SYPRIS SOLUTIONS INC
Form 424B4
March 12, 2004

Table of Contents

PROSPECTUS

Filed Pursuant to Rule 424(b)(4)

Registration No. 333-112760

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 11, 2004, the last reported sale price for our common stock on the Nasdaq National Market was $17.10 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 5.

	Per share	*Total*
Public Offering Price	$ 17.00	$ 51,000,000
Underwriting Discount	$ 0.90	$ 2,700,000
Proceeds, before expenses, to Sypris Solutions, Inc.	$ 16.10	$ 48,300,000

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 March 12, 2004.

Table of Contents

INSIDE FRONT COVER GRAPHICS:

Top of page text:	Appears Sypris logo and is accompanied by the following phrases: Sypris Solutions is a diversified provider of technology-based outsourced services and specialty products. We perform a wide range of manufacturing and 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.
Bottom of page text:	Providing Customers with Solutions

Also shown are three depictions representing the primary markets in which the company provides its services or sells its products.

Depiction 1 (first 1/3 of page):	Shows a military fighter jet deployed with missiles and a military aircraft carrier in the sea below and contains the following phrases: Aerospace & Defense Electronics *Where performance, precision and reliability are critical.* We provide manufacturing services for the production of complex circuit cards for use in missile guidance systems, avionics, and satellite communications systems for Boeing, General Dynamics, Honeywell, Lockheed Martin, Northrop Grumman and Raytheon.
Depiction 2 (second 1/3 of page):	Shows a class 8 truck and contains the following phrases: Truck Components & Assemblies *Helping customers compete on a global basis.* We are the principal provider of manufacturing services for the production of medium and heavy-duty truck axle shafts in North America for Dana and ArvinMeritor.
Depiction 3 (third 1/3 of page):	Shows a communications tower and contains the following phrases: Test & Measurement Services *Meeting mission critical charters in the most remote of locations.*

We provide calibration, certification and repair services for the FAA at over 500 airports, and for the National Weather Service at each of its 130 advanced warning weather service radar stations.

Table of Contents

TABLE OF CONTENTS

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.

Table of Contents

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

Table of Contents

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

2

Table of Contents

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.

Table of Contents

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 a public offering price of $17.00 per share, after deducting underwriting discounts and estimated offering expenses payable by us, and the repayment of $48.0 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	
	Actual	**As Adjusted**
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	8,225
Total stockholders equity	144,781	192,756

Table of Contents

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

Table of Contents

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 reprocuring 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

Table of Contents

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

Table of Contents

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

Table of Contents

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;

- 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 8,584,902 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.

Table of Contents

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 $48.0 million, based on a public offering price of $17.00 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.

Table of Contents

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.

	High	Low
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 11, 2004)	$ 21.90	$ 17.10

The last reported sale price of our common stock on the Nasdaq National Market on March 11, 2004 was $17.10 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.

Table of Contents

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 a public offering price of $17.00 per share, after deducting underwriting discounts and offering expenses payable by us, and the repayment of $48.0 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	$ 8,225
Stockholders equity:		
Preferred stock, par value $0.01 per share, 981,600 shares authorized; no shares issued		
Series A preferred stock, par value $0.01 per share, 18,400 shares authorized; no shares issued		
Common stock, non-voting, par value $0.01 per share, 10,000,000 shares authorized; no shares issued		
Common stock, par value $0.01 per share, 30,000,000 shares authorized; 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	131,486
Retained earnings	63,443	63,443
Accumulated other comprehensive income (loss)	(2,346)	(2,346)
Total stockholders equity	144,781	192,756
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.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

(in thousands, except per share data)

The following selected financial data should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus. The selected financial data set forth below with respect to statements of income for each of the years in the three-year period ended December 31, 2003 and with respect to the balance sheets at December 31, 2002 and 2003, are derived from our audited financial statements. These financial statements are included elsewhere in this prospectus and the data below are qualified by reference to those financial statements and related notes. The statements of income data for the years ended December 31, 1999 and 2000 and the balance sheet data at December 31, 1999, 2000 and 2001 are derived from our audited financial statements not included in this prospectus.

	Years Ended December 31,				
	1999	**2000**	**2001[(1)]**	**2002[(2)]**	**2003**
Consolidated Income Statement Data:					
Net revenue	$ 202,130	$ 216,571	$ 254,640	$ 273,477	$ 276,605
Cost of sales	157,181	176,258	211,093	223,956	230,593
Gross profit	44,949	40,313	43,547	49,521	46,012
Selling, general and administrative	23,388	26,881	26,134	27,114	26,711
Research and development	6,409	3,574	3,054	3,354	4,166
Amortization of intangible assets	986	1,436	1,329	97	194
Special charges		2,945			
Operating income	14,166	5,477	13,030	18,956	14,941
Interest expense, net	1,730	4,035	4,111	2,742	1,693
Other (income) expense, net	(219)	(344)	(358)	(159)	230
Income before income taxes	12,655	1,786	9,277	16,373	13,018
Income taxes (benefit)	3,099	(1,398)	2,910	4,934	4,883
Net income	$ 9,556	$ 3,184	$ 6,367	$ 11,439	$ 8,135
Net income per share:					
Basic	$ 1.00	$ 0.33	$ 0.65	$ 0.87	$ 0.57
Diluted	$ 0.97	$ 0.32	$ 0.63	$ 0.84	$ 0.56
Cash dividends declared per common share	$	$	$	$ 0.06	$ 0.12
Shares used in computing per share amounts:					
Basic	9,515	9,671	9,828	13,117	14,237
Diluted	9,861	9,964	10,028	13,664	14,653

	December 31,				
	1999	**2000**	**2001**	**2002**	**2003[(3)]**

Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 10,406	$ 14,674	$ 13,232	$ 12,403	$ 12,019
Working capital	53,705	58,602	67,325	77,593	80,516
Total assets	148,564	179,122	211,444	223,605	263,495
Current portion of long-term debt	5,400	2,500	7,500	7,000	3,200
Long-term debt, net of current portion	49,000	62,500	80,000	30,000	53,000
Total stockholders equity	60,820	64,205	70,120	137,035	144,781

(1) On May 31, 2001, we completed the acquisition of the net assets of Dana s Marion, Ohio facility and its results of operations are included from that date forward.

(2) On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets which required us to discontinue the amortization of goodwill. See Note 1 of our consolidated financial statements for the year ended December 31, 2003 included elsewhere in this prospectus.

(3) On December 31, 2003, we completed the acquisition of the net assets of Dana s Morganton, North Carolina facility.

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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,	
			Favorable	Favorable		
	2002	2003	(Unfavorable)	(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.

Table of Contents

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.

Table of Contents

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,	
			Favorable	Favorable		
	2001	2002	(Unfavorable)	(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

Table of Contents

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.

Table of Contents

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				