarter for the years ended December 31, 2002 and 2003:

	2002				2003			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except for per share data)							
Net revenue	\$ 62,533	\$ 73,509	\$ 70,757	\$ 66,678	\$ 58,915	\$ 70,621	\$ 68,898	\$ 78,171
Gross profit	11,129	12,882	13,974	11,536	9,951	13,041	9,569	13,451
Operating income	3,733	4,759	5,658	4,806	2,759	4,918	1,547	5,717
Net income	1,825	2,805	3,534	3,275	1,379	2,679	686	3,391
Earnings per common share:								
Basic	\$ 0.18	\$ 0.20	\$ 0.25	\$ 0.23	\$ 0.10	\$ 0.19	\$ 0.05	\$ 0.24
Diluted	\$ 0.17	\$ 0.19	\$ 0.24	\$ 0.23	\$ 0.10	\$ 0.19	\$ 0.05	\$ 0.23
Cash dividends declared per common share	\$ —	\$ —	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03



PART II
INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, to be paid in connection with the sale of the registrant's common stock being registered, all of which will be paid by the registrant. All amounts are estimates except the registration fee and the NASD listing fee.

Securities and Exchange Commission registration fee	\$ 9,180
Nasdaq Stock Market listing fee	34,500
Accounting fees and expense	60,000
Legal fees and expenses	60,000
Transfer agent and registrar fees	5,000
Printing expenses	40,000
Miscellaneous	116,320
	<hr/>
Total	\$ 325,000

Item 15. Indemnification of Directors and Officers.

Limitation of Directors' Liability. The registrant's certificate of incorporation provides that, except to the extent prohibited by the Delaware General Corporation Law (DGCL), the registrant's directors shall not be personally liable to the registrant or its stockholders for monetary damages for any breach of fiduciary duty as directors. Under the certificate of incorporation and the DGCL, directors will continue to be subject to liability for any breach of the director's duty of loyalty to the registrant or its stockholders, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, for payment of dividends or approval of stock repurchases or redemptions that are prohibited by the DGCL, and for transactions from which the director derived an improper personal benefit. The certificate of incorporation provides that if the DGCL is amended to authorize corporate action further eliminating or limiting directors' personal liability, the liability of the registrant's directors will be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. Any repeal or modification of this provision of the registrant's certificate of incorporation by the registrant's stockholders shall not adversely affect any right or protection of a director existing at the time of such repeal or modification.

This provision provides the registrant's directors with protection from awards for monetary damages for breach of their duty of care, but it does not eliminate such duty. Accordingly, this provision will not affect the availability of equitable remedies such as an injunction or rescission based on a director's breach of his duty of care.

Indemnification. Section 145 of the DGCL empowers a corporation to indemnify its directors, officers, employees or agents for judgments, settlements and expenses in respect of third party actions, and for expenses in respect of actions by or in the right of the corporation, and to purchase insurance with respect to liability arising out of such status. The DGCL provides that the indemnification permitted by statute shall not be deemed exclusive of any other rights to which the directors and officers may be entitled under the corporation's bylaws, any agreement, a vote of stockholders or otherwise.

The registrant's certificate of incorporation provides that the registrant shall indemnify any person who was or is a party or is threatened to be made a party to or becomes involved in any action, suit or proceeding (whether civil, criminal, administrative or investigative) by reason of the fact that such person, is or was a director, officer, employee or agent of the registrant, or is or was serving at the request of the registrant as a director, officer,

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employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against all liability and loss suffered and expenses reasonably incurred by such person in connection with such action, suit or proceeding. The registrant will be required to indemnify a person in connection with a proceeding initiated by the person seeking indemnification only if the proceeding was authorized by the board of directors of the registrant. The registrant shall pay the expenses of its directors and executive officers, and may pay the expenses of all other officers, employees or agents, incurred in defending any such proceeding in advance of its final disposition, subject to the provisions of the DGCL. Any repeal or modification of the indemnification provision in the registrant's certificate of incorporation shall not adversely affect any right or protection of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

The registrant maintains directors' and officers' liability insurance covering certain liabilities which may be incurred by its directors and officers in the performance of their duties.

Item 16. Exhibits.

The exhibits listed on the Exhibit Index appearing on page II-3 of this Registration Statement are hereby incorporated by reference.

Item 17. Undertakings.

The undersigned registrant hereby undertakes that:

(1) For the purpose of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(2) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this registration statement as of the time it was declared effective.

(3) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
1	Form of Underwriting Agreement.
2	Fourth Amended and Restated Agreement and Plan of Reorganization dated February 5, 1998 by and among Group Financial Partners, Inc., Group Technologies Corporation, Bell Technologies, Inc. and Tube Turns Technologies, Inc. (incorporated by reference to Appendix A to the Prospectus included in the registrant's Registration Statement on Form S-4/A filed February 12, 1998 (No. 333-20299)).
4.1	Certificate of Incorporation of registrant (incorporated by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-8 filed May 9, 2002 (No. 333-87880)).
4.2	Bylaws of Registrant (incorporated by reference to Exhibit 4.2 to the registrant's Registration Statement on Form S-8 filed May 9, 2002 (No. 333-87880)).
4.3	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K for the fiscal year ended December 31, 1998 filed on March 5, 1999 (Commission File No. 000-24020)).
4.4	Rights Agreement dated as of October 23, 2001 between registrant and LaSalle Bank National Association, as Rights Agent, including as Exhibit A the Form of Certificate of Designation and as Exhibit B the Form of Right Certificate (incorporated by reference to Exhibit 4.1 to the registrant's Form 8-K filed on October 23, 2001 (Commission File No. 000-24020)).
5	Opinion of Wyatt, Tarrant & Combs, LLP.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Wyatt, Tarrant & Combs, LLP (included in Exhibit 5).
24	Power of attorney (included on the signature page of the Registration Statement).

3,000,000 Shares*
SYPRIS SOLUTIONS, INC.
Common Stock

UNDERWRITING AGREEMENT

March 11, 2004

Needham & Company, Inc.
Robert W. Baird & Co. Incorporated
RaymondJames & Associates, Inc.
As Representatives of the several Underwriters
c/o Needham & Company, Inc.
445 Park Avenue
New York, New York 10022

Ladies and Gentlemen:

Sypris Solutions, Inc., a Delaware corporation (the "Company"), proposes to issue and sell 3,000,000 shares (the "Firm Shares") of the Company's common stock, \$.01 par value per share (the "Common Stock"), to you and to the several other Underwriters named in Schedule I hereto (collectively, the "Underwriters"), for whom you are acting as representatives (the "Representatives"). The Company has also agreed to grant to you and the other Underwriters an option (the "Option") to purchase up to an additional 450,000 shares of Common Stock, on the terms and for the purposes set forth in Section 1(b) (the "Option Shares"). The Firm Shares and the Option Shares are referred to collectively herein as the "Shares."

The Company confirms as follows its agreement with the Representatives and the several other Underwriters.

1. Agreement to Sell and Purchase.

(a) On the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions of this Agreement, (i) the Company agrees to issue and sell the Firm Shares to the several Underwriters and (ii) each of the Underwriters, severally and not jointly, agrees to purchase from the Company the respective number of Firm Shares set forth opposite that Underwriter's name in Schedule I hereto, at the purchase price of \$ [] for each Firm Share.

(b) Subject to all the terms and conditions of this Agreement, the Company grants the Option to the several Underwriters to purchase, severally and not jointly, up to 450,000 Option Shares at the same price per share as the Underwriters shall pay for the Firm Shares. The Option may be exercised only to cover over-allotments in the sale of the Firm Shares by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of this Agreement upon written or telegraphic notice (the "Option Shares Notice") by the Representatives to the Company no later than 12:00 noon, New York City time, at least two and no more than five business days before the date specified for closing in the Option Shares Notice (the "Option Closing Date"), setting forth the aggregate number of Option Shares to be purchased and the time and date for such purchase. On the Option Closing Date, the Company will issue and sell to the Underwriters the number of Option Shares set forth in the Option Shares Notice, and each Underwriter will purchase such percentage of the Option Shares as is equal to the percentage of Firm Shares that such Underwriter is purchasing, as adjusted by the Representatives in such manner as they deem advisable to avoid fractional shares.

* Plus an option to purchase up to an additional 450,000 shares to cover over-allotments.

2. Delivery and Payment

Delivery of the Firm Shares shall be made to the Representatives for the accounts of the Underwriters against payment of the purchase price by wire transfer payable in same-day funds to a bank account specified by the Company to the order of the Company at the office of Needham & Company, Inc., 445 Park Avenue, New York, New York 10022 (or the offices of its counsel, Piper Rudnick LLP, 1251 Avenue of the Americas, New York, New York 10020), at 10:00 a.m., New York City time, on the third (or, if the purchase price set forth in Section 1(a) hereof is determined after 4:30 p.m., Washington D.C. time, the fourth) business day following the commencement of the offering contemplated by this Agreement, or at such time on such other date, not later than seven business days after the date of this Agreement, as may be agreed upon by the Company and the Representatives (such date is hereinafter referred to as the "Closing Date").

To the extent the Option is exercised, delivery of the Option Shares against payment by the Underwriters (in the manner specified above) will take place at the offices specified above for the Closing Date at the time and date (which may be the Closing Date) specified in the Option Shares Notice.

Certificates evidencing the Shares shall be in definitive form and shall be registered in such names and in such denominations as the Representatives shall request at least two business days prior to the Closing Date or the Option Closing Date, as the case may be, by written notice to the Company. For the purpose of expediting the checking and packaging of certificates for the Shares, the Company agrees to make such certificates available for inspection at the offices specified above at least 24 hours prior to the Closing Date or the Option Closing Date, as the case may be.

The cost of original issue tax stamps and other transfer taxes, if any, in connection with the issuance and delivery of the Firm Shares and Option Shares by the Company to the respective Underwriters shall be borne by the Company. The Company will pay and save each Underwriter and any subsequent holder of the Shares harmless from any and all liabilities with respect to or resulting from any failure or delay in paying Federal and state stamp and other transfer taxes, if any, which may be payable or determined to be payable in connection with the original issuance or sale to such Underwriter of the Shares.

3. Representations and Warranties of the Company

The Company represents, warrants and covenants to each Underwriter that:

(a) The Company meets the requirements for use of Form S-3 and a registration statement (Registration No. 333-112760) on Form S-3 relating to the Shares, including a preliminary prospectus and such amendments to such registration statement as may have been required to the date of this Agreement, has been prepared by the Company under the provisions of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (collectively referred to as the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder, and has been filed with the Commission. The term "preliminary prospectus" as used herein means a preliminary prospectus, including the documents incorporated by reference therein, as contemplated by Rule 430 or Rule 430A of the Rules and Regulations included at any time as part of the registration statement. Copies of such registration statement and amendments and of each related preliminary prospectus have been delivered to the Representatives. If such registration statement has not become effective, a further amendment to such registration statement, including a form of final prospectus, necessary to permit such registration statement to become effective will be filed promptly by the Company with the Commission. If such registration statement has become effective, a final prospectus containing information permitted to be omitted at the time of effectiveness by Rule 430A of the Rules and Regulations will be filed promptly by the Company with the Commission in accordance with Rule 424(b) of the Rules and Regulations. The term "Registration Statement" means the registration statement as amended at the time it becomes or became effective (the "Effective Date"), including all documents incorporated by reference therein, financial statements and all exhibits and schedules thereto and any information deemed to be included by Rule 430A, and includes any

registration statement relating to the offering contemplated by this Agreement and filed pursuant to Rule 462(b) of the Rules and Regulations. The term "Prospectus" means the prospectus, including the documents incorporated by reference therein, as first filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations or, if no such filing is required, the form of final prospectus, including the documents incorporated by reference therein, included in the Registration Statement at the Effective Date. Any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to refer to and include the filing of any document under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), after the Effective Date, the date of any preliminary prospectus or the date of the Prospectus, as the case may be, and through and including the Closing Date and, if later, the Option Closing Date and deemed to be incorporated therein by reference.

(b) No order preventing or suspending the use of any preliminary prospectus has been issued by the Commission, and no stop order suspending the effectiveness of the Registration Statement (including any related registration statement filed pursuant to Rule 462(b) under the Act) or any post-effective amendment thereto has been issued, and no proceeding for that purpose has been initiated or threatened by the Commission. On the Effective Date, the date the Prospectus is first filed with the Commission pursuant to Rule 424(b) (if required), at all times thereafter during the period through and including the Closing Date and, if later, the Option Closing Date and when any post-effective amendment to the Registration Statement becomes effective or any amendment or supplement to the Prospectus is filed with the Commission, the Registration Statement and the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment or supplement thereto), including the financial statements included in the Prospectus, did and will comply in all material respects with all applicable provisions of the Act, the Exchange Act, the rules and regulations under the Exchange Act (the "Exchange Act Rules and Regulations"), and the Rules and Regulations. On the Effective Date and when any post-effective amendment to the Registration Statement becomes effective, no part of the Registration Statement, the Prospectus or any such amendment or supplement thereto did or will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading. At the Effective Date, the date the Prospectus or any amendment or supplement to the Prospectus is filed with the Commission and at the Closing Date and, if later, the Option Closing Date, the Prospectus did not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing representations and warranties in this Section 3(b) do not apply to any statements or omissions made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Company by the Representatives specifically for inclusion in the Registration Statement or Prospectus or any amendment or supplement thereto. The Company acknowledges that the statements set forth in the material included in the table under the first paragraph, the information related to the selling concession and dealer allowance in the second paragraph, paragraphs eight through thirteen and the last two paragraphs, in each case under the heading "Underwriting" in the Prospectus, constitute the only information relating to any Underwriter furnished in writing to the Company by the Representatives specifically for inclusion in the Registration Statement. In connection with this offering, some of the underwriters and selling group members, if any, or their affiliates may engage in passive market making transactions in our common stock on the Nasdaq National Market immediately prior to the commencement of sales in this offering, in accordance with Rule 103 of Regulation M under the Exchange Act. Passive market making may stabilize or maintain the market price of our common stock at a level above that which might otherwise prevail and, if commenced, may be discontinued at any time.

(c) The documents that are incorporated by reference in the preliminary prospectus and the Prospectus or from which information is so incorporated by reference, and any amendments thereto, when they became or become effective or were or are filed with the Commission, as the case may be, complied or will comply in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the Rules and Regulations or the Exchange Act Rules and Regulations, as applicable; and any documents so filed and incorporated by reference subsequent to the Effective Date shall, when they are filed with the Commission,

comply in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the Rules and Regulations or the Exchange Act Rules and Regulations, as applicable.

(d) The Company does not own, and at the Closing Date and, if later, the Option Closing Date, will not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any corporation, limited liability company, firm, partnership, joint venture, association or other entity, other than (i) the subsidiaries listed in Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2003 and (ii) other subsidiaries individually and collectively not material to the Company and its business or financial condition (the "Subsidiaries"). The Company and each of its Subsidiaries is, and at the Closing Date and, if later, the Option Closing Date, will be, a corporation or limited liability company duly organized or formed, as the case may be, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation. The Company and each of its Subsidiaries has, and at the Closing Date and, if later, the Option Closing Date, will have, full power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and to conduct its business as described in the Registration Statement and the Prospectus. The Company and each of its Subsidiaries is, and at the closing Date and, if later, the Option Closing Date, will be, duly licensed or qualified to do business and in good standing as a foreign corporation or limited liability company, as the case may be, in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such license or qualification necessary, except to the extent that the failure to be so licensed or qualified or be in good standing would not materially and adversely affect the Company or its business, properties, condition (financial or other) or results of operations. All of the outstanding shares of capital stock, units or other ownership interests of each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable, and owned by the Company free and clear of all claims, liens, charges and encumbrances, except any lien or security interest in such shares, units or other ownership interests pursuant to the principal credit facility of the Company described in the Prospectus (the "Credit Facility"); there are no securities outstanding that are convertible into or exercisable or exchangeable for capital stock, units or other ownership interest of any Subsidiary. The Company and its Subsidiaries are not, and at the Closing Date and, if later, the Option Closing Date, will not be, engaged in any discussions or a party to any agreement or understanding, written or oral, regarding the acquisition of an interest in any corporation, firm, partnership, joint venture, association or other entity where such discussions, agreements or understandings would require amendment to the Registration Statement pursuant to applicable securities laws. Complete and correct copies of the certificate of incorporation and of the by-laws or other comparable governing documents of the Company and each of its Subsidiaries and all amendments thereto have been delivered to the Representatives, and no changes therein will be made subsequent to the date hereof and prior to the Closing Date or, if later, the Option Closing Date.

(e) The Company has authorized, issued and outstanding capital stock as set forth under the caption "Capitalization" in the Prospectus as of the date set forth therein. All of the outstanding shares of capital stock of the Company have been duly authorized, validly issued and are fully paid and nonassessable and were issued in compliance with all applicable state and Federal securities laws; the Shares have been duly authorized and when issued and paid for as contemplated herein will be validly issued, fully paid and nonassessable; no preemptive or similar rights exist with respect to any of the Shares or the issue and sale thereof. The description of the capital stock of the Company incorporated by reference in the Registration Statement and the Prospectus is, and at the Closing Date and, if later, the Option Closing Date, will be, complete and accurate in all material respects. Except as set forth in the Prospectus, the Company does not have outstanding, and at the Closing Date and, if later, the Option Closing Date, will not have outstanding, any options to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any shares of capital stock, or any such warrants, convertible securities or obligations. No further approval or authority of stockholders or the Board of Directors of the Company will be required for the issuance and sale of the Shares as contemplated herein. The certificates evidencing the Shares are in due and proper legal form and have been duly authorized for issuance by the Company.

(f) The financial statements and schedules included or incorporated by reference in the Registration Statement or the Prospectus present fairly the financial condition of the Company and its consolidated Subsidiaries as of the respective dates thereof and the results of operations and cash flows of the Company and its consolidated Subsidiaries for the respective periods covered thereby, all in conformity with United States generally accepted accounting principles applied on a consistent basis throughout the entire period involved, except as otherwise disclosed in the Prospectus. No other financial statements or schedules of the Company are required by the Act, the Exchange Act, the Exchange Act Rules and Regulations or the Rules and Regulations to be included in the Registration Statement or the Prospectus. Ernst & Young LLP (the “Accountants”), who have reported on such financial statements and schedules, are independent accountants with respect to the Company as required by the Act and the Rules and Regulations. The summary and selected consolidated financial and statistical data included in the Registration Statement present fairly the information shown therein as at the respective dates and for the respective periods specified and have been compiled on a basis consistent with the audited financial statements presented in the Registration Statement. There are no pro forma or as adjusted financial statements which are required to be included or incorporated by reference in the Registration Statement and the Prospectus in accordance with Regulation S-X which have not been included as so required.

(g) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus and prior to or on the Closing Date and, if later, the Option Closing Date, except as set forth in or contemplated by the Registration Statement and the Prospectus, (i) there has not been and will not have been any change in the capitalization of the Company (other than in connection with the exercise of options to purchase the Company’s Common Stock granted pursuant to the Company’s stock option and equity incentive plans from the shares reserved therefor as described in the Registration Statement), or any material adverse change in the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries, taken as a whole, arising for any reason whatsoever, (ii) neither the Company nor any of its Subsidiaries has incurred nor will any of them incur, except in the ordinary course of business as described in the Prospectus, any material liabilities or obligations, direct or contingent, nor has the Company or any of its Subsidiaries entered into nor will any of them enter into, except in the ordinary course of business as described in the Prospectus, any material transactions other than pursuant to this Agreement and the transactions referred to herein, and (iii) the Company has not and will not have paid or declared any dividends or other distributions of any kind on any class of its capital stock.

(h) The Company is not and will not become as a result of the transactions contemplated hereby an “investment company” as such term is defined in the Investment Company Act of 1940, as amended, and is not and will not be an entity “controlled” by an “investment company” within the meaning of such act.

(i) Except as set forth in the Registration Statement and the Prospectus, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company, or any of its Subsidiaries or any of their officers in their capacity as such, nor to the knowledge of the Company is there any basis therefor, before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding might materially and adversely affect the Company and its Subsidiaries taken as a whole or the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole.

(j) The Company and each Subsidiary has, and at the Closing Date and, if later, the Option Closing Date, will have, performed in all material respects all the obligations required to be performed by it, and is not, and at the Closing Date, and, if later, the Option Closing Date, will not be, in default, under any contract or other instrument to which it is a party or by which its property is bound or affected, which default might reasonably be expected to materially and adversely affect the Company or the business, properties, condition (financial or other) or results of operations of the Company and its Subsidiaries taken as a whole. To the best knowledge of the Company, no other party under any contract or other instrument to which it or any of its Subsidiaries is a party is in default in any respect thereunder, which default might reasonably be expected to materially and adversely affect the Company and its Subsidiaries taken as a whole or the

business, properties, condition (financial or other) or results of operations of the Company and its Subsidiaries taken as a whole. Neither the Company nor any of its Subsidiaries is, and at the Closing Date and, if later, the Option Closing Date, will be, in violation of any provision of its certificate of incorporation or by-laws or other organizational documents.

(k) No consent, approval, authorization or order of, or any filing or declaration with, any court or governmental agency or body is required for the consummation by the Company of the transactions on its part contemplated herein, except such as have been obtained under the Act or the Rules and Regulations and such as may be required under foreign securities laws, state securities or Blue Sky laws or the by-laws and rules of the National Association of Securities Dealers, Inc. (the "NASD") in connection with the purchase and distribution by the Underwriters of the Shares.

(l) The Company has full corporate power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with the terms hereof except (i) as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and (ii) to the extent that rights to indemnity or contribution under this Agreement may be limited by Federal and state securities laws or the public policy underlying such laws. The performance of this Agreement and the consummation of the transactions contemplated hereby will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the certificate or articles of incorporation, by-laws or other organizational documents of the Company or any of its Subsidiaries, any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company or any of its Subsidiaries.

(m) The Company and its Subsidiaries have good and, in the case of real property, marketable title to all properties and assets described in the Prospectus as owned by them, free and clear of all liens, charges, encumbrances or restrictions, except such as are described in the Prospectus or are not material to the business of the Company and its Subsidiaries taken as a whole. The Company and its Subsidiaries have valid, subsisting and enforceable leases for the properties described in the Prospectus as leased by them. The Company and its Subsidiaries own or lease all such properties as are necessary to their operations as now conducted or as proposed to be conducted, except where the failure to so own or lease would not materially and adversely affect the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and, its Subsidiaries taken as a whole.

(n) There is no document, contract, permit or instrument of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed or incorporated by reference as required. All such contracts to which the Company or any of its Subsidiaries is a party have been duly authorized, executed and delivered by the Company or such Subsidiary, constitute valid and binding agreements of the Company or such Subsidiary and are enforceable against and by the Company or such Subsidiary in accordance with the terms thereof except (i) as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles and (ii) to the extent that rights to indemnity or contribution under this Agreement may be limited by Federal and state securities laws or the public policy underlying such laws.

(o) No statement, representation, warranty or covenant made by the Company in this Agreement or made in any certificate or document required by Section 4 of this Agreement to be delivered to the Representatives was or will be, when made, inaccurate, untrue or incorrect in any material respect.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date or, if later, the Option Closing Date, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any preliminary prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act. Neither the Company nor any of its directors, officers or controlling persons has taken, directly or indirectly, any action designed, or which might reasonably be expected, to cause or result, under the Act or otherwise, in, or which has constituted, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(q) No holder of securities of the Company has rights to the registration of any securities of the Company because of the filing of the Registration Statement, which rights have not been waived by the holder thereof as of the date hereof.

(r) The Common stock is registered under Section 12(g) of the Exchange Act, and the Company has filed an application to list the Shares on the Nasdaq National Market (“NNM”) and has received notification that the listing has been approved, subject to notice of issuance of the Shares. The Company has taken all necessary actions to ensure that, upon the NNM approving the Shares for inclusion, it will be in compliance with all applicable corporate governance requirements set forth in the Nasdaq Marketplace Rules that are then in effect and is actively taking steps to ensure that it will be in compliance with other applicable corporate governance requirements set forth in the Nasdaq Marketplace Rules not currently in effect upon the effectiveness of such requirements.

(s) Except as disclosed in or specifically contemplated by the Prospectus (i) the Company and its Subsidiaries have sufficient trademarks, trade names, patents, patent rights, mask works, copyrights, licenses, approvals and governmental authorizations necessary to conduct their businesses as now conducted, and to the Company’s knowledge, none of the foregoing intellectual property rights owned or licensed by the Company is invalid or unenforceable, (ii) the Company has no knowledge of any infringement by it or any of its Subsidiaries of trademarks, trade name rights, patents, patent rights, mask work rights, copyrights, licenses, trade secrets or other similar rights of others, where such infringement could have a material and adverse effect on the Company, and its Subsidiaries taken as a whole or the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole, (iii) the Company is not aware of any infringement, misappropriation or violation by others of, or conflict by others with rights of the Company or any of its Subsidiaries with respect to, any of the foregoing intellectual property rights, and (iv) no claim has been made against the Company or any of its Subsidiaries, or to the best of the Company’s knowledge, any employee of the Company or any of its Subsidiaries, regarding trademark, trade name, patent, mask work, copyright, license, trade secret or other infringement which could have a material and adverse effect on the Company and its Subsidiaries taken as a whole or the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole.

(t) The Company and each of its Subsidiaries has filed all Federal, state, local and foreign income tax returns which have been required to be filed and has paid all taxes and assessments received by it to the extent that such taxes or assessments have become due. Neither the Company nor any of its Subsidiaries has any tax deficiency which has been or, to the best knowledge of the Company, might be asserted or threatened against it which could have a material and adverse effect on the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole.

(u) The Company or its Subsidiaries owns or possesses all authorizations, approvals, orders, licenses, registrations, other certificates and permits of and from all governmental regulatory officials and bodies, necessary to conduct their respective businesses as contemplated in the Prospectus, except where the failure to own or possess all such authorizations, approvals, orders, licenses, registrations, other certificates and permits would not materially and adversely affect the Company and its Subsidiaries taken as a whole or the business, properties condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole. There is no proceeding pending or, to the knowledge of the Company,

threatened (or any basis therefor known to the Company) which may cause any such authorization, approval, order, license, registration, certificate or permit to be revoked, withdrawn, cancelled, suspended or not renewed; and the Company and each of its Subsidiaries is conducting its business in compliance with all laws, rules and regulations applicable thereto (including, without limitation, all applicable Federal, state and local environmental laws and regulations) except where such noncompliance would not materially and adversely affect the Company, and its Subsidiaries taken as a whole or the business, properties condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole.

(v) The Company and each of its Subsidiaries maintains insurance of the types and in the amounts generally deemed adequate for its business, including, but not limited to, insurance covering real and personal property owned or leased by the Company and its Subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect.

(w) Neither the Company nor any of its Subsidiaries has nor, to the best of the Company's knowledge, any of its or their respective employees or agents at any time during the last five years (i) made any unlawful contribution to any candidate for foreign office, or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any Federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(x) The books, records and accounts of the Company and its Subsidiaries accurately and fairly reflect, in reasonable detail, the transactions in, and dispositions of, the assets of, and the results of operations of, the Company and its Subsidiaries. The Company and each of its Subsidiaries maintains (i) systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorizations, (B) transactions are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with United States generally accepted accounting principles and to maintain asset accountability, (C) access to assets is permitted only in accordance with management's general or specific authorization and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences, and (ii) disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act).

(y) No labor disturbance by the employees of the Company or any Subsidiary exists or, to the best of the Company's knowledge, is imminent which, in either case (individually or in the aggregate), would materially and adversely affect the Company and its Subsidiaries taken as a whole or the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole.

(z) No "prohibited transaction" (as defined in either Section 406 of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA") or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time (the "Code")), "accumulated funding deficiency" (as defined in Section 302 of ERISA) or other event of the kind described in Section 4043(b) of ERISA (other than events with respect to which the 30-day notice requirement under Section 4043 of ERISA has been waived) has occurred or is expected to occur with respect to any employee benefit plan for which the Company, or any other entity which, with the Company, would be treated as one employer (as described in Code Section 414 ("ERISA Affiliate")) has or could have any liability which would materially and adversely affect the Company and its Subsidiaries taken as a whole or the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole; each employee benefit plan for which the Company or any ERISA Affiliate has or could have any liability is in compliance in all material respects with applicable law, including (without limitation) ERISA and the Code; neither the Company nor any ERISA Affiliate has incurred nor does any expect to incur any material liability under Title IV of ERISA with respect to the termination of, or withdrawal from, any pension plan subject to ERISA, including any multiemployer plan; and each plan for

which the Company could have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or by failure to act, which could cause the loss of such qualification.

(aa) There has been no storage, generation, transportation, handling, treatment, disposal, discharge, emission or other release of any kind of toxic or other wastes or other hazardous substances by, due to, or caused by, the Company or any Subsidiary (or, to the Company's knowledge, any other entity for whose acts or omissions the Company is or may be liable) upon any property now or previously owned or leased by the Company or any Subsidiary, or upon any other property, which would be a violation of or give rise to any liability under any applicable law, rule, regulation, order, judgment, decree or permit relating to pollution or protection of human health and the environment ("Environmental Law"), except as disclosed, or not required to be disclosed, in the Prospectus. Neither the Company nor any Subsidiary has agreed to assume, undertake or provide indemnification for any liability of any other person under any Environmental Law, including any obligation for cleanup or remedial action, except as disclosed, or not required to be disclosed, in the Prospectus. Except as disclosed, or not required to be disclosed, in the Prospectus, there is no pending or, to the best of the Company's knowledge, threatened administrative, regulatory or judicial action, claim or notice of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any Subsidiary.

(bb) Neither the Company nor, to the knowledge of the Company, any of its officers, directors or affiliates has taken or will take, directly or indirectly, any action designed or intended to stabilize or manipulate the price of any security of the Company, or which caused or resulted in, or which might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company.

(cc) No relationship, direct or indirect, exists between or among the Company on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company on the other hand, which is required to be described in the Prospectus and which is not so described.

(dd) Neither the Company nor any of its Subsidiaries own any "margin securities" as that term is defined in Regulation U of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), and none of the proceeds of the sale of the Shares will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security, for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Shares to be considered a "purpose credit" within the meanings of Regulation T, U or X of the Federal Reserve Board.

(ee) The Company is in compliance in all material respects with all applicable provisions of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and all rules and regulations promulgated thereunder that are then in effect, is implementing the provisions thereof in accordance thereof, and is actively taking steps to ensure that it will be in compliance with other applicable provisions of the Sarbanes-Oxley Act not currently in effect upon the effectiveness of such provisions.

(ff) Neither the Company nor any of its Subsidiaries is a party to any contract, agreement or understanding with any person that would give rise to a valid claim against the Company or the Underwriters for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Stock other than this Agreement.

4. Agreements of the Company

The Company covenants and agrees with the several Underwriters as follows:

(a) The Company will not, either prior to the Effective Date or thereafter during such period as the Prospectus is required by law to be delivered in connection with sales of the Shares by an Underwriter or dealer, file any amendment or supplement to the Registration Statement or the Prospectus, unless a copy thereof shall first have been submitted to the Representatives within a reasonable period of time prior to the filing thereof and the Representatives shall not have objected thereto in good faith.

(b) The Company will use its best efforts to cause the Registration Statement to become effective, and will notify the Representatives promptly, and will confirm such advice in writing, (i) when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective, (ii) of any request by the Commission for amendments or supplements to the Registration Statement or the Prospectus or for additional information, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose or the threat thereof, (iv) of the happening of any event during the period mentioned in the second sentence of Section 4(e) that in the judgment of the Company makes any statement made in the Registration Statement or the Prospectus contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances in which they are made, not misleading and (v) of receipt by the Company or any representative or attorney of the Company of any other communication from the Commission relating to the Company, the Registration Statement, any preliminary prospectus or the Prospectus. If at any time the Commission shall issue any order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible moment. If the Company has omitted any information from the Registration Statement pursuant to Rule 430A of the Rules and Regulations, the Company will comply with the provisions of and make all requisite filings with the Commission pursuant to said Rule 430A and notify the Representatives promptly of all such filings. If the Company elects to rely upon Rule 462(b) under the Act, the Company shall file a registration statement under Rule 462(b) with the Commission in compliance with Rule 462(b) by 10:00 p.m., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for such Rule 462(b) registration statement or give irrevocable instructions for the payment of such fee pursuant to the Rules and Regulations.

(c) The Company will furnish to each Representative, without charge, one signed copy of each of the Registration Statement and of any pre- or post-effective amendment thereto, including financial statements and schedules, and all exhibits thereto and will furnish to the Representatives, without charge, for transmittal to each of the other Underwriters, a copy of the Registration Statement and any pre- or post-effective amendment thereto, including financial statements and schedules but without exhibits.

(d) The Company will comply with all the provisions of any undertakings contained in the Registration Statement.

(e) On the Effective Date, and thereafter from time to time, so long as delivery of a prospectus by an Underwriter or dealer is, in the reasonable opinion of the Underwriters, required by the Act or the Rules and Regulations, the Company will deliver to each of the Underwriters, without charge, as many copies of the Prospectus or any amendment or supplement thereto as the Representatives may reasonably request. The Company consents to the use of the Prospectus or any amendment or supplement thereto by the several Underwriters and by all dealers to whom the Shares may be sold, both in connection with the offering or sale of the Shares and for any period of time thereafter during which the Prospectus is required by law to be delivered in connection therewith. If during such period of time any event shall occur the result of which in the judgment of the Company or counsel to the Underwriters results or would result in the Prospectus, as then amended or supplemented, including an untrue statement of material fact or omitting to state any material fact necessary in order to make any statement therein, in the light of the circumstances under which it was made, not misleading, or if it is necessary to supplement or amend the Prospectus to comply with the Act or other applicable securities laws, the Company will forthwith prepare and duly file with the Commission an appropriate supplement or amendment thereto, and will deliver to each of the Underwriters, without charge, such number of copies of such supplement or amendment to the Prospectus as the Representatives may reasonably request. The Company will not file any document under the Exchange Act or the Exchange Act Rules and Regulations before the termination of the offering of the Shares by the Underwriters, if such document would be deemed to be incorporated by reference into the Prospectus, that is not approved by the Representatives after reasonable notice thereof.

(f) Prior to any public offering of the Shares, the Company will cooperate with the Representatives and counsel to the Underwriters in connection with the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives may request; provided, that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to taxation or general service of process in any jurisdiction where it is not now so subject.

(g) The Company will, so long as required under the Rules and Regulations, furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flow of the Company and its consolidated Subsidiaries, if any, certified by independent public accountants).

(h) During the period of three years commencing on the Effective Date, the Company will furnish to the Representatives and each other Underwriter who may so request a copy of such financial statements and other periodic and special reports as the Company may from time to time distribute generally to the holders of any class of its capital stock, and will furnish to the Representatives and each other Underwriter who may so request a copy of each annual or other report it shall be required to file with the Commission.

(i) The Company will make generally available to holders of its securities as soon as may be practicable but in no event later than the Availability Date (as defined below) an earnings statement (which need not be audited but shall be in reasonable detail) covering a period of 12 months commencing after the Effective Date which will satisfy the provisions of Section 11(a) of the Act (including Rule 158 of the Rules and Regulations). For the purpose of the preceding sentence, "Availability Date" means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes such Effective Date, except that if such fourth fiscal quarter is the last quarter of the Company's fiscal year, "Availability Date" means the 90th day after the end of such fourth fiscal quarter.

(j) Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company will pay or reimburse if paid by the Representatives all costs and expenses incident to the performance of the obligations of the Company under this Agreement and in connection with the transactions contemplated hereby, including but not limited to costs and expenses of or relating to (i) the preparation, printing and filing of the Registration Statement and exhibits to it, each preliminary prospectus, Prospectus and any amendment or supplement to the Registration Statement or Prospectus, (ii) the preparation and delivery of certificates representing the Shares, (iii) the printing of this Agreement, the Agreement Among Underwriters, any Selected Dealer Agreements, any Underwriters' Questionnaires, any Underwriters' Powers of Attorney, and any invitation letters to prospective Underwriters, (iv) furnishing (including costs of shipping and mailing) such copies of the Registration Statement, the Prospectus and any preliminary prospectus, and all amendments and supplements thereto, as may be requested for use in connection with the offering and sale of the Shares by the Underwriters or by dealers to whom Shares may be sold, (v) the listing of the Shares on the NNM, (vi) any filings required to be made by the Underwriters with the NASD, and the reasonable fees, disbursements and other charges of counsel for the Underwriters in connection therewith, (vii) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions designated pursuant to Section 4(f), including the reasonable fees, disbursements and other charges of counsel to the Underwriters in connection therewith, and the preparation and printing of preliminary, supplemental and final Blue Sky memoranda, (viii) fees, disbursements and other charges of counsel to the Company (but not those of counsel for the Underwriters, except as otherwise provided herein), (ix) the transfer agent for the Shares and (x) any travel expenses of the Company's officers, directors and employees and any other expenses of the Company in connection with attending or hosting meetings with prospective purchasers of the Shares.

(k) The Company will not at any time, directly or indirectly, take any action designed or which might reasonably be expected to cause or result in, or which will constitute, stabilization of the price of the shares of Common Stock to facilitate the sale or resale of any of the Shares.

(l) The Company will apply the net proceeds from the offering and sale of the Shares to be sold by the Company in the manner set forth in the Prospectus under "Use of Proceeds."

(m) During the period beginning from the date hereof and continuing to and including the date 90 days after the date of the Prospectus, without the prior written consent of Needham & Company, Inc., the Company will not (1) offer, sell, contract to sell, pledge, grant options, warrants or rights to purchase, or otherwise dispose of any equity securities of the Company or any other securities convertible into or exchangeable for its Common Stock or other equity security (other than pursuant to employee stock option or equity incentive plans disclosed in the Prospectus or pursuant to the conversion of convertible securities or the exercise of warrants in each case outstanding on the date of this Agreement), or (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of shares of Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise.

(n) The Company will cause each of its officers, directors and certain stockholders designated by the Representatives to, enter into lock-up agreements with the Representatives to the effect that they will not, without the prior written consent of Needham & Company, Inc., sell, contract to sell or otherwise dispose of any shares of Common Stock or rights to acquire such shares according to the terms set forth in Schedule II hereto.

5. Conditions of the Obligations of the Underwriters

The obligations of each Underwriter hereunder are subject to the following conditions:

(a) Notification that the Registration Statement has become effective shall be received by the Representatives not later than 10:00 p.m., New York City time, on the date of this Agreement or at such later date and time as shall be consented to in writing by the Representatives and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made. If the Company has elected to rely upon Rule 462(b), the registration statement filed under Rule 462(b) shall have become effective by 10:00 p.m., New York City time, on the date of this Agreement.

(b) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall be pending or threatened by the Commission, (ii) no order suspending the effectiveness of the Registration Statement or the qualification or registration of the Shares under the securities or Blue Sky laws of any jurisdiction shall be in effect and no proceeding for such purpose shall be pending before or threatened by the Commission or the authorities of any such jurisdiction, (iii) any request for additional information on the part of the staff of the Commission or any such authorities shall have been complied with to the satisfaction of the staff of the Commission or such authorities, (iv) after the date hereof no amendment or supplement to the Registration Statement or the Prospectus shall have been filed unless a copy thereof was first submitted to the Representatives and the Representatives do not object thereto in good faith, and (v) the Representatives shall have received certificates, dated the Closing Date and, if later, the Option Closing Date and signed by the Chief Executive Officer and the Chief Financial Officer of the Company (who may, as to proceedings threatened, rely upon the best of their information and belief), to the effect of clauses (i), (ii) and (iii) of this paragraph.

(c) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there shall not have been a material adverse change in the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, in each case other than as described in or contemplated by the Registration Statement and the Prospectus and (ii) the Company and the Subsidiaries shall not have sustained any material loss or interference with the business or properties of the Company and the Subsidiaries, taken as a whole, from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not described in the Registration Statement and the Prospectus, if in the judgment of the Representatives any such development makes it impracticable or inadvisable to consummate the sale and delivery of the Shares by the Underwriters at the initial public offering price.

(d) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall have been no litigation or other proceeding instituted against the Company, any of its Subsidiaries, or any of its or their officers or directors in their capacities as such, before or by any Federal, state or local court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, in which litigation or proceeding an unfavorable ruling, decision or finding would, in the judgment of the Representatives, materially and adversely affect the business, properties, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries taken as a whole or, if, in the judgment of the Representatives, any such development makes it impracticable or inadvisable to consummate the sale and delivery of the Shares by the Underwriters at the public offering price.

(e) Each of the representations and warranties of the Company contained herein shall be true and correct in all respects (in the case of any representation and warranty containing a materiality or material adverse effect qualification) or in all material respects at the Closing Date and, with respect to the Option Shares, at the Option Closing Date, and all covenants and agreements contained herein to be performed on the part of the Company and all conditions contained herein to be fulfilled or complied with by the Company at or prior to the Closing Date and, with respect to the Option Shares, at or prior to the Option Closing Date, shall have been duly performed, fulfilled or complied with.

(f) The Representatives shall have received an opinion, dated the Closing Date and, with respect to the Option Shares, the Option Closing Date, satisfactory in form and substance to the Representatives and counsel for the Underwriters from Wyatt, Tarrant & Combs, LLP, counsel to the Company, with respect to the following matters:

(i) Each of the Company and its subsidiaries listed in Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2003 (the "Principal Subsidiaries") is a corporation or other entity duly incorporated or formed, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization; has full corporate or other entity power and authority to conduct all the activities conducted by it, to own or lease all the assets owed or leased by it and to conduct its business as described in the Registration Statement and Prospectus; and is duly licensed or qualified to do business and is in good standing, where applicable, as a foreign entity in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it of which such counsel has knowledge after due inquiry makes such license or qualification necessary and where the failure to be licensed or qualified would have a material and adverse effect on the business or financial condition of the Company and Principal Subsidiaries, taken as a whole.

(ii) All of the outstanding shares of capital stock of the Company have been duly authorized, validly issued and are fully paid and nonassessable and, to such counsel's knowledge after due inquiry, were not issued in violation of or subject to any preemptive or, to such counsel's knowledge after due inquiry, similar rights.

(iii) The specimen certificate evidencing the Common Stock filed or incorporated by reference as an exhibit to the Registration Statement is in due and proper form under Delaware law, the Shares have been duly authorized and, when issued and paid for as contemplated by this Agreement, will be validly issued, fully paid and nonassessable; and no statutory or, to such counsel's knowledge after due inquiry, contractual preemptive or similar rights exist with respect to any of the Shares or the issue and sale thereof.

(iv) To such counsel's knowledge, the Company does not own or control, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any corporation, firm, partnership, joint venture, association or other entity other than (i) the Principal Subsidiaries, and (ii) other subsidiaries individually and collectively not material to the Company and its business or financial condition. All of the outstanding shares of capital stock, units or other equity interests of each Principal Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable, and are owned of record by the Company or one of the other Principal Subsidiaries to such counsel's knowledge after due inquiry free and clear of all claims, liens, charges

and encumbrances, except for any lien or security interest in such shares, units or other equity interests pursuant to the Credit Facility; to such counsel's knowledge, there are no securities outstanding that are convertible into or exercisable or exchangeable for capital stock, units or other equity interest of any Principal Subsidiary.

(v) The authorized and outstanding capital stock of the Company is as set forth in the Registration Statement and the Prospectus in the column entitled "Actual" under the caption "Capitalization" (except for subsequent issuances, if any, pursuant to this Agreement or pursuant to reservations, agreements, employee benefit plans or the exercise of convertible securities, options or warrants referred to in the Prospectus). To such counsel's knowledge, except as disclosed in or specifically contemplated by the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, and no commitments, plans or arrangements to issue, any shares of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company. The description of the capital stock of the Company incorporated by reference in the Registration Statement and the Prospectus conforms in all material respects to the terms thereof.

(vi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any of its Principal Subsidiaries is a party or to which any of their respective properties is subject that are required to be described in the Registration Statement or the Prospectus but are not so described.

(vii) No consent, approval, authorization or order of, or any filing or declaration with, any court or governmental agency or body is required for the consummation by the Company of the transactions on its part contemplated under this Agreement, except such as have been obtained or made under the Act or the Rules and Regulations and such as may be required under foreign or state securities or Blue Sky laws, as to which foreign or state securities or Blue Sky laws such counsel renders no opinion, or the by-laws and rules of the NASD in connection with the purchase and distribution by the Underwriters of the Shares.

(viii) The Company has full corporate power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company.

(ix) The execution and delivery of this Agreement, the compliance by the Company with all of the terms hereof and the consummation of the transactions contemplated hereby does not contravene any provision of United States Federal or Kentucky law, or the Delaware General Corporation Law, or the Certificate of Incorporation or By-Laws of the Company or the organizational and governing documents of any of its Subsidiaries, and to the best of such counsel's knowledge after due inquiry will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company or any of its Subsidiaries pursuant to the terms and provisions of, result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument known to such counsel to which the Company or any of its Principal Subsidiaries is a party or by which the Company, any of its Principal Subsidiaries, or any of their respective properties is bound or affected, or violate or conflict with (i) any judgment, ruling, decree or order known to such counsel which breach, violation or conflict would have a material adverse effect on the Company and its Principal Subsidiaries, taken as a whole, or (ii) any United States Federal or Kentucky law or the Delaware General Corporation Law, or to such counsel's knowledge any other state statute, rule or regulation of any governmental agency or body, applicable to the business or properties of the Company or any of its Principal Subsidiaries which breach, violation or conflict would have a material adverse effect on the Company and its Principal Subsidiaries, taken as a whole.

(x) To such counsel's knowledge, there is no document or contract of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration

Statement which is not described or filed or incorporated by reference as required, and each description of such contracts and documents that is contained in the Registration Statement and Prospectus fairly presents in all material respects the information required under the Act and the Rules and Regulations.

(xi) The statements under the captions “Risk Factors—Our stock price may decline if additional shares are sold in the market after the offering” and “Risk Factors—Our anti-takeover provisions and the concentration of ownership of our common stock may deter potential acquirers and may depress our stock price” (relating to shares eligible for future sale and anti-takeover provisions), “Certain Relationships and Related Transactions”, “Description of Capital Stock” and “Shares Eligible for Future Sale” in the Prospectus or incorporated by reference therein, insofar as the statements constitute a summary of documents referred to therein or matters of law, are accurate summaries and fairly and correctly present, in all material respects, the information called for with respect to such documents and matters of law (provided, however, that such counsel may rely on representations of the Company with respect to the factual matters contained in such statements, and provided further that such counsel shall state that nothing has come to the attention of such counsel which leads them to believe that such representations are not true and correct in all material respects).

(xii) The Company is not an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

(xiii) Such counsel has received oral notification from the NNM that the Shares have been duly authorized for listing on the NNM, subject to notice of issuance.

(xiv) To such counsel’s knowledge, no holder of securities of the Company has rights, which have not been waived, to require the Company to register with the Commission shares of Common Stock or other securities, as part of the offering contemplated hereby.

(xv) Based on a telephonic communication with the Commission, the Registration Statement has become effective under the Act, and to the best of such counsel’s knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceeding for that purpose has been instituted or is pending, or threatened.

(xvi) The Registration Statement and the Prospectus, as of their respective effective or issue dates, appeared to be appropriately responsive in all material respects to the requirements of the Act and the Rules and Regulations (other than the financial statements, schedules and other financial data contained or incorporated by reference in the Registration Statement or the Prospectus, as to which such counsel need express no opinion).

(xvii) Such counsel has participated in conferences with officers and other representatives of the Company, representatives of the Representatives and representatives of the independent accountants of the Company, at which the contents of the Registration Statement and the Prospectus and related matters were discussed. Although such counsel is not passing upon, and is not assuming responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, on the basis of the foregoing, no facts have come to the attention of such counsel which leads such counsel to believe that, as of the Effective Date the Registration Statement (other than the financial statements, schedules and other financial data contained or incorporated by reference therein, as to which such counsel need express no opinion), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus, or any amendment or supplement thereto, as of its date, contained any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements, schedules and other financial data contained or incorporated by reference therein, as to which such counsel need express no opinion).

(xviii) The documents incorporated by reference in the Prospectus (other than the financial statements, schedules and other financial data contained therein, as to which such counsel need express

no opinion), subject to any amendments thereto and any subsequently filed documents which supersede such documents, when they were filed with the Commission appeared to be appropriately responsive in all material respects with the requirements of the Exchange Act and the Exchange Act Rules and Regulations.

In rendering such opinion, such counsel may rely, as to matters of local law, on opinions of counsel satisfactory in form and substance to the Representatives and counsel, for the Underwriters, provided that the opinion of counsel, to the Company shall state that they are doing so, that they have no reason to believe that they and the Underwriters are not entitled to rely on such opinions and that copies of such opinions are to be attached to the opinion.

(g) The Representatives shall have received an opinion, dated the Closing Date and the Option Closing Date, from Piper Rudnick LLP, counsel to the Underwriters, with respect to the Registration Statement, the Prospectus and this Agreement, which opinion shall be satisfactory in all respects to the Representatives.

(h) Concurrently with the execution and delivery of this Agreement, the Accountants shall have furnished to the Representatives a letter, dated the date of its delivery, addressed to the Representatives and in form and substance satisfactory to the Representatives, confirming that they are independent accountants with respect to the Company and its Subsidiaries as required by the Act and the Exchange Act and the Rules and Regulations and with respect to certain financial and other statistical and numerical information contained or incorporated by reference in the Registration Statement. At the Closing Date and, as to the Option Shares, the Option Closing Date, the Accountants shall have furnished to the Representatives a letter, dated the date of its delivery, which shall confirm, on the basis of a review in accordance with the procedures set forth in the letter from the Accountants, that nothing has come to their attention during the period from the date of the letter referred to in the prior sentence to a date (specified in the letter) not more than three days prior to the Closing Date and the Option Closing Date, as the case may be, which would require any change in their letter dated the date hereof if it were required to be dated and delivered at the Closing Date and the Option Closing Date.

(i) At the Closing Date and, as to the Option Shares, the Option Closing Date, there shall be furnished to the Representatives a certificate, dated the date of its delivery, signed by each of the Chief Executive Officer and the Chief Financial Officer of the Company, in form and substance satisfactory to the Representatives, to the effect that:

(i) Each signer of such certificate has carefully examined the Registration Statement and the Prospectus (including any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus) and (A) as of the date of such certificate, such documents are true and correct in all material respects and do not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not untrue or misleading in any material respect and (B) in the case of the certificate delivered at the Closing Date and the Option Closing Date, since the Effective Date no event has occurred as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein not untrue or misleading in any material respect.

(ii) Each of the representations and warranties of the Company contained in this Agreement were, when originally made, and are, at the time such certificate is delivered, true and correct.

(iii) Each of the covenants required to be performed by the Company herein on or prior to the date of such certificate has been duly, timely and fully performed and each condition herein required to be satisfied or fulfilled on or prior to the date of such certificate has been duly, timely and fully satisfied or fulfilled.

(j) On or prior to the Closing Date, the Representatives shall have received the executed agreements referred to in Section 4(n).

(k) The Shares shall be qualified for sale in such jurisdictions as the Representatives may reasonably request and each such qualification shall be in effect and not subject to any stop order or other proceeding on the Closing Date or the Option Closing Date.

(l) Prior to the Closing Date, the Shares shall have been duly authorized for listing on the NNM upon official notice of issuance.

6. Indemnification.

(a) The Company will indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person, if any, who controls each Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, liabilities, expenses and damages (including any and all investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, liabilities, expenses or damages arise out of or are based on any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment or supplement to the Registration Statement or the Prospectus, or the omission or alleged omission to state in such document a material fact required to be stated in it or necessary to make the statements in it not misleading in the light of the circumstances in which they were made, or arise out of or are based in whole or in part on any inaccuracy in the representations and warranties of the Company contained herein or any failure of the Company to perform its obligations hereunder or under law in connection with the transactions contemplated hereby; provided, however, that (i) the Company will not be liable to the extent that such loss, claim, liability, expense or damage arises from the sale of the Shares in the public offering to any person by an Underwriter and is based on an untrue statement or omission, or alleged untrue statement or omission made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Company by the Representatives, on behalf of any Underwriter, expressly for inclusion in the Registration Statement, the preliminary prospectus or the Prospectus and (ii) the Company will not be liable to any Underwriter, the directors, officers, employees or agents of such Underwriter or any person controlling such Underwriter with respect to any loss, claim, liability, expense, or damage arising out of or based on any untrue statement or omission or alleged untrue statement or omission or alleged omission to state a material fact in the preliminary prospectus which is corrected in the Prospectus if the person asserting any such loss, claim, liability, expense or damage purchased Shares from such Underwriter but was not sent or given a copy of the Prospectus at or prior to the written confirmation of the sale of such Shares to such person and if copies of the Prospectus were timely delivered to such Underwriter pursuant to Section 5 hereof. The Company acknowledges that the statements set forth in the third to last sentence of Section 3(b) of this Agreement constitute the only information relating to any Underwriter furnished in writing to the Company by the Representatives on behalf of the Underwriters expressly for inclusion in the Registration Statement, the preliminary prospectus or the Prospectus. This indemnity agreement will be in addition to any liability that the Company might otherwise have.

(b) Each Underwriter will indemnify and hold harmless the Company, each director of the Company, each officer of the Company who signs the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, as set forth in Section 6(a), but only insofar as losses, claims, liabilities, expenses or damages arise out of or are based on any untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Company by the Representatives, on behalf of such Underwriter, expressly for use in the Registration Statement, the preliminary prospectus or the Prospectus. The Company acknowledges that the statements set forth in the third to last sentence of Section 3(b) of this Agreement constitute the only information relating to any Underwriter furnished in writing to the Company by the Representatives on behalf of the Underwriters expressly for inclusion in the Registration Statement, the preliminary prospectus or the Prospectus. This indemnity will be in addition to any liability that each Underwriter might otherwise have.

(c) Any party that proposes to assert the right to be indemnified under this Section 6 shall, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made

against an indemnifying party or parties under this Section 6, notify each such indemnifying party in writing of the commencement of such action, enclosing with such notice a copy of all papers served, but the omission so to notify such indemnifying party will not relieve it from any liability that it may have to any indemnified party under the foregoing provisions of this Section 6 unless, and only to the extent that, such omission results in the loss of substantive rights or defenses by the indemnifying party. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying party will be entitled to participate in and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party will not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation incurred by the indemnified party in connection with the defense. The indemnified party will have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such indemnified party unless (i) the employment of counsel by the indemnified party has been, authorized in writing by the indemnifying party, (ii) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (iii) a conflict or potential conflict exists (based on advice of counsel) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (iv) the indemnifying party has not in fact employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent (which consent will not be unreasonably withheld or delayed).

(d) If the indemnification provided for in this Section 6 is applicable in accordance with its terms but for any reason is held to be unavailable to or insufficient to hold harmless an indemnified party under paragraphs (a), (b) and (c) of this Section 6 in respect of any losses, claims, liabilities, expenses and damages referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable (including any investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted, but after deducting any contribution received by the Company from persons other than the Underwriters, such as persons who control the Company within the meaning of the Act, officers of the Company who signed the Registration Statement and directors of the Company, who also may be liable for contribution) by such indemnified party as a result of such losses, claims, liabilities, expenses and damages in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. If, but only if, the allocation provided by the foregoing sentence is not permitted by applicable law, the allocation of contribution shall be made in such

proportion as is appropriate to reflect not only the relative benefits referred to in the foregoing sentence but also the relative fault of the Company, on the one hand, and the Underwriters, on the other hand, with respect to the statements or omissions which resulted in such loss, claim, liability, expense or damage, or action in respect thereof, as well as any other relevant equitable considerations with respect to such offering. Such relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the Representatives on behalf of the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 6(d) were to be determined by pro rata allocation (even if the Underwriters were created as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss claim, liability, expense or damage, or action in respect thereof, referred to above in this Section 6(d) shall be deemed to include, for purposes of this Section 6(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6(d), no Underwriter shall be required to contribute any amount in excess of the underwriting discounts received by it and no person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 6(d) are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section 6(d), any person who controls a party to this Agreement within the meaning of the Act will have the same rights to contribution as that party, and each director and each officer of the Company who signed the Registration Statement will have the same rights to contribution as the Company, subject in each case to the provisions hereof. Any party entitled to contribution, promptly after receipt of notice of commencement of any action against any such party in respect of which a claim for contribution may be made under this Section 6(d), will notify any such party or parties from whom contribution may be sought, but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have under this Section 6(d). No party will be liable for contribution with respect to any action or claim settled without its written consent (which consent will not be unreasonably withheld).

(e) The indemnity and contribution agreements contained in this Section 6 and the representations and warranties of the Company contained in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Underwriters, (ii) acceptance of any of the Shares and payment therefor or (iii) any termination of this Agreement.

7. Reimbursement of Certain Expenses

In addition to its other obligations under Section 6(a) of this Agreement, the Company hereby agrees to reimburse on a quarterly basis the Underwriters for all reasonable legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon, in whole or in part, any statement or omission or alleged statement or omission, or any inaccuracy in the representations and warranties of the Company contained herein or failure of the Company to perform its or their respective obligations hereunder or under law, all as described in Section 6(a), notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 7 and the possibility that such payment might later be held to be improper; provided, however, that, to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them.

8. Termination

The obligations of the several Underwriters under this Agreement may be terminated at any time on or prior to the Closing Date (or, with respect to the Option Shares, on or prior to the Option Closing Date), by notice to the Company from the Representatives, without liability on the part of any Underwriter to the Company if, prior

to delivery and payment for the Firm Shares or Option Shares, as the case may be, in the sole judgment of the Representatives, (i) trading in any of the equity securities of the Company shall have been suspended by the Commission or by the NNM, (ii) trading in securities generally on the NNM shall have been suspended or limited or minimum or maximum prices shall have been generally established on such exchange, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by such exchange, by order of the Commission or any court or other governmental authority, or by the NNM, (iii) a general banking moratorium shall have been declared by either Federal or New York State authorities or any material disruption of the securities settlement or clearance services in the United States shall have occurred or (iv) any material adverse change in the financial or securities markets in the United States or in political, financial or economic conditions in the United States or any outbreak or material escalation of hostilities involving the United States, a declaration of national emergency or war by the United States, or other calamity or crisis, either within or outside the United States, shall have occurred, the effect of which is such as to make it, in the sole judgment of the Representatives, impracticable or inadvisable to proceed with completion of the public offering or the delivery of and payment for the Shares.

If this Agreement is terminated pursuant to Section 9 hereof, the Company shall be under no liability to any Underwriter except as provided in Sections 4(j), 6 and 7 hereof; but, if for any other reason the purchase of the Shares by the Underwriters is not consummated or if for any reason the Company shall fail, refuse or be unable to perform its obligations hereunder, the Company will reimburse the several Underwriters for all out-of-pocket expenses (including the fees, disbursements and other charges of counsel to the Underwriters) incurred by them in connection with the offering of the Shares.

9. Substitution of Underwriters

If any one or more of the Underwriters shall fail or refuse to purchase any of the Firm Shares which it or they have agreed to purchase hereunder, and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Firm Shares, the other Underwriters shall be obligated, severally, to purchase the Firm Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase, in the proportions which the number of Firm Shares which they have respectively agreed to purchase pursuant to Section 1 bears to the aggregate number of Firm Shares which all such non-defaulting Underwriters have so agreed to purchase, or in such other proportions as the Representatives may specify; provided that in no event shall the maximum number of Firm Shares which any Underwriter has become obligated to purchase pursuant to Section 1 be increased pursuant to this Section 9 by more than one-ninth of such number of Firm Shares without the prior written consent of such Underwriter. In any such case either the Representatives or the Company shall have the right to postpone the Closing Date, but in no event for longer than five business days, in order that the required changes, if any, in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. If any Underwriter or Underwriters shall fail or refuse to purchase any Firm Shares and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase exceeds one-tenth of the aggregate number of the Firm Shares and arrangements satisfactory to the Representatives and the Company for the purchase of such Firm Shares are not made within 48 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter and the Company for the purchase or sale of any Shares under this Agreement. Any action taken pursuant to this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. Miscellaneous

Notice given pursuant to any of the provisions of this Agreement shall be in writing and, unless otherwise specified, shall be mailed or delivered (a) if to the Company, at the office of the Company, 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222, Attention: Jeffrey T. Gill, with a copy to Wyatt, Tarrant & Combs, LLP, 500 West Jefferson Street, 28th Floor, Louisville, KY 40207, Attention: Robert A. Heath, Esq., or (b) if to the

Underwriters, to the Representatives at the offices of Needham, & Company, Inc., 445 Park Avenue, New York, New York 10022, Attention: Corporate Finance Department, with a copy to Piper Rudnick LLP, 1251 Avenue of the Americas, New York, New York 10020, Attention: Michael Hirschberg, Esq. Any such notice shall be effective only upon receipt.

This Agreement has been and is made solely for the benefit of the several Underwriters, the Company, and the controlling persons, directors and officers referred to in Section 6, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" as used in this Agreement shall not include a purchaser, as such purchaser, of Shares from any of the several Underwriters.

Any action required or permitted to be made by the Representatives under this Agreement may be taken by them jointly or by Needham & Company, Inc.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State.

This Agreement may be signed in two or more counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

The Company and the Underwriters each hereby waive any right they may have to a trial by jury in respect of any claim based upon or arising out of this Agreement or the transactions contemplated hereby.

[Remainder of page intentionally left blank.]

Please confirm that the foregoing correctly sets forth the agreement among the Company and the several Underwriters.

Very truly yours,

SYPRIS SOLUTIONS, INC.

By: _____

Name:

Title:

Confirmed as of the date first
above mentioned:

Needham & Company, Inc.
Robert W. Baird & Co. Incorporated
Raymond James & Associates, Inc.
Acting on behalf of themselves
and as the Representatives of
the other several Underwriters
named in Schedule I hereto.

By: Needham & Company, Inc.

By: _____

Name:

Title:

SCHEDULE I
UNDERWRITERS

<u>Underwriters</u>	<u>Number of Firm Shares to be Purchased</u>
Needham & Company, Inc.	[]
Robert W. Baird & Co. Incorporated	[]
Raymond James & Associates, Inc.	[]
Stifel, Nicolaus & Company, Incorporated	[]
Total	<u>3,000,000</u>

SCHEDULE II

**FORM OF LOCK-UP AGREEMENT
AND DIRECTORS, OFFICERS AND STOCKHOLDERS OF THE COMPANY
WHO SHALL SIGN SUCH AGREEMENT**

The undersigned is a holder of securities of Sypris Solutions, Inc., a Delaware corporation (the “Company”), and wishes to facilitate the public offering of shares of the Common Stock (the “Common Stock”) of the Company (the “Offering”). The undersigned recognizes that such Offering will be of benefit to the undersigned.

In consideration of the foregoing and in order to induce you to act as underwriters in connection with the Offering, the undersigned hereby agrees that he, she or it will not, without the prior written approval of Needham & Company, Inc., acting on its own behalf and/or on behalf of other representatives of the underwriters, directly or indirectly, sell, contract to sell, make any short sale, pledge, or otherwise dispose of, or enter into any hedging transaction that is likely to result in a transfer of, any shares of Common Stock, options to acquire shares of Common Stock or securities exchangeable for or convertible into shares of Common Stock of the Company which he, she or it may own, exclusive of any shares of Common Stock purchased in connection with the Company’s public offering or purchased in the public trading market, for a period commencing as of the date hereof and ending on the date which is ninety (90) days after the date of the final Prospectus relating to the Offering; provided, however, that the foregoing shall not prohibit any distribution by a partnership to its partners so long as such partners agree to be bound by the terms of this Agreement. The undersigned confirms that he, she or it understands that the underwriters and the Company will rely upon the representations set forth in this Agreement in proceeding with the Offering. The undersigned further confirms that the agreements of the undersigned are irrevocable and shall be binding upon the undersigned’s heirs, legal representatives, successors and assigns. The undersigned agrees and consents to the entry of stop transfer instructions with the Company’s transfer agent against the transfer of securities held by the undersigned except in compliance with this Agreement.

This Agreement shall be binding on the undersigned and his, her or its respective successors, heirs, personal representatives and assigns.

March 11, 2004

Board of Directors
Sypris Solutions, Inc.
101 Bullitt Lane, Suite 450
Louisville, KY 40222

Gentlemen:

We have acted as counsel to Sypris Solutions, Inc., a Delaware corporation (the "Company"), in connection with the registration of 3,000,000 shares of the Company's common stock, par value \$.01 per share, and up to an additional 450,000 shares to cover over-allotments (the "Shares"), on the Registration Statement on Form S-3, Registration No. 333-112760, filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Registration Statement").

We have examined, among other things, the Certificate of Incorporation, as amended, and bylaws of the Company and the Registration Statement and are familiar with the proceedings taken by the Company relating to the issuance of the Shares as contemplated by the Registration Statement. We have relied on certificates of officers of the Company and of public officials as to certain matters of fact relating to this opinion and have also examined such records, certificates and other documents as we have considered necessary or appropriate for the purposes of this opinion. We have assumed the genuineness of all signatures and the authenticity of all documents and records submitted to us as copies. We have assumed and have not verified the accuracy as to factual matters of each document we have received.

Based upon the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the Shares are duly

authorized and, when issued and sold in accordance with the Registration Statement and the prospectus included therein and the pertinent provisions of any applicable state securities laws, will be validly issued, fully paid and nonassessable.

We are members of the Bar of the Commonwealth of Kentucky and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth of Kentucky, the Delaware General Corporation Law and the Federal laws of the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified. Although we are not licensed to practice law in the State of Delaware, we believe we are sufficiently familiar with the Delaware General Corporation Law to render the opinions expressed herein.

Our opinion addresses only the specific legal matters set forth above. We expressly disclaim any responsibility for advising you of any change hereafter occurring in circumstances touching or concerning the transaction which is the subject of this opinion, including any changes in the law or in factual matters occurring subsequent to the date of this opinion. We hereby consent to the filing of this opinion, or copies thereof, as an exhibit to the Registration Statement and to the statement made regarding our firm under the caption "Legal Matters" in the prospectus included in the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Sincerely,

WYATT, TARRANT & COMBS, LLP

/s/ WYATT, TARRANT & COMBS, LLP

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated January 30, 2004, in Amendment No. 1 to the Registration Statement (Form S-3 No. 333-112760) and related Prospectus of Sypris Solutions, Inc. for the Registration of 3,450,000 shares of its common stock.

We also consent to the incorporation by reference therein of our report dated January 30, 2004 with respect to the consolidated financial statements and schedule of Sypris Solutions, Inc. included in the Annual Report (Form 10-K) for 2003 filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 11, 2004