IntelGenx Technologies Corp.
Form SB-2
September 18, 2006

As filed with the Securities and Exchange Commission on September 15, 2006
Registration No. _________

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

INTELGENX TECHNOLOGIES CORP.

(Name of small business issuer in its charter,)

Delaware	**2834**	**870299034**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification Number)

6425 Abrams
Ville St- Laurent
Quebec, H4S 1X9
(514) 331-7440
(Address and telephone number of principal executive offices and place of business)

Horst Zerbe
IntelGenx Technologies Corp.
6425 Abrams
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Copies to:

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Approximate date of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) 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 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 this Form is a post-effective amendment filed pursuant to Rule 462(d) 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, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Share	Amount of Registration Fee
Common Stock	5,016,489	$0.60	$3,009,893	$322.06
Common Stock underlying warrants exercisable at $0.41 per share	100,000	$0.60	$60,000	$6.42
Total	5,116,489			$328.48

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1. This Registration Statement covers shares of common stock underlying the following securities issued by us: (i) 1,500,000 shares of common stock issued on September 8, 1999 and currently held by certain stockholders. In addition, this Registration Statement carries forward the registration of 3,616,489 shares of common stock included in a registration statement on Form SB-2, filed with the Securities and Exchange Commission (the "Commission") on July 3, 2006 (Registration No. 333-135591). In accordance with Rule 416 under the Securities Act of 1933, as amended, common stock offered hereby shall also be deemed to cover additional securities to be offered or issued to prevent dilution resulting from stock splits, stock dividends or similar transactions.

2. Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 (c). We have utilized the price of $0.60 per common share which was derived by adding a liquidity premium to the subscription price paid by the selling stockholders pursuant to subscription agreements entered into and accepted by IntelGenx Corp. on April 28, 2006 and exchanged on a one for one basis for shares of the Registrant on the same date. See "Business - Recent Developments".

3. Represents the higher of: (a) the exercise price of the warrants and (b) the offering price of securities of the same class as the common stock underlying the warrants calculated in accordance with rule 457(c), for the purpose of calculating the registration fee pursuant to Rule 457(g).

4. Registration fees aggregating $158.66 were previously paid to register the 3,616,489 shares of the registrant's common stock being carried forward to this Registration Statement from the Registration Statement on Form SB-2 (333-135591).

PURSUANT TO RULE 429 UNDER THE SECURITIES ACT, THE PROSPECTUS INCLUDED IN THIS REGISTRATION STATEMENT ALSO RELATES TO SHARES OF COMMON STOCK OF THE REGISTRANT PREVIOUSLY REGISTERED UNDER REGISTRATION STATEMENT ON FORM SB-2 NO. 333-135591 AND CONSTITUTES A POST-EFFECTIVE AMENDMENT TO SUCH REGISTRATION STATEMENT. THIS POST EFFECTIVE AMENDMENT SHALL HEREAFTER BECOME EFFECTIVE CONCURRENTLY WITH THE EFFECTIVENESS OF THIS REGISTRATION STATEMENT IN ACCORDANCE WITH SECTION 8 OF THE SECURITIES ACT.

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 the registration statement shall become effective on such date as the Commission, acting pursuant to said section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling security holders will not sell these securities until after the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED

September 15, 2006

IntelGenx Technologies Corp.

5,116,489 Shares of Common Stock

This prospectus relates to the offer for sale of 5,116,489 shares of our common stock by certain existing holders of the securities, referred to as selling stockholders throughout this document. The shares of common stock to be sold by the selling security holders include:

- 5,016,489 outstanding shares held by the selling stockholders; and
- 100,000 shares issuable to a selling stockholder upon exercise of warrants.

All of the shares being offered by this prospectus are being offered by the selling stockholders named in this prospectus. This offering is not being underwritten. We will not receive any of the proceeds from the sale of the shares of our common stock in this offering. If the warrants are exercised so that the underlying shares may be sold, we will receive the exercise price of the warrants which is equal to $0.41 per share. The selling stockholders identified in this prospectus, or their pledgees, donees, transferees or other successors-in-interest, to the extent a public market exists for our common stock at such time, may offer the common stock or interests therein from time to time through public transactions at prevailing market prices, at prices related to prevailing market prices, or through private transactions at privately negotiated prices. The Selling Stockholders will initially offer their shares of our common stock at $0.60, until such time as a market for our common stock develops, at which time the Selling Stockholders will sell shares of our common stock at the prevailing market price. This estimate is derived by adding a liquidity premium to the subscription price paid by the selling stockholders for shares of IntelGenx Corp. on April 28, 2006, which shares were exchanged on a one for one basis for shares of our common stock on the same date. See "Business - Recent Developments". We will pay all expenses of registering this offering of securities.

There is presently no market for our common stock.

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

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is September 18, 2006

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

SUMMARY

This summary highlights information contained elsewhere in this prospectus and is qualified in its entirety by the more detailed information and consolidated financial statements included elsewhere in this prospectus. This summary is not complete and may not contain all of the information that may be important to you. You should read carefully this entire prospectus, including the information under "Risk Factors" and our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision.

Our Business

On April 28, 2006, IntelGenx Technologies Corp. ("IntelGenx Technologies"), a Delaware corporation, directly and indirectly through its Canadian holding corporation, completed the acquisition of 100% of the issued and outstanding shares and warrants of IntelGenx Corp., a Canadian corporation ("IntelGenx"). IntelGenx, organized in 2003, has continued its operations as a subsidiary of IntelGenx Technologies (the "IntelGenx Acquisition"). In this prospectus, unless otherwise indicated or the context otherwise requires, the "Company" we," "us," and "our" refer to IntelGenx Technologies and its subsidiaries including IntelGenx.

We are a drug delivery company headquartered in Montreal (Quebec) which focuses on the development of oral controlled-release products for the generic pharmaceutical market as well as novel mucosal delivery systems.

We currently have two unique, proprietary platform technologies that we use to develop products: (a) a Tri-Layer Tablet technology which allows for the development of oral controlled release products, and (b) a Quick Release Wafer technology for the rapid delivery of pharmaceutically active substances to the oral cavity. Our Tri-Layer technology is very versatile and reduces manufacturing costs significantly as compared to competing delivery technologies. The wafer technology allows for the instant delivery of pharmaceuticals to the oral mucosa and presently, management believes that this technology will give the Company a strong competitive position in the drug delivery market

Our Strategy

Our business strategy is to develop pharmaceutical products based on our proprietary oral controlled-release drug delivery technologies and license the commercial rights to competent partner companies once the viability of the product has been demonstrated in exchange for down payments, milestone fees and royalties. These potential partners

would then pay to complete the development of the products and handle the regulatory approval process of the product with the FDA (Food and Drug Administration) and or other regulatory bodies. The potential partners would also be responsible for distribution. In the future, in order to increase revenue, we plan to take selected high-potential pharmaceutical product candidates through the entire development process itself and then later, attempt to sign distribution agreements with potential partners. This strategy is aimed at attempting to maximize higher down payments and larger royalty payments on sales.

Our Competitive Strengths

We believe that our key competitive strengths include:

- Our intellectual property ;
- The manufacturing cost savings associated with our technology; and
- The depth and breadth of our management teams' expertise and experience in the drug delivery industry.

The Offering

Shares offered by selling stockholders

The selling stockholders will offer and sell up to an aggregate of 5,116,489 shares of common stock (of which 5,016,489 are currently outstanding), an amount equal to approximately 31.96% of our currently outstanding common stock. For a list of the selling stockholders and the amount of shares that each of them expects to sell, see "Selling Stockholders."

The offering is being made by the selling stockholders for their benefit. We will not receive any of the proceeds of their sales of common stock.

Our common stock

As of September 15, 2006, there were 16,007,489 shares of our common stock outstanding. There is presently no market for our common stock.

Plan of distribution

We expect that the selling stockholders will sell the shares primarily through sales into the over-the-counter market made from time to time at prices that they consider appropriate. See "Plan of Distribution."

Background of the offering

In connection with the IntelGenx Acquisition we are registering the following shares of our common stock:

3,191,489 shares of our common stock issued to 34 shareholders of IntelGenx in exchange for 3,191,489 IntelGenx shares;

325,000 shares of our common stock issued as a non-refundable retainer, and in full payment of investor relations services to be rendered by Mr. Patrick J. Caruso pursuant to an agreement entered into between us and Mr. Caruso ("Caruso Consulting Agreement"), and

100,000 shares of our common stock issuable upon the exercise of purchase warrants issued to Mr. Caruso, in exchange for 100,000 common share purchase warrants of IntelGenx.

We are also registering 1,500,000 shares of our common stock previously issued on September 8, 1999 and currently held by 37 shareholders;

We also acquired, through our special purpose Canadian subsidiary, 6544361 Canada Inc ("Exchangeco"), 10,991,000 shares of IntelGenx, held by its principal shareholders pursuant to a share exchange agreement dated April 10, 2006, in exchange for 10,991,000 Class A Special Shares of Exchangeco. The Exchangeco shares are convertible into shares of our common stock on a one for one basis.

For more information with respect to the IntelGenx Acquisition, see "Business - Recent Developments".

Additional Information

Our executive offices are located at 6425 Abrams, Ville Saint-Laurent, Montreal, Quebec, H4S 1X9, Canada. Our web site address is http://www.Intelgenx.com. Information contained on our web site is not a part of this prospectus.

RISK FACTORS

An investment in our common stock involves significant risks. You should carefully consider the following risks and all other information set forth in this prospectus before deciding to invest in shares of our common stock. If any of the events or developments described below occurs, our business, financial condition and results of operations may suffer. In that case, the value of our common stock may decline and you could lose all or part of your investment.

Risks Related to Our Business

We are at the developmental stage of our business and as such may experience setbacks in both business and product development.

We are subject to all of the risks inherent in both the creation of a new business and the development of new products. As a developmental-stage company, our cash flows may be insufficient to meet expenses relating to our operations and the development of our business, and may be insufficient to allow us to develop new products. We currently conduct research and development using our proprietary platform technologies to develop oral controlled released and other delivery products. We do not know if we will be successful in the development of such products.

We may need additional capital to fulfill our business strategies. We may also incur unforeseen costs. Failure to obtain such capital would adversely affect our business.

We will need to expend significant capital in order to continue with our research and development by hiring additional research staff and acquiring additional equipment. If our cash flows from operations are insufficient to fund our expected capital needs, or our needs are greater than anticipated, we will be required to raise additional funds in the future through private or public sales of equity securities or the incurrence of additional indebtedness. Additional funding may not be available on favorable terms, or at all. If we borrow additional funds, we likely will be obligated to make periodic interest or other debt service payments and may be subject to additional restrictive covenants. If we fail to obtain sufficient additional capital in the future, we could be forced to curtail our growth strategy by reducing or delaying capital expenditures, selling assets or downsizing or restructuring our operations. If we raise additional funds through public or private sales of equity securities, the sales may be at prices below the market price of our stock, and our shareholders may suffer significant dilution.

The loss of the services of key personnel would adversely affect our business.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and senior management staff. The loss of the services of existing personnel, particularly Horst Zerbe, our Chairman of the Board and Chief Executive Officer, would be detrimental to our research and development programs and to our overall business.

We are dependent on collaborators to conduct clinical trials of, obtain regulatory approvals for, and manufacture, market, and sell our controlled release products

We depend heavily on our pharmaceutical partners to pay for part or all of the research and development expenses associated with developing a new product and to obtain approval from regulatory bodies such as the FDA to commercialize these products. We also depend on our partners to successfully distribute these products after receiving regulatory approval. We derive our revenues from research and development fees, milestone fees and royalty fees all of which are paid to us by our partners. Our inability to successfully find pharmaceutical partners who are willing to pay us these fees in order to develop new products would negatively impact our business and our cash flows.

We have limited experience in manufacturing, marketing and selling pharmaceutical products. Accordingly, if we cannot maintain our existing collaborations or establish new collaborations with respect to our other products in development, we will have to establish our own capabilities or discontinue the commercialization of the affected product. Developing our own capabilities would be expensive and time consuming and could delay the commercialization of the affected product. There can be no assurance that we would be successful in developing these capabilities.

Our existing collaborations are subject to termination on short notice under certain circumstances including, for example, if the collaborator determines that the product in development is not likely to be successfully developed or not likely to receive regulatory approval, if we breach the agreement or upon a bankruptcy event. If any of our collaborations are terminated, we may be required to devote additional resources to the product, seek a new collaborator on short notice or abandon the product. The terms of any additional collaborations or other arrangements that we establish may not be favorable to us.

We are also at risk that these collaborations or other arrangements may not be successful. Factors that may affect the success of our collaborations include the following:

Our collaborators may be pursuing alternative technologies or developing alternative products, either on their own or in collaboration with others, that may be competitive with the product as to which they are collaborating with us, which could affect our collaborator's commitment to the collaboration with us.

Our collaborators may reduce marketing or sales efforts, or discontinue marketing or sales of our products. This would reduce our revenues received on the products.

Our collaborators may terminate their collaborations with us. This could make it difficult for us to attract new collaborators or adversely affect perception of us in the business and financial communities.

Our collaborators may pursue higher priority programs or change the focus of their development programs, which could affect the collaborator's commitment to us. Pharmaceutical and biotechnology companies historically have
re-evaluated their priorities from time to time, including following mergers and consolidations, which have been common in recent years in these industries.

We face competition in our industry, and many of our competitors have substantially greater experience and resources than we do.

We compete with other companies within the drug delivery industry, many of which have more capital, more extensive research and development capabilities and greater human resources than we do. Some of these drug delivery competitors include Biovail, Penwest, Andrx, Skypharma and Labopharm. Our competitors may develop new or enhanced products or processes that may be more effective, less expensive, safer or more readily available than any products or processes that we develop, or they may develop proprietary positions that prevent us from being able to successfully commercialize new products or processes that we develop. As a result, our products or processes may not compete successfully, and research and development by others may render our products or processes obsolete or uneconomical.

As a result, we expect competition to increase as technological advances are made and commercial applications broaden.

We are dependent upon sales outside the United States, which are subject to a number of risks.

Our future results of operation could be harmed by risks inherent in doing business in international markets, including:

Unforeseen changes in regulatory requirements;

Weaker intellectual property rights protection in some countries;

New export license requirements, changes in tariffs or trade restrictions;

Political and economic instability in our target markets;

We rely upon a third-party manufacturer, which puts us at risk for supplier business interruptions.

We have entered into an agreement with a third party manufacturer who will manufacture certain of our products once we complete development of these products and after we receive regulatory approval. If our third-party manufacturer fails to perform, our ability to market products and to generate revenue would be adversely affected. Our failure to deliver products in a timely manner could lead to the dissatisfaction of our distribution partners and damage our reputation, cause our distribution partners to cancel existing agreements with us and to stop doing business with us.

The third-party manufacturer that we depend on to manufacture our products is required to adhere to FDA regulations regarding cGMP, which include testing, control and documentation requirements. Ongoing compliance with cGMP and other regulatory requirements is monitored by periodic inspection by the FDA and comparable agencies in other countries. Failure by our third-party manufacturer to comply with cGMP and other regulatory requirements could result in actions against them by regulatory agencies and jeopardize our ability to obtain products on a timely basis.

We are subject to extensive government regulation including the requirement of approval before our products may be marketed. Even if we obtain marketing approval, our products will be subject to ongoing regulatory review.

We, our collaborators, our products, and our product candidates are subject to extensive regulation by governmental authorities in the United States and other countries. Failure to comply with applicable requirements could result in warning letters; fines and other civil penalties; delays in approving or refusal to approve a product candidate; product recall or seizure; withdrawal of product approvals; interruption of manufacturing or clinical trials; operating restrictions; injunctions; and criminal prosecution.

Our products cannot be marketed in the United States without FDA approval. Obtaining FDA approval requires substantial time, effort, and financial resources, and there can be no assurance that any approval will be granted on a timely basis, if at all. We rely on our partners for the preparation of applications and for obtaining regulatory approvals. If the FDA does not approve our product candidates in a timely fashion, or does not approve them at all, our business and financial condition may be adversely affected. Further, the terms of approval of any marketing application, including the labeling content, may be more restrictive than we desire and could affect the marketability of our products or our collaborator's products. Subsequent discovery of problems with an approved product may result in restrictions on the product or its withdrawal from the market.

In addition, both before and after regulatory approval, we, our collaborators, our products, and our product candidates are subject to numerous FDA requirements covering testing, manufacturing, quality control, current good manufacturing practices (cGMP), adverse event reporting, labeling, advertising, promotion, distribution, and export. We and our collaborators are subject to surveillance and periodic inspections to ascertain compliance with these regulations. Further, the relevant law and regulations may change in ways that could affect us, our collaborators, our products, and our product candidates. Failure to comply with regulatory requirements could have a material adverse impact on our business.

Manufacturing Guidelines

Regulations regarding the manufacture and sale of our future products are subject to change. We cannot predict what impact, if any, such changes may have on our business, financial condition or results of operations. Failure to comply with applicable regulatory requirements could have a material adverse effect on our business, financial condition and results of operations.

Additionally, the time required for obtaining regulatory approval is uncertain. We may encounter delays or product rejections based upon changes in FDA policies, including cGMP, during periods of product development. We may encounter similar delays in countries outside of the United States. We may not be able to obtain these regulatory acceptances on a timely basis, or at all.

The failure to obtain timely regulatory acceptance of our products, any product marketing limitations, or any product withdrawal would have a material adverse effect on our business, financial condition and results of operations. In addition, before it grants approvals, the FDA or any foreign regulatory authority may impose numerous other requirements with which we must comply. Regulatory acceptance, if granted, may include significant limitations on the indicated uses for which the product may be marketed. FDA enforcement policy strictly prohibits the marketing of accepted products for unapproved uses. Product acceptance could be withdrawn, or civil or criminal sanctions could be imposed, for our failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing.

The third party manufacturer that we depend on to manufacture our products is required to adhere to FDA regulations regarding cGMP and similar regulations in other countries, which include testing, control and documentation requirements. Ongoing compliance with cGMP and other regulatory requirements is monitored by periodic inspection by the FDA and comparable agencies in other countries.

We may not be able to expand or enhance our existing product lines with new products limiting our ability to grow our company.

If we are not successful in the development and introduction of new products, our ability to grow our company will be impeded. We may not be able to identify products to enhance or expand our product lines. Even if we can identify potential products, our investment in research and development might be significant before we could bring the products to market. Moreover, even if we identify a potential product and expend significant dollars on development, we may never be able to successfully bring the product to market or achieve market acceptance for such product. As a result, we may never recover our expenses.

The market may not be receptive to products incorporating our drug delivery technologies

The commercial success of any of our products that are approved for marketing by the FDA and other regulatory authorities will depend upon their acceptance by the medical community and third-party payors as clinically useful, cost-

effective and safe. No product based on our technologies is marketed in the United States, so there can be no assurance as to market acceptance.

Factors that we believe could materially affect market acceptance of these products include:

- the timing of the receipt of marketing approvals and the countries in which such approvals are obtained;
- the safety and efficacy of the product as compared to competitive products;
- the relative convenience and ease of administration as compared to competitive products;
- the strength of marketing distribution support; and
- the cost-effectiveness of the product and the ability to receive third party reimbursement.

We are subject to environmental regulations, and any failure to comply may result in substantial fines and sanctions.

Our operations are subject to Canadian and international environmental laws and regulations governing, among other things, emissions to air, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of raw materials, waste and other materials. Many of these laws and regulations provide for substantial fines and criminal sanctions for violations. We believe that we are and have been operating our business and facility in a manner that complies in all material respects with environmental, health and safety laws and regulations; however, we may incur material costs or liabilities if we fail to operate in full compliance. We do not maintain environmental damage insurance coverage with respect to the products that we manufacture.

We may have to make significant expenditures in the future to comply with evolving environmental, health and safety requirements, including new requirements that may be adopted or imposed in the future. To meet changing licensing and regulatory standards, we may have to make significant additional site or operational modifications that could involve substantial expenditures or reduction or suspension of some of our operations. We cannot be certain that we have identified all environmental and health and safety matters affecting our activities and in the future our environmental, health and safety problems, and the costs to remediate them, may be materially greater than we expect.

Our limited cash resources restrict our ability to pay cash dividends.

Since our inception, we have not paid any cash dividends on our common stock and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. If we do not pay any dividends on our common stock,

our stockholders will be able to profit from an investment only if the price of the stock appreciates before the stockholder sells it.

We will need to make substantial financial and manpower investments in order to assess our internal controls over financial reporting and our internal controls over financial reporting may be found to be deficient.

Section 404 of the Sarbanes-Oxley Act of 2002 requires management to assess its internal controls over financial reporting and requires auditors to attest to that assessment. Current regulations of the Securities and Exchange Commission, or SEC, will require us to include this assessment and attestation in our Annual Report on Form 10-KSB commencing with the annual report for our fiscal year ended December 31, 2007.

We will incur significant increased costs in implementing and responding to the new requirements. In particular, the rules governing the standards that must be met for management to assess its internal controls over financial reporting under Section 404 are complex, and require significant documentation, testing and possible remediation. Our process of reviewing, documenting and testing our internal controls over financial reporting may cause a significant strain on our management, information systems and resources. We may have to invest in additional accounting and software systems. We may be required to hire additional personnel and to use outside legal, accounting and advisory services. In addition, we will incur additional fees from our auditors as they perform the additional services necessary for them to provide their attestation. If we are unable to favorably assess the effectiveness of our internal control over financial reporting when we are required to, or if our independent auditors are unable to provide an unqualified attestation report on such assessment, we may be required to change our internal control over financial reporting to remediate deficiencies. In addition, investors may lose confidence in the reliability of our financial statements causing our stock price to decline.

Risks Related to Our Intellectual Property

If we are not able to adequately protect our intellectual property, we may not be able to compete effectively.

Our success depends, to a significant degree, upon the protection of our proprietary technologies. While we currently own 2 U.S. patents and have applied for 4 U.S. patents, we will need to pursue additional protections for our intellectual property as we develop new products and enhance existing products. We may not be able to obtain appropriate protection for our intellectual property in a timely manner, or at all. Our inability to obtain appropriate protections for our intellectual property may allow competitors to enter our markets and produce or sell the same or similar products.

If we are forced to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive. In addition, our proprietary rights could be at risk if we are unsuccessful in, or cannot afford to pursue, those proceedings.

We also rely on trade secrets and contract law to protect some of our proprietary technology. We have entered into confidentiality and invention agreements with our employees and consultants. Nevertheless, these agreements may not be honored and they may not effectively protect our right to our unpatented trade secrets and know-how. Moreover, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how.

In 1995, the U.S. Patent and Trademark Office adopted changes to the U.S. patent law that made the term of issued patents 20 years from the date of filing rather than 17 years from the date of issuance, subject to specified transition periods. Beginning in June 1995, the patent term became 20 years from the earliest effective filing date of the underlying patent application. These changes may reduce the effective term of protection for patents that are pending for more than three years.

While we cannot predict the effect that these changes will have on our business, they could have a material adverse effect on our ability to protect our proprietary information. Furthermore, the possibility of extensive delays in the patent issuance process could effectively reduce the term during which a marketed product is protected by patents.

We may need to obtain licenses to patents or other proprietary rights from third parties. We may not be able to obtain the licenses required under any patents or proprietary rights, or they may not be available on acceptable terms. If we do not obtain required licenses, we may encounter delays in product development or find that the development, manufacture or sale of products requiring licenses could be foreclosed. We may, from time to time, support and collaborate on research conducted by universities and governmental research organizations. We may not be able to acquire exclusive rights to the inventions or technical information derived from these collaborations, and disputes may arise over rights in derivative or related research programs conducted by us or our collaborators.

If we infringe on the rights of third parties, we may not be able to sell our products, and we may have to defend against litigation and pay damages.

If a competitor were to assert that our products infringe on its patent or other intellectual property rights, we could incur substantial litigation costs and be forced to pay substantial damages. Third-party infringement claims, regardless of their outcome, would not only consume significant financial resources, but would also divert our management's time and attention. Such claims could also cause our customers or potential customers to purchase competitors' products or defer or limit their purchase or use of our affected products until resolution of the claim. If any of our products are found to violate third-party intellectual property rights, we may have to re-engineer one or more of our products, or we may have to obtain licenses from third parties to continue offering our products without substantial re-engineering. Our efforts to re-engineer or obtain licenses could require significant expenditures and may not be successful.

Our controlled release products that are generic versions of branded controlled release products that are covered by one or more patents may be subject to litigation, which could delay FDA approval and commercial launch of our products.

We expect to file or have our collaborators file ANDAs or NDAs for our controlled release products under development that are covered by one or more patents of the branded product. It is likely that the owners of the patents covering the brand name product or the sponsors of the NDA with respect to the branded product will sue or undertake regulatory initiatives to preserve marketing exclusivity. Any significant delay in obtaining FDA approval to market our products as a result of litigation, as well as the expense of such litigation, whether or not we or our collaborators are successful, could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Securities

There is no current trading market for our shares.

There is not currently, nor has there ever been, a public trading market for our common stock As of September 15, 2006, there were 72 stockholders of record of our common stock.

We intend to ask broker/dealers to submit an application to have our shares quoted on the Over the Counter Bulletin Board. Inclusion on the OTC Bulletin Board would permit price quotations for our shares to be published by that service. Although we intend to request that an application to the OTC Bulletin Board be submitted, we do not anticipate a public trading market in our shares in the immediate future. Except for the application to be submitted to the OTC Bulletin Board, there are no plans, proposals, arrangements or understandings with any person concerning the development of a trading market in any of our securities. There can be no assurance that our shares will be accepted for trading on the OTC Bulletin Board or any other recognized trading market. Also, there can be no assurance that a public trading market will develop following acceptance by the OTC Bulletin Board or at any other time in the future or, that if such a market does develop, that it can be sustained.

The ability of individual stockholders to trade their shares in a particular state may be subject to various rules and regulations of that state. A number of states require that an issuer's securities be registered in their state or appropriately exempted from registration before the securities are permitted to trade in that state. Presently, we have no plans to register our securities in any particular state.

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In the event that our shares are quoted for trading on the Over the Counter Bulletin Board. our stock price may be volatile because of factors beyond our control and you may lose all or a part of your investment.

The market price of our common stock could be subject to significant fluctuations and may decline below the offering price See "Market for Common Equity and Related Stockholder Matters". Any of the following factors could affect the market price of our common stock:

Our failure to achieve and maintain profitability;

Changes in earnings estimates and recommendations by financial analysts;

- Actual or anticipated variations in our quarterly results of operations;
- Changes in market valuations of similar companies;
- Announcements by us or our competitors of significant contracts, new products, acquisitions, commercial relationships, joint ventures or capital commitments;
- The loss of major customers or product or component suppliers;
- The loss of significant partnering relationships;
- Product liability lawsuits or product recalls; and
- General market, political and economic conditions.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs and divert our management's time and attention, which would otherwise be used to benefit our business.

We have a concentration of stock ownership and control, and a small number of stockholders have the ability to exert significant control in matters requiring stockholder vote and may have interests that conflict with yours.

Our common stock ownership is highly concentrated. See "Security Ownership of Certain Beneficial Owners and Management." As a result, a relatively small number of stockholders, acting together, have the ability to control all matters requiring stockholder approval, including the election of directors and approval of mergers and other significant corporate transactions. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company. It could also deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and it may affect the market price of our common stock. In deciding how to vote on such matters, those stockholders' interests may conflict with yours.

In the event that our shares are quoted for trading on the Over the Counter Bulletin Board we expect that our common stock will initially trade below $5.00 per share and that we will therefore be subject to penny stock regulations and restrictions.

Broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally persons with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 together with their spouse), are subject to additional sales practice requirements. Broker-dealers must also make a special suitability determination for the purchase of such securities and must have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document relating to the penny stock market. A broker-dealer must also disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the securities. Finally, monthly statements must be sent to clients disclosing recent price information for the penny stocks held in the account and information on the limited market in penny stocks.

Consequently, these rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock and may affect the ability of stockholders to sell their shares. These requirements may be considered

cumbersome by broker-dealers and could impact the willingness of a particular broker-dealer to make a market in our shares, or they could affect the value at which our shares trade. Classification of the shares as penny stocks increases the risk of an investment in our shares.

We became public by means of a reverse merger, and as a result we are subject to the risks associated with the prior activities of the public company. In addition, we may not be able to attract the attention of major brokerage firms or institutional buyers.

Additional risks may exist because we became public through a "reverse merger" with a shell corporation. Although the shell did not have recent or past operations or assets and we performed a due diligence review of the public company, there can be no assurance that we will not be exposed to undisclosed liabilities resulting from the prior operations of our company.

Security analysts of major brokerage firms and securities institutions may not cover us since there are no broker-dealers who sold our stock in a public offering who would have an incentive to follow or recommend the purchase of our common stock. No assurance can be given that established brokerage firms will want to conduct any financings for us in the future.

FORWARD-LOOKING STATEMENTS

Location	Market Served	Own or Lease (Expiration)	Approximate Square Feet	Certifications
Corporate Office:				
Louisville, Kentucky		Lease (2014)	21,600	
Manufacturing and Service Facilities:				
Kenton, Ohio	Truck Components & Assemblies	Own	550,000	TS 16949
Louisville, Kentucky	Truck Components & Assemblies	Own	450,000	QS 9000
Marion, Ohio	Truck Components & Assemblies	Own	255,000	TS 16949
Morganton, North Carolina	Truck Components & Assemblies	Own	360,000	TS 16949 ISO 14001
Orlando, Florida	Test & Measurement Services	Own	62,000	ANSI/NCSL Z540 AS 9100 DSCC FCC ISO 9001 ISO 17025/Guide 25 MIL-STD 750, 883, 202 and 810 VCCI
San Dimas, California	Aerospace & Defense Electronics	Lease (2015)	26,300	ISO 9001
Tampa, Florida	Aerospace & Defense Electronics	Lease (2016)	318,000	ISO 9001 AS 9100 NASA-STD-8739 IPC-A-610, Rev D,

				Class 3 J-STD-001, Rev D, Class 3
Toluca, Mexico	Truck Components & Assemblies	Own	217,000	TS 16949

In addition, we lease space in 20 other facilities primarily utilized to provide technical services, all of which are located in the U.S. We also own 12 ISO-certified mobile calibration units and five ISO-certified transportable field calibration units that are utilized to provide test & measurement services at customer locations throughout the U.S., the Caribbean and the South Pacific.

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

Certification/Specification	Description
ANSI/NCSL Z540	A certification 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.
AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
DSCC	A certification that specifies specific functions or processes that are conducted in compliance with military specifications, such as a quality program, high-reliability soldering, component testing, and environmental testing.
FCC	A certification process by the Federal Communications Commission, which sets out general provisions that a laboratory must conform to in carrying out EMI/EMC testing and provides laboratories with direction for the development of a fundamental quality management system.
IPC-A-610	A certification process for electronics assembly manufacturing which describes materials, methods and verification criteria for producing high quality electronic products. Class 3 specifically includes high performance or performance-on-demand products where equipment downtime cannot be tolerated, end-use environment may be uncommonly harsh, and the equipment must function when required.
J-STD-001	A family of voluntary standards of industry-accepted workmanship criteria for electronics assemblies.
ISO 9001	A certification process comprised of quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 14001	A family of voluntary standards and guidance documents defining specific requirements for an Environmental Management System.
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.
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.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
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.

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TS 16949	A quality certification system developed within the automotive sector. Using ISO 9001:2000 as its foundation, ISO/TS 16949:2002 specifies the quality management system (QMS) requirements for the design, development, production, installation and servicing of automotive related products.
VCCI	An internationally recognized and accepted Japanese certification by the Voluntary Control Council for Interference, which established regulations to control interference with licensed radio communication services in accordance with CISP 22 emission standards in carrying out EMI/EMC testing and is similar to FCC certification.

Item 3. Legal Proceedings

We are involved from time to time in routine litigation and other legal or environmental proceedings incidental to our business. There are currently no material pending legal proceedings to which we are a party. Ongoing environmental matters include the following:

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. Under our purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to December 31, 2002, to the extent of any indemnification owed to Dana by Eaton Corporation or any other matters for which Dana has released Eaton.

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 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. On November 3, 2004, Sypris Electronics was served as a co-defendant with Honeywell International, Inc. and Phillips Electronics America Corporation in an environmental lawsuit filed in the Circuit Court of the Thirteenth Judicial Circuit Hillsborough County, Florida by Helen Jones and other surrounding landowners, alleging various damages caused by such contamination. Philips Electronics has agreed to pay for our defense costs.

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 and groundwater contamination involving petroleum compounds, certain metals, and other contaminants, some of which exceed the State of North Carolina notification standards applicable to the site. No litigation or other proceedings are underway with respect to this site.

Our Toluca, Mexico facility is subject to soil and groundwater contamination involving petroleum compounds and volatile organic compounds, among other concerns. Under our purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to June 30, 2006, to the extent

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of any indemnification owed to Dana by Eaton Corporation or any other matters for which Dana has released Eaton.

Our Kenton, Ohio facility is subject to soil and groundwater contamination involving petroleum compounds, volatile organic compounds, certain metals, PCBs and other contaminants. Under our purchase agreement for this facility, Meritor Heavy Vehicle Systems has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified ArvinMeritor prior to May 2, 2006.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2007.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 our common stock as reported by the Nasdaq National Market.

	High	Low
Year ended December 31, 2006:		
First Quarter	$ 11.26	$ 9.04
Second Quarter	10.10	7.83
Third Quarter	9.99	6.94
Fourth Quarter	8.35	6.77
Year ended December 31, 2007:		
First Quarter	$ 7.14	$ 6.03
Second Quarter	8.87	6.46
Third Quarter	9.05	7.90
Fourth Quarter	9.91	5.53

The graph above shows a comparison of cumulative total stockholder returns for Sypris, calculated on a dividend reinvestment basis, from December 31, 2002 through December 31, 2007. In the performance graph, the cumulative total stockholder return of the Company is compared to the Russell 2000 Index and the S&P SmallCap 600 Index. The S&P SmallCap 600 Index has been selected as a basis of comparison since Sypris believes the S&P

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SmallCap 600 Index more appropriately tracks the performance of multi-industry businesses at its level of market capitalization, than any identifiable peer group.

As of March 5, 2008, there were 911 holders of record of our common stock. 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. We did not repurchase any of our common stock during the fourth quarter of the fiscal year ended December 31, 2007.

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Item 6. Selected Financial 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 in Item 8 of this Form 10-K. The selected financial data set forth below as of December 31, 2007 and 2006, and for the three years included in the period ended December 31, 2007 are derived from our audited consolidated financial statements included elsewhere in this Form 10-K, and the data below are qualified by reference to those consolidated financial statements and related notes. The financial statement data at December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from our audited consolidated financial statements not included in this Form 10-K.

	Years Ended December 31, (in thousands, except per share data)				
	2007	2006(1)	2005	2004(2)	2003(3)
Consolidated Statement of Operations Data:					
Net revenue	$ 435,915	$ 497,664	$ 522,766	$ 425,402	$ 276,605
Cost of sales	396,119	456,574	471,428	371,963	230,660
Gross profit	39,796	41,090	51,338	53,439	45,945
Selling, general and administrative	40,517	37,107	35,669	35,248	26,711
Research and development	2,821	1,988	2,833	3,697	4,166
Amortization of intangible assets	527	645	614	596	194
Nonrecurring (income) expense, net	(3,246)	1,485			
Operating (loss) income	(823)	(135)	12,222	13,898	14,874
Interest expense, net	3,685	3,708	5,979	2,100	1,693
Other expense (income), net	31	(387)	(1,325)	(138)	230
(Loss) income before income taxes	(4,539)	(3,456)	7,568	11,936	12,951
Income tax (benefit) expense	(2,400)	(2,094)	2,247	3,637	4,860
Net (loss) income	$ (2,139)	$ (1,362)	$ 5,321	$ 8,299	$ 8,091
(Loss) earnings per common share:					
Basic	$ (0.12)	$ (0.08)	$ 0.30	$ 0.48	$ 0.57
Diluted	$ (0.12)	$ (0.08)	$ 0.29	$ 0.47	$ 0.56
Cash dividends per common share	$ 0.12	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Shares used in computing per share amounts:					
Basic	18,231	18,079	18,016	17,119	14,237
Diluted	18,231	18,079	18,323	17,745	14,653

	December 31, (in thousands)				
	2007	2006(1)	2005	2004(2)	2003(3)
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 14,622	$ 32,400	$ 12,060	$ 14,060	$ 12,019
Working capital	152,441	100,717	111,765	143,123	81,456
Total assets	422,060	379,033	417,624	431,178	264,435
Current portion of long-term debt	5,000	5,000		7,000	3,200
Long-term debt, net of current portion	60,000	55,000	80,000	110,000	53,000
Total stockholders equity	207,479	209,886	213,734	208,939	145,392

(1) Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* under the modified prospective method. We also adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* as of December 31, 2006. See Note 1 of our consolidated financial statements.

(2)

On May 3, 2004 and June 30, 2004, respectively, we completed the acquisition of the net assets of ArvinMeritor s Kenton, Ohio facility and Dana s Toluca, Mexico facility and their results of operations and related purchased assets are included from those dates forward.

(3) On December 31, 2003, we completed the acquisition of the net assets of Dana s Morganton, North Carolina facility and its results of operations and related purchased assets are included from that date forward.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our consolidated results of operations and financial condition should be read together with the other financial information and consolidated financial statements included in this Form 10-K. 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 Form 10-K.

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 test & measurement services. Revenue from our three core markets accounted for approximately 95% of our revenue for the year ended December 31, 2007, while revenue from our outsourced services accounted for approximately 81% of our revenue.

We are organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group is one reportable business segment, while the Electronics Group includes two reportable business segments, Aerospace & Defense and Test & Measurement. The Industrial Group is comprised of Sypris Technologies, Inc. and its subsidiaries, 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. The Aerospace & Defense reportable segment is comprised of Sypris Data Systems, Inc. and Sypris Electronics, LLC. Revenue for this group is derived primarily from the sale of manufacturing services, technical services and products to customers in the market for aerospace & defense electronics. The Test & Measurement reportable segment consists solely of Sypris Test & Measurement, Inc., which generates revenue primarily from providing technical services for the calibration, certification and repair of test and measurement equipment in the U.S.

Our objective is to become the leading outsourcing specialist in each of our core markets for aerospace & defense electronics, truck components & assemblies, and test & measurement services. 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.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition in the Industrial Group, including cost of sales; however, these policies do not meet the definition of critical accounting estimates because they do not generally require us to make estimates or judgments that are difficult or subjective.

Allowance for Doubtful Accounts. We establish reserves for uncollectible accounts receivable based on overall receivable aging levels, a specific evaluation of accounts for customers with known financial difficulties and evaluation of customer chargebacks, if any. These reserves and corresponding write-offs could significantly increase if our customers experience deteriorating financial results or in the event we receive a significant chargeback, which is deemed uncollectible.

Impairments. 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. It is possible that the assumptions underlying the impairment analysis will change in such a manner

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that impairment charges may occur. We likely would compute a materially different fair value for a business if different assumptions were used or if circumstances were to change.

At December 31, 2007, net assets of our Test & Measurement segment were $13.4 million, including goodwill of $6.9 million, and our Aerospace & Defense segment had net assets of $41.5 million, including goodwill of $6.9 million. If continued improvements in operations are not achieved and profitability deteriorates, we may be required to record an impairment charge to goodwill for the Test & Measurement and/or the Aerospace & Defense segments.

Long-term Contracts. A large part of our Aerospace & Defense segment business is derived from long-term contracts for development, production and service activities, which we account for consistent with the American Institute of Certified Public Accountants (AICPA) audit and accounting guide, Audits of Federal Government Contractors, the AICPA s Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and other relevant revenue recognition accounting literature, as applicable. We consider the nature of these contracts and the types of products and services provided when we determine the proper accounting for a particular contract.

Primarily, we record long-term, fixed-price contracts on a percentage of completion basis using units-of-delivery to measure progress toward completing the contract and recognizing net revenue. Revenue is recognized on these contracts when units are shipped or delivered to the customer, as applicable, 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 average costs of all units to be shipped. For example, we use this method of revenue recognition on our encryption programs. In less frequent circumstances, we enter into milestone specific, fixed-price contracts for which revenue is recorded when we achieve performance milestones. Revenue recognized under such milestones is limited to net revenue that we would recognize under the cost-to-cost method. Under the cost-to-cost method of accounting, revenue is recognized based on the ratio of costs incurred to our estimate of total costs at completion. For example, we use this methodology for our CEC, Common Card and KI-17 programs. As we incur costs under cost-reimbursement-type contracts, we record net revenue. Cost-reimbursement-type contracts include time and materials and other level-of-effort-type contracts. An example of this type of revenue recognition includes the Information Assurance Engineering Services program.

As a general rule, we recognize net revenue and profits earlier in a production cycle when we use the cost-to-cost and milestone methods of percentage of completion accounting than when we use the units-of-delivery method. In addition, our profits and margins may vary materially depending on the types of long-term government contracts undertaken, the costs incurred in their performance, the achievement of other performance objectives, and the stage of performance at which the right to receive fees is finally determined.

Contract accounting requires judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. Contract costs include material, labor and subcontracting costs, as well as an allocation of indirect costs. Assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. 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.

The majority of our Aerospace & Defense segment net revenue is driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. Government, and therefore not necessarily on market-based factors. Cost-based pricing is determined under the Federal Acquisition Regulations (FAR). The FAR provides guidance on the types of costs that are allowable in establishing prices for goods and services under U.S. Government contracts. For example, costs such as those related to charitable contributions, advertising, public relations and interest expense are unallowable, and therefore, not recoverable through net revenue.

Approximately 19%, 12% and 16% of total net revenue was recognized under the percentage of completion method based on units of delivery during 2007, 2006 and 2005, respectively. Approximately 2%, 3% and 2% of total net revenue was recognized under the percentage of completion method based on milestones or cost-to-cost during 2007, 2006 and 2005, respectively. Therefore, the amounts we record in our consolidated financial statements

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using contract accounting methods and cost accounting standards are material. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. When adjustments in estimated contract revenues or costs are required, any changes from prior estimates are generally included in earnings in the current period. We closely monitor compliance with and the consistent application of our critical accounting policies related to contract accounting. In addition to less formal monthly reviews, management in the Aerospace & Defense segment formally assesses the status of contracts on a quarterly basis through extensive estimate at completion reviews, which include multiple levels of program personnel. Costs incurred and allocated to contracts with the U.S. Government are reviewed for compliance with regulatory standards by our personnel and are subject to audit by the Defense Contract Audit Agency.

Pension Plan Funded Status. The calculation of pension assets and liabilities involve complex estimation processes based on third party actuarially determined estimates, which rely on management estimates of the discount rate and rate of return on plan assets. Changes in these rates could significantly impact the actuarially determined amounts recorded in the statements of financial position.

Reserve for Excess, Obsolete and Scrap Inventory. We record inventory at the lower of cost, determined under the first-in, first-out method, or market and we reserve for excess, obsolete or scrap inventory. These reserves are primarily based upon management s assessment of the salability of the inventory, historical usage of raw materials, historical demand for finished goods and estimated future usage and demand. An improper assessment of salability or improper estimate of future usage or demand, or significant changes in usage or demand could result in significant changes in the reserves and a positive or a negative impact on our consolidated results of operations in the period the change occurs.

Stock-based Compensation. We account for stock-based compensation in accordance with the fair value recognition provisions using the Black-Scholes option-pricing method, which requires the input of several subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (forfeitures). Changes in the subjective assumptions can materially affect the fair value estimate of stock-based compensation and consequently, the related expense recognized in the consolidated statements of operations.

Income Taxes. The Company accounts for income taxes as required by the provisions of Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes* (SFAS No. 109), under which deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using enacted tax rates.

As referenced in Note 16 to the consolidated financial statements, the Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48), as of January 1, 2007. Management judgment is required in determining income tax expense and the related balance sheet amounts. In addition, under FIN 48 judgments are required concerning the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. The Company believes that its recorded tax liabilities adequately provide for the probable outcome of these assessments.

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, SFAS No. 109 requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment is largely dependent upon projected near-term profitability including the effects of tax planning. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which the Company conducts its operations or otherwise incurs taxable income or losses. In the U.S., the Company had a net deferred tax liability at December 31, 2007. U.S. operations have not been profitable in recent years, however. If unprofitable results continue, we may be required to record a valuation allowance on the resulting deferred tax assets. The Company s foreign operation had a net deferred tax asset at December 31, 2007. The Company has been profitable in its foreign operations and anticipates continuing profitability in the future. No valuation allowances were recorded during 2007, 2006 or 2005.

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Results of Operations

The tables presented below, which compare our consolidated 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 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, 2007 Compared to Year Ended December 31, 2006

	Year Ended December 31,		Year Over Year Change Favorable (Unfavorable)	Year Over Year Percentage Change Favorable (Unfavorable)	Result as Percentage of Net Revenue for the Year Ended December 31,	
	2007	2006			2007	2006
	(in thousands, except percentage data)					
Net revenue:						
Industrial Group	$ 279,082	$ 364,570	$ (85,488)	(23.4)%	64.0%	73.2%
Aerospace & Defense	104,505	87,491	17,014	19.4	24.0	17.6
Test & Measurement	52,328	45,603	6,725	14.7	12.0	9.2
Electronics Group	156,833	133,094	23,739	17.8	36.0	26.8
Total net revenue	435,915	497,664	(61,749)	(12.4)	100.0	100.0
Cost of sales:						
Industrial Group	261,492	346,894	85,402	24.6	*93.7*	*95.2*
Aerospace & Defense	95,496	73,832	(21,664)	(29.3)	*91.4*	*84.4*
Test & Measurement	39,131	35,848	(3,283)	(9.2)	*74.8*	*78.6*
Electronics Group	134,627	109,680	(24,947)	(22.7)	*85.8*	*82.4*
Total cost of sales	396,119	456,574	60,455	13.2	90.9	91.7
Gross profit:						
Industrial Group	17,590	17,676	(86)	(0.5)	*6.3*	*4.8*
Aerospace & Defense	9,009	13,659	(4,650)	(34.0)	*8.6*	*15.6*
Test & Measurement	13,197	9,755	3,442	35.3	*25.2*	*21.4*
Electronics Group	22,206	23,414	(1,208)	(5.2)	*14.2*	*17.6*
Total gross profit	39,796	41,090	(1,294)	(3.1)	9.1	8.3
Selling, general and administrative	40,517	37,107	(3,410)	(9.2)	9.3	7.5
Research and development	2,821	1,988	(833)	(41.9)	0.6	0.4
Amortization of intangible assets	527	645	118	18.3	0.1	0.1
Nonrecurring (income) expense, net	(3,246)	1,485	4,731	NM	(0.7)	0.3
Operating loss	(823)	(135)	(688)	(509.6)	(0.2)	0.0
Interest expense, net	3,685	3,708	23	0.6	0.8	0.8
Other expense (income), net	31	(387)	(418)	NM	(0.0)	(0.1)

Loss before income taxes	(4,539)	(3,456)	(1,083)	(31.3)	(1.0)	(0.7)
Income taxes	(2,400)	(2,094)	306	14.6	(0.5)	(0.4)
Net loss	$ (2,139)	$ (1,362)	$ (777)	(57.0)%	(0.5)%	(0.3)%

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Backlog. Our backlog increased $7.4 million to $106.9 million at December 31, 2007, on $164.2 million in net orders in 2007 compared to $131.3 million in 2006. We expect to convert approximately 80% of the backlog at December 31, 2007 to revenue during 2008.

Backlog for our Aerospace & Defense segment increased $5.1 million to $99.1 million at December 31, 2007, on $109.6 million in net orders in 2007 compared to $83.5 million in 2006. Backlog for our Test & Measurement segment increased $2.3 million to $7.8 million at December 31, 2007 on $54.6 million in net orders in 2007 compared to $47.7 million in 2006. We expect to convert approximately 79% of the Aerospace & Defense backlog and approximately 100% of the Test & Measurement backlog at December 31, 2007 to revenue during 2008.

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group decreased $85.5 million to $279.1 million in 2007. Lower sales volume attributable to reduced demand from customers in the heavy truck and trailer markets accounted for decreased revenue of approximately $84.5 million and $9.9 million, respectively. Revenue also declined approximately $12.6 million from the discontinued sale of housings components to a customer in the heavy truck market. The volume declines were partially offset by increased pricing of approximately $8.6 million on certain light truck components and additional revenue of approximately $11.8 million attributable to arbitration payments and the settlement agreement with Dana for certain components supplied during 2007.

The Aerospace & Defense segment derives its revenue from product sales and technical outsourced services. Aerospace & Defense segment net revenue increased $17.0 million to $104.5 million primarily due to increased product sales driven by the ramp-up of a new classified program during 2007. Technical outsourced services comprised $5.8 million of the increase primarily as a result of the launch of several new programs.

The Test & Measurement segment derives its revenue from technical services including calibration and component screening, and product sales. Technical services revenue accounted for approximately 88% and 87% of total Test & Measurement revenue in 2007 and 2006, respectively. Test & Measurement segment net revenue increased $6.7 million primarily due to increased demand for technical services.

Gross Profit. The Industrial Group s gross profit decreased $0.1 million to $17.6 million in 2007. The counteracting factors impacting gross profit in 2007 were the sales volume declines in the heavy truck and trailer markets offset by the pricing increase and the Dana settlement revenues. The significant decrease in sales volume and related loss of fixed overhead absorption combined with increased fringe benefit costs and higher contractual labor rates resulted in a reduction in gross profit of approximately $19.2 million. The volume related decrease in gross profit was offset by approximately $8.6 million for the light truck market pricing increase and approximately $10.5 million for the revenue from arbitration payments and the settlement agreement with Dana.

The Aerospace & Defense segment s gross profit decreased $4.7 million to $9.0 million in 2007. Gross profit as a percentage of revenue for 2007 decreased to 8.6% from 15.6% in 2006. The increase in revenue for the segment in 2007 was comprised of a higher mix of lower-margin services and product sales as compared to the prior year. The unfavorable product mix and related gross margin impact was further affected by the delay in a new government contract award with shipments on the new program expected to begin in the first quarter of 2008. Additionally, contract support costs and delayed cost reduction efforts on a government program contributed to the decline in gross profit in 2007.

The Test & Measurement segment s gross profit increased $3.4 million in 2007 primarily due to increased revenues, which also contributed to an increase in gross profit as a percentage of revenue to 25.2% in 2007 from 21.4% in 2006.

Selling, General and Administrative. Selling, general and administrative expense increased $3.4 million in 2007 and increased as a percentage of net revenue to 9.3% in 2007 from 7.5% in 2006 primarily due to compensation-related expenses, recruiting costs and higher employee benefit costs.

Research and Development. Research and development costs increased $0.8 million in 2007 primarily due to new product development efforts within our Aerospace & Defense segment.

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Nonrecurring (Income) Expense, Net. Nonrecurring items include the gain recognized as part of the Dana settlement agreement offset by the write-off of certain accounts receivable and other assets, legal and professional fees incurred as a result of the Dana bankruptcy filing and other transaction related costs.

Interest Expense, Net. Interest expense in 2007 was consistent with 2006. Our weighted average debt outstanding decreased to $53.1 million during 2007 from $65.1 million during 2006, resulting primarily from multiple working capital management initiatives. The weighted average interest rate increased to 6.7% in 2007 from 5.5% in 2006 primarily as a result of the April 2007 modification of our Revolving Credit Agreement and Senior Notes.

Income Taxes. Our effective income tax rate was 52.9% in 2007 as compared to 60.6% for 2006. The change primarily relates to the mix of foreign earnings and domestic losses. In 2006, income tax expense was reduced $0.4 million as a result of the resolution of various domestic federal and state tax liabilities which proved to be less than original estimates.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

	Years Ended December 31,		Year Over Year Change Favorable (Unfavorable)	Year Over Year Percentage Change Favorable (Unfavorable)	Results as Percentage of Net Revenue for the Years Ended December 31,	
	2006	2005			2006	2005
			(in thousands, except percentage data)			
Net revenue:						
Industrial Group	$ 364,570	$ 359,602	$ 4,968	1.4%	73.2%	68.8%
Aerospace & Defense	87,491	115,863	(28,372)	(24.5)	17.6	22.2
Test & Measurement	45,603	47,301	(1,698)	(3.6)	9.2	9.0
Electronics Group	133,094	163,164	(30,070)	(18.4)	26.8	31.2
Total net revenue	497,664	522,766	(25,102)	(4.8)	100.0	100.0
Cost of sales:						
Industrial Group	346,894	336,686	(10,208)	(3.0)	*95.2*	*93.6*
Aerospace & Defense	73,832	98,367	24,535	24.9	*84.4*	*84.9*
Test & Measurement	35,848	36,375	527	1.4	*78.6*	*76.9*
Electronics Group	109,680	134,742	25,062	18.6	*82.4*	*82.6*
Total cost of sales	456,574	471,428	14,854	3.2	91.7	90.2
Gross profit:						
Industrial Group	17,676	22,916	(5,240)	(22.9)	*4.8*	*6.4*
Aerospace & Defense	13,659	17,496	(3,837)	(21.9)	*15.6*	*15.1*
Test & Measurement	9,755	10,926	(1,171)	(10.7)	*21.4*	*23.1*
Electronics Group	23,414	28,422	(5,008)	(17.6)	*17.6*	*17.4*
Total gross profit	41,090	51,338	(10,248)	(20.0)	8.3	9.8
Selling, general and administrative	37,107	35,669	(1,438)	(4.0)	7.5	6.8
Research and development	1,988	2,833	845	29.8	0.4	0.6
Amortization of intangible assets	645	614	(31)	(5.0)	0.1	0.1
Nonrecurring expense	1,485		(1,485)	NM	0.3	0.0
Operating (loss) income	(135)	12,222	(12,357)	NM	0.0	2.3
Interest expense, net	3,708	5,979	2,271	38.0	0.8	1.1

Other income, net	(387)	(1,325)	(938)	(70.8)	(0.1)	(0.2)
(Loss) income before income taxes	(3,456)	7,568	(11,024)	NM	(0.7)	1.4
Income taxes	(2,094)	2,247	4,341	NM	(0.4)	0.4
Net (loss) income	$ (1,362)	$ 5,321	$ (6,683)	NM%	(0.3)%	1.0%

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Backlog. Excluding the backlog from our Industrial Group, which ceased to be tracked starting January 1, 2006, our backlog decreased $2.4 million to $99.5 million at December 31, 2006, on $131.3 million in net orders in 2006 compared to $146.4 million in 2005.

Backlog for our Aerospace & Defense segment decreased $4.2 million to $94.0 million at December 31, 2006, on $83.5 million in net orders in 2006 compared to $99.9 million in 2005. Backlog for our Test & Measurement segment increased $1.8 million to $5.5 million at December 31, 2006 on $47.7 million in net orders in 2006 compared to $46.5 million in 2005.

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group for the year increased $5.0 million to $364.6 million primarily due to $12.2 million in additional volume, $7.7 million of material pricing pass-through and $0.5 million of price increases which were offset by the cessation of two business lines.

The Aerospace & Defense segment derives its revenue from product sales and technical outsourced services. Aerospace & Defense segment net revenue decreased $28.4 million to $87.5 million due to a $32.6 million decline in volume as a result of one encryption product completing its life cycle during 2006, while the launch of the next generation product was delayed into 2008, as well as maturing manufacturing service programs and declines in data storage product sales. All such decreases were partially offset by $4.1 million of pricing increases over the prior year, primarily driven by a manufacturing service program.

The Test & Measurement segment derives its revenue from technical services including calibration and component screening, and product sales. Technical services revenue accounted for approximately 87% and 84% of total Test & Measurement revenue in 2006 and 2005, respectively. Test & Measurement segment net revenue decreased $1.7 million due to a $1.5 million sales decline in a military program product, with the remainder due to decreased technical services sales.

Gross Profit. The Industrial Group s gross profit decreased $5.2 million in 2006 primarily due to $2.6 million of production inefficiencies which combined with inflationary increases in salary and fringe benefits, utility costs, supplies expenses and material revaluation impacts on scrap expense of $2.4 million, $1.4 million, $0.3 million and $0.2 million, respectively, which were partially offset by increased volume associated with higher revenue. Gross profit as a percentage of revenue decreased to 4.8% for 2006 from 6.4% in 2005 as a result of the aforementioned production inefficiencies, higher energy costs and salary and fringe benefits along with the impact of declining overhead absorption rates resulting from inventory reduction initiatives.

The Aerospace & Defense segment s gross profit decreased $3.8 million in 2006 primarily due to the decline in volume of one encryption product which completed its life cycle during 2006, while the launch of the next generation product was delayed until 2008. Gross margin for the Aerospace & Defense segment was 15.6% in 2006 as compared to 15.1% in 2005. The increase in gross margin percentage resulted primarily from a more favorable mix of product sales with higher gross margins versus manufacturing services.

The Test & Measurement segment s gross profit decreased $1.2 million in 2006 primarily due to an unfavorable shift in sales mix from product sales and component screening services with higher margins for technical services sales.

Selling, General and Administrative. Selling, general and administrative expense increased $1.4 million in 2006 and increased as a percentage of net revenue to 7.5% in 2006 from 6.8% in 2005. The increase was primarily driven by a $0.8 million increase in stock compensation expense as required under SFAS No. 123R, a $0.6 million increase in administrative costs in the Industrial Group related to a full year of additional infrastructure to support the new contracts in the Industrial Group, and a $0.5 million increase in allowances for bad debts for the Aerospace & Defense segment, all of which were partially offset by a decrease for the Test & Measurement segment primarily resulting from reduced headcount and severance costs in the prior period which did not recur.

Research and Development. Research and development costs decreased $0.8 million in 2006 due to a $1.4 million reduction in two of our data systems product development projects, which was partially offset by new intellectual property investments under a manufacturing service program and initial investments in a new product offering within our Aerospace & Defense segment.

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Amortization of Intangible Assets. Amortization of intangible assets remained consistent with the prior year period.

Nonrecurring Expense. Nonrecurring items include legal and professional fees incurred as a result of the Dana bankruptcy filing and other transaction related costs.

Interest Expense, Net. Interest expense decreased in 2006 due to a decrease in our weighted average debt outstanding. Our weighted average debt outstanding decreased to $65.1 million during 2006 from $115.9 million during 2005, resulting primarily from multiple working capital management initiatives. The weighted average interest rate increased to 5.5% in 2006 from 5.2% in 2005.

Other Income, Net. Other income, net decreased $0.9 million in 2006 due primarily to lower foreign currency remeasurement gains of U.S. Dollar denominated accounts of our foreign subsidiaries.

Income Taxes. Our effective income tax rate was 60.6% in 2006 as compared to 29.7% for 2005. The change primarily relates to the mix of foreign earnings and domestic losses. The change from prior year also reflects the impact of a change in the Mexican statutory tax rate to 29% for 2006 from 30% in 2005. In 2006 and 2005, tax expense was reduced $0.4 million and $0.2 million, respectively as a result of the resolution of various domestic federal and state tax liabilities which proved to be less than original estimates.

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Quarterly Results

The following table presents our unaudited condensed consolidated statements of operations data for each of the eight quarters in the two-year period ended December 31, 2007. Beginning January 1, 2007, we began to report quarterly results on a 4-4-5 fiscal quarter basis. We have prepared this data on the same basis as our audited consolidated financial statements and, in our opinion, have included 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 annual report. The consolidated results of operations for any quarter are not necessarily indicative of the results to be expected for any subsequent period.

	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except per share data)							
Net revenue:								
Industrial Group	$ 79,119	$ 73,472	$ 67,595	$ 58,896	$ 92,499	$ 98,454	$ 93,021	$ 80,596
Aerospace & Defense	19,671	29,380	23,604	31,850	26,011	21,917	21,166	18,397
Test & Measurement	12,649	13,395	13,321	12,963	11,487	11,862	11,768	10,486
Electronics Group	32,320	42,775	36,925	44,813	37,498	33,779	32,934	28,883
Total net revenue	111,439	116,247	104,520	103,709	129,997	132,233	125,955	109,479
Cost of sales:								
Industrial Group	73,799	69,723	62,882	55,088	86,550	93,963	87,871	78,510
Aerospace & Defense	16,516	28,603	21,133	29,244	22,056	18,570	18,559	14,647
Test & Measurement	9,117	10,220	10,033	9,761	8,772	9,266	9,289	8,521
Electronics Group	25,633	38,823	31,166	39,005	30,828	27,836	27,848	23,168
Total cost of sales	99,432	108,546	94,048	94,093	117,378	121,799	115,719	101,678
Gross profit:								
Industrial Group	5,320	3,749	4,713	3,808	5,949	4,491	5,150	2,086
Aerospace & Defense	3,155	777	2,471	2,606	3,955	3,347	2,607	3,750
Test & Measurement	3,532	3,175	3,288	3,202	2,715	2,596	2,479	1,965
Electronics Group	6,687	3,952	5,759	5,808	6,670	5,943	5,086	5,715
Total gross profit	12,007	7,701	10,472	9,616	12,619	10,434	10,236	7,801
Selling, general and administrative	10,596	8,775	10,369	10,777	9,498	9,376	9,600	8,633
Research and development	679	714	608	820	334	371	427	856
Amortization of intangible assets	164	164	129	70	159	158	163	165
Nonrecurring expense (income), net	306	1,248	(4,835)	35	421	256	575	233
Operating income (loss)	262	(3,200)	4,201	(2,086)	2,207	273	(529)	(2,086)
Interest expense, net	719	914	991	1,061	1,159	1,083	820	646
Other (income) expense, net	(20)	61	(26)	16	(250)	(8)	12	(141)
Loss (income) before income taxes	(437)	(4,175)	3,236	(3,163)	1,298	(802)	(1,361)	(2,591)
Income tax (benefit) expense	(192)	(1,874)	599	(933)	441	(358)	(559)	(1,618)
Net (loss) income	$ (245)	$ (2,301)	$ 2,637	$ (2,230)	$ 857	$ (444)	$ (802)	$ (973)
(Loss) earnings per common share:								
Basic	$ (0.01)	$ (0.13)	$ 0.14	$ (0.12)	$ 0.05	$ (0.02)	$ (0.04)	$ (0.05)
Diluted	$ (0.01)	$ (0.13)	$ 0.14	$ (0.12)	$ 0.05	$ (0.02)	$ (0.04)	$ (0.05)

Cash dividends per common share	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03
Shares used in computing (loss) earnings per common share:								
Basic	18,107	18,169	18,314	18,332	18,042	18,065	18,094	18,084
Diluted	18,107	18,169	18,548	18,332	18,289	18,065	18,094	18,084

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Liquidity, Capital Resources and Financial Condition

Net cash used in operating activities was $10.5 million in 2007, as compared to net cash provided of $52.8 million in 2006, primarily due to the timing of working capital improvements in 2006, which were not repeated in 2007 and the return to pre-Chapter 11 payment terms under the settlement agreement with Dana. Additionally, net cash used in operating activities is due to the timing of collections and includes increases in inventory to support the ramp-up of new product programs in the Aerospace & Defense segment. In 2007, accounts receivable increased $6.1 million primarily due to the timing of collections from governmental agencies, and accounts payable decreased $16.8 million driven by lower volumes in the Industrial Group. Inventory decreased $6.0 million primarily to adjust for lower sales volumes in the Industrial Group and due to an emphasis on reducing inventory days. Other current assets increased $2.7 million primarily as a result of an increase in deferred contract costs. Accrued liabilities increased $10.8 million primarily as a result of foreign income taxes payable resulting from the Dana settlement agreement and a customer payment received in advance.

Net cash used in investing activities was $9.4 million in 2007 as compared to $10.3 million in 2006. Capital expenditures decreased slightly to $10.2 million in 2007 from $10.3 million in 2006.

Net cash provided by financing activities was $2.1 million in 2007 as compared to cash used of $22.1 million in 2006. In 2006, we made net repayments totaling $20.0 million on our revolving credit facility as a result of cash flow from operations under our various working capital management initiatives. Additionally, we also paid $0.9 million in financing fees in conjunction with modifications of our debt in 2007.

We had total borrowings under our revolving credit facility of $35.0 million at December 31, 2007, and an unrestricted cash balance of $14.6 million. Approximately $2.5 million of the unrestricted cash balance relates to our Mexican subsidiaries. In April 2007, our Revolving Credit Agreement was amended and restated to limit total borrowings at $50.0 million, with $50.0 million of additional borrowings available upon lead bank approval, and to extend the credit agreement through October 2009. We also amended the Senior Notes in April 2007, repaid $25.0 million of principal and modified the June 30, 2014 principal payment to June 30, 2012. The amendments for the Senior Notes and Revolving Credit Agreement also increased our interest rates, revised certain financial covenants and added a security interest in our accounts receivable, inventory and equipment. Other terms of the Revolving Credit Agreement and Senior Notes remain substantially unchanged. Standby letters of credit up to a maximum of $15.0 million may be issued under the Credit Agreement of which $1.9 million were issued at December 31, 2007.

Our principal commitments at December 31, 2007 consisted of repayments of borrowings under the Revolving Credit Agreement and Senior Notes, pension obligations and obligations under operating leases for certain of our real property and equipment. Estimated pension contributions for 2008 are expected to range from $0.1 million to $0.5 million. We also had purchase commitments totaling approximately $38.4 million at December 31, 2007, primarily for inventory and manufacturing equipment. The following table provides the payment dates of our debt and contractual lease obligations at December 31, 2007, excluding current liabilities except for the current portion of long-term debt (amounts in thousands):

	2008	2009	2010	2011	2012	2013 & Thereafter
Revolving credit facility	$ 5,000	$ 30,000	$	$	$	$
Senior notes		4,100		15,000	10,900	
Operating leases	7,323	5,981	3,053	2,700	2,560	7,253
Total	$ 12,323	$ 40,081	$ 3,053	$ 17,700	$ 13,460	$ 7,253

Due to the uncertainty with the respect to the timing of future cash flows associated with the Company s unrecognized tax benefits at December 31, 2007, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $0.9 million of unrecognized tax benefits have been excluded from the contractual obligations table above. See Note 16 to the consolidated financial statements for a discussion on income taxes.

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At December 31, 2007 we also had approximately $9.5 million of federal net operating loss carryforwards available to offset future federal taxable income, which will expire on December 31, 2026.

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

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

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff Position SFAS No. 157-2, *Effective Date of FASB Measurement No. 157.* SFAS No. 157-2 amends SFAS No. 157 to delay the effective date of this Statement for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). For items within its scope, SFAS No. 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company will adopt this standard on January 1, 2009 but does not currently believe it will have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value that are currently not required to be measured at fair value. Under SFAS No. 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. The statement establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity s election on its earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is currently analyzing the potential adoption and impact, if any, of SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 revised 2007 (SFAS No. 141R), *Business Combinations*. SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. Early adoption is prohibited. SFAS No. 141R will be applied to acquisitions in the future.

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

Item 7A. 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 (1.75% at December 31, 2007) based upon our leverage ratio. A change in interest rates of 100 basis points would result in additional interest expense of less than $0.4 million on an annualized basis, based upon our debt outstanding at December 31, 2007. A change in fixed interest rates of 100 basis points would change the fair value of our Senior Notes by $1.0 million. Fluctuations in foreign currency exchange rates have historically impacted our earnings only to the extent of remeasurement gains related to U.S. Dollar denominated accounts of our foreign subsidiary, because the vast majority of our transactions are denominated in U.S. Dollars. A one percent change in foreign currency exchange rates would result in remeasurement gain or loss of approximately $0.4 million on an annualized basis, based upon the U.S. Dollar denominated accounts of our foreign subsidiary at December 31, 2007. Inflation has not been a significant factor in our operations in any of the periods presented; however, there can be no assurances that the costs of steel will not adversely affect our working capital requirements and our associated interest costs, which could also increase the sensitivity of our results to changes in interest rates.

With respect to our ownership of common stock in DAN, we are also subject to equity price risk. On January 31, 2008, the Company received approximately 3.1 million shares of DAN common stock in its initial distribution from the bankrupt estate. Subsequent distributions are anticipated following the resolution of disputed matters within the estate. The Company anticipates receiving approximately 0.4 million additional shares following the resolution of these matters. Based on these assumptions, a permanent change of $1.00 per share in the value of DAN stock would change the fair value of our holdings by approximately $3.5 million.

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Item 8. Financial Statements and Supplementary Data

SYPRIS SOLUTIONS, INC.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Sypris Solutions, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance to Sypris management and its Board of Directors regarding the preparation and fair presentation of published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to the accuracy of consolidated financial statement preparation and presentation.

Under the supervision and with participation of our management, including the Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of Sypris Solutions, Inc. s internal control over financial reporting as of December 31, 2007. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on our assessment, we concluded that as of December 31, 2007, Sypris internal control over financial reporting is effective based on these criteria.

Ernst & Young LLP, our independent auditors and a registered public accounting firm, has audited and reported on the consolidated financial statements of Sypris Solutions, Inc. and on the effectiveness of our internal controls over financial reporting. The reports of Ernst & Young LLP are contained in this Annual Report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Sypris Solutions, Inc.

We have audited Sypris Solutions, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Sypris Solutions, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sypris Solutions, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sypris Solutions, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007, and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Louisville, Kentucky

March 6, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Sypris Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statements schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments* . As further discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* as of December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sypris Solutions, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Louisville, Kentucky

March 6, 2008

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SYPRIS SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for per share data)

	Years ended December 31,		
	2007	**2006**	**2005**
Net revenue:			
Outsourced services	$ 354,215	$ 429,977	$ 446,232
Products	81,700	67,687	76,534
Total net revenue	435,915	497,664	522,766
Cost of sales:			
Outsourced services	327,089	407,483	418,148
Products	69,030	49,091	53,280
Total cost of sales	396,119	456,574	471,428
Gross profit	39,796	41,090	51,338
Selling, general and administrative	40,517	37,107	35,669
Research and development	2,821	1,988	2,833
Amortization of intangible assets	527	645	614
Nonrecurring (income) expense, net	(3,246)	1,485	
Operating (loss) income	(823)	(135)	12,222
Interest expense, net	3,685	3,708	5,979
Other (income) expense, net	31	(387)	(1,325)
(Loss) income before income taxes	(4,539)	(3,456)	7,568
Income tax (benefit) expense	(2,400)	(2,094)	2,247
Net (loss) income	$ (2,139)	$ (1,362)	$ 5,321
(Loss) earnings per common share:			
Basic	$ (0.12)	$ (0.08)	$ 0.30
Diluted	$ (0.12)	$ (0.08)	$ 0.29
Cash dividends per common share	$ 0.12	$ 0.12	$ 0.12
Shares used in computing (loss) earnings per common share:			
Basic	18,231	18,079	18,016
Diluted	18,231	18,079	18,323

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

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SYPRIS SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share data)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,622	$ 32,400
Restricted cash	883	1,002
Accounts receivable, net	59,067	59,876
Inventory, net	71,789	74,146
Other current assets	107,132	34,014
Total current assets	253,493	201,438
Property, plant and equipment, net	137,104	155,341
Goodwill	14,277	14,277
Other assets	17,186	7,977
Total assets	$ 422,060	$ 379,033
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 54,119	$ 76,291
Accrued liabilities	41,933	19,430
Current portion of long-term debt	5,000	5,000
Total current liabilities	101,052	100,721
Long-term debt	60,000	55,000
Other liabilities	53,529	13,426
Total liabilities	214,581	169,147
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $0.01 per share, 975,150 shares authorized; no shares issued		
Series A preferred stock, par value $0.01 per share, 24,850 shares authorized; no shares issued		
Common stock, non-voting, par value $0.01 per share, 10,000,000 shares authorized; no shares issued		
Common stock, par value $0.01 per share, 30,000,000 shares authorized; 19,205,247 shares issued and 19,078,440 outstanding in 2007 and 18,342,243 shares issued and 18,338,484 outstanding in 2006	192	183
Additional paid-in capital	146,025	143,537
Retained earnings	65,402	69,816
Accumulated other comprehensive loss	(3,943)	(3,634)
Treasury stock, 126,807 and 3,759 shares in 2007 and 2006, respectively	(197)	(16)
Total stockholders equity	207,479	209,886
Total liabilities and stockholders equity	$ 422,060	$ 379,033

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

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SYPRIS SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net (loss) income	$ (2,139)	$ (1,362)	$ 5,321
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	29,386	28,782	25,909
Deferred income taxes	(15,373)	(5,079)	(1,091)
Provision for excess and obsolete inventory	1,322	836	739
Provision for doubtful accounts	(132)	437	607
Noncash compensation	1,363	1,034	219
Other noncash (gains) charges, net	(15,758)	142	123
Contributions to pension plans	(392)	(1,122)	(79)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(6,059)	35,112	8,595
Inventory	5,964	5,123	11,555
Other current assets	(2,684)	(7,113)	3,363
Accounts payable	(16,769)	35	15,119
Accrued and other liabilities	10,767	(4,019)	2,208
Net cash (used in) provided by operating activities	(10,504)	52,806	72,588
Cash flows from investing activities:			
Capital expenditures	(10,155)	(10,326)	(36,264)
Proceeds from sale of assets	224	92	649
Changes in nonoperating assets and liabilities	542	(87)	(28)
Net cash used in investing activities	(9,389)	(10,321)	(35,643)
Cash flows from financing activities:			
Net increase (decrease) in debt under revolving credit agreements	30,000	(20,000)	(37,000)
Payments on Senior Notes	(25,000)		
Debt modification costs	(885)	(248)	(597)
Cash dividends paid	(2,264)	(2,193)	(2,164)
Proceeds from issuance of common stock, net	264	296	816
Net cash provided by (used in) financing activities	2,115	(22,145)	(38,945)
Net (decrease) increase in cash and cash equivalents	(17,778)	20,340	(2,000)
Cash and cash equivalents at beginning of year	32,400	12,060	14,060
Cash and cash equivalents at end of year	$ 14,622	$ 32,400	$ 12,060

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

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SYPRIS SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
January 1, 2005 balance	17,920,500	$ 179	$ 140,898	$ 70,227	$ (2,365)	$
Net income				5,321		
Adjustment in minimum pension liability, net of tax of $132					(208)	
Foreign currency translation gain					639	
Comprehensive income				5,321	431	
Cash dividends, $0.12 per common share				(2,173)		
Restricted common stock grant	127,500	2	(2)			
Noncash compensation			219			
Issuance of shares under Employee Stock Purchase Plan	36,177		350			
Exercise of stock options	81,481	1	465			
Stock option tax benefit			181			
December 31, 2005 balance	18,165,658	182	142,111	73,375	(1,934)	
Net loss				(1,362)		
Adjustment in minimum pension liability, net of tax of $578					823	
Foreign currency translation loss					(549)	
Comprehensive (loss) income				(1,362)	274	
Adoption of SFAS No. 158, net of $1,386 of tax					(1,974)	
Cash dividends, $0.12 per common share				(2,197)		
Restricted common stock grant	112,000	1				
Noncash compensation			1,034			
Exercise of stock options	64,585		311			
Treasury stock	(3,759)					(16)
Stock option tax benefit			81			
December 31, 2006 balance	18,338,484	183	143,537	69,816	(3,634)	(16)
Net loss				(2,139)		
Employee benefit related, net of tax of $241					(128)	
Foreign currency translation loss					(181)	
Comprehensive loss				(2,139)	(309)	
Cash dividends, $0.12 per common share				(2,287)		
Restricted common stock grant	613,290	6	(6)			
Noncash compensation	18,097		1,363	12		

Exercise of stock options	71,643	1	445			
Treasury stock	(123,048)					(181)
Stock option exchange	159,974	2	638			
Stock option tax benefit			48			
December 31, 2007 balance	19,078,440	$ 192	$ 146,025	$ 65,402	$ (3,943)	$ (197)

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

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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) and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The Company s operations are domiciled in the United States (U.S.) and Mexico and serve a wide variety of domestic and international customers. 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 truck components & assemblies, aerospace & defense electronics, and test & measurement services. The Company provides such services through its Industrial and Electronics Groups (Note 18).

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. Specifically, due to the size and nature of the Company s aerospace & defense related programs, the estimation of total contract related revenues and cost at completion is subject to a wide range of variables. As contracts may require performance over several accounting periods, formal detailed cost-to-complete estimates are performed and updated monthly. 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. Actual results could differ from those estimates.

Cash Equivalents and Restricted Cash

Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased, while restricted cash consists of amounts funded to the Company by a Landlord under a new lease agreement signed in 2006. Under the terms of the lease, the funds are required to be expended on leasehold improvements.

Inventory

Inventory is stated at the lower of cost or estimated net realizable value. Costs for raw materials, work in process and finished goods, excluding contract inventory included in the Electronics Group, is determined under the first-in, first-out method. Indirect inventories, which include perishable tooling, repair parts and other materials consumed in the manufacturing process but not incorporated into finished products are classified as raw materials.

Costs on long-term contracts and programs in progress represent recoverable costs incurred for production or contract-specific materials and equipment, allocable operating overhead, advances to suppliers and where appropriate, pre-contract engineering and design expenses. Pursuant to contract provisions, agencies of the U.S. Government and certain other customers have title to, or a security interest in, inventories related to such contracts as a result of advances, performance based payments and progress payments. Such advances and payments are reflected as an offset against the related inventory balances. General administrative expenses related to commercial products and services provided essentially under commercial terms and conditions are expensed as incurred.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 at 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 shorter of their economic life or the respective lease term using the straight-line method. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major rebuilds 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.

Long-lived Assets

When indicators of impairment exist, the Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated undiscounted future cash flows. If facts and circumstances indicate that the carrying value of an asset or groups of assets, as applicable, is impaired, the long-lived asset or groups of long-lived assets are written down to their estimated fair value.

Goodwill

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 determined based on a discounted cash flow basis, which is compared to the carrying value of each applicable business. The Company tested goodwill of $14,277,000 for impairment as of December 31, 2007 and 2006, determining that no impairment loss was necessary. As of December 31, 2007 and 2006, the carrying value of goodwill for the Industrial Group, Aerospace & Defense and the Test & Measurement segments was $440,000, $6,900,000 and $6,937,000, respectively.

Deferred Revenue

Deferred revenue for the Electronics Group is recorded when payments are received in advance of achieving project milestones and is amortized into revenue based on the ratio of costs incurred to our estimate of total costs at completion. Deferred revenue for the Industrial Group is generally associated with the Dana settlement (Note 2) and will be amortized into income on a units-of-production basis over the term of the new supply agreement.

Income Taxes

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. The Company assesses our income tax positions and records tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48) on

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

January 1, 2007. The impact of the Company s tax positions reassessment in accordance with the requirements of FIN 48 was not significant. We recognize interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

Net Revenue and Cost of Sales

Net revenue of products and services provided essentially under commercial terms and conditions are recorded upon delivery and passage of title, or when services are rendered. Related shipping and handling costs, if any, are included in costs of sales. Net revenue under service-type contracts is recorded as costs are incurred. Applicable estimated profits are included in earnings in the proportion that incurred costs bear to total estimated costs.

Net revenue under long-term, fixed-price contracts with aerospace & defense companies and agencies of the U.S. Government is recognized using the percentage of completion method, primarily using units-of-delivery as the basis to measure progress toward completing the contract and recognizing revenue. Estimated contract profits are taken into earnings in proportion to recorded sales. Sales under certain long-term fixed-price contracts that specifically provide for milestones are recorded as revenue upon achievement of performance milestones, limited to revenue recognized using the cost-to-cost method of accounting where sales and profits are recorded based on the ratio of costs incurred to estimated total costs at completion. Amounts representing contract change orders or claims are included in revenue when such costs are reliably estimated and realization is probable. When adjustments in contract value or estimated costs are determined, any changes from prior estimates are reflected in earnings in the current period. Anticipated losses on contracts are charged to earnings when determined to be probable. Gross profit for the years ended December 31, 2007, 2006 and 2005 included charges of $3,674,000, $1,025,000 and $3,878,000, respectively, for costs in excess of expected future contract value.

Revenue recognized under the percentage of completion method of accounting totaled approximately $89,777,000, $72,815,000 and $94,419,000 for the years ended December 31, 2007, 2006 and 2005, respectively. In 2007, 2006 and 2005, approximately 90%, 80% and 91%, respectively, of such amount was accounted for based on units of delivery and approximately 10%, 20% and 9%, respectively, was accounted for based on milestones or cost-to-cost.

Product Warranty Costs

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The Company s warranty liability, which is included in accrued liabilities in the accompanying balance sheets, as of December 31, 2007 and 2006 was $523,000 and $235,000, respectively. The Company s warranty expense was immaterial in each of the periods presented.

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 a number of customers in diverse industries across geographic areas, primarily in North America and Mexico, various departments or agencies of the U.S. Government, and aerospace & defense companies under contract with the U.S. Government. 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 52% and 67% of accounts receivable outstanding at December 31, 2007 and 2006, respectively are due from the Company s four largest customers. More specifically, Dana Corporation (Dana) and ArvinMeritor, Inc. (Arvin Meritor) comprise 21% and 16%, respectively of December 31, 2007 outstanding accounts receivables. Similar amounts at December 31, 2006 were 29% and 30%, respectively.

The Industrial Group s largest customers for the year ended December 31, 2007 were Dana and ArvinMeritor, which represented approximately 34% and 15%, respectively, of the Company s total net revenue.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Dana and ArvinMeritor were the Company s largest customers for the year ended December 31, 2006 which represented approximately 41% and 19%, respectively, of the Company s total net revenue. Dana and ArvinMeritor were the Company s largest customers for the year ended December 31, 2005, which represented approximately 39% and 15%, respectively, of the Company s total net revenue. The Company recognized revenue from contracts with the U.S. Government and its agencies approximating 12%, 8% and 9% of net revenue for the years ended December 31, 2007, 2006 and 2005, respectively. No other single customer accounted for more than 10% of the Company s total net revenue for the years ended December 31, 2007, 2006 or 2005.

Foreign Currency Translation

The functional currency for the Company s Mexican subsidiary is the Mexican peso. Assets and liabilities are translated at the period end exchange rate, and income and expense items are translated at the period end weighted average exchange rate. The resulting translation adjustments are recorded in comprehensive income (loss) as a separate component of stockholders equity. Remeasurement gains or losses for U.S. dollar denominated accounts of the Company s Mexican subsidiary are included in other income, net.

Collective Bargaining Agreements

Approximately 883 or 41% of the Company s employees, all of which are in the Industrial Group, are covered by collective bargaining agreements. Excluding certain Mexico employees covered under an annually ratified agreement, collective bargaining agreements covering 240 employees, or 11% of the Company s workforce, are subject to renewal in the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement and represent approximately 151 employees, or 7% of the Company s workforce.

Adoption of Recently Issued Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Specifically, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. The impact of the Company s tax positions reassessment in accordance with the requirements of FIN 48 was not significant.

On September 29, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158, which required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plan s funded status in the Company s statement of financial position pursuant to the provisions of SFAS No. 87. These amounts, noted below, will be subsequently recognized as net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such amounts.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company s statement of financial position at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

effect on the Company s consolidated statement of operations for the year ended December 31, 2006, or for any prior period presented, and it will not effect the Company s operating results in future periods. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No. 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled Prior to Adopting of SFAS No. 158.

	December 31, 2006		
	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	Reported Balance
		(in thousands)	
Other assets (pension)	$ 5,071	$ (3,212)	$ 1,859
Other liabilities (pension)	(3,989)	(148)	(4,137)
Other liabilities (deferred taxes)	1,446	1,307	2,753
Accumulated other comprehensive income (loss)	(3,735)	(3,360)	(7,095)

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and amends FASB Statement No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as expense based on their fair values. Pro forma disclosure is no longer an alternative. The Company adopted SFAS No. 123(R) on January 1, 2006, using the modified prospective method and, accordingly, the financial statements for prior periods do not reflect any restated amounts. In accordance with SFAS No. 123(R), the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

As a result, selling general and administrative expense, net loss, basic loss per common share and diluted loss per common share for the year ended December 31, 2006 includes $1,034,000, $646,000, $0.04 and $0.04, respectively related to non-cash compensation expense. Non-cash compensation expense included in selling general and administrative expense, net loss, basic earnings per common share and diluted earnings per common share for 2005 were $219,000, $134,000, $0.01 and $0.01, respectively. No stock-based compensation was capitalized into inventory, or property plant and equipment during 2007, 2006 or 2005. In conjunction with the adoption of SFAS No. 123(R), the Company selected the straight-line amortization method for graded vesting options granted subsequent to January 1, 2006. Prior to that date, the Company used an accelerated method previously required for graded vesting awards.

As permitted by SFAS No. 123, the Company historically accounted for stock option grants in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Had the Company adopted SFAS No. 123(R) in prior periods, the impact would have approximated the impact of SFAS No. 123 pro forma disclosure below, excluding the impact of the underwater option accelerations in 2005. The Company s pro forma information is as follows (in thousands except per share data):

	Year ended December 31, 2005
Net income	$ 5,321
Pro forma stock-based compensation expense, net of tax	2,597
Pro forma net income	$ 2,724

Pro forma earnings per common share:		
Basic	$	0.15
Diluted	$	0.15

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

On March 1, 2005, April 25, 2005 and December 28, 2005, the Board of Directors approved resolutions to accelerate the vesting for underwater options as of March 11, 2005, April 25, 2005 and December 30, 2005, respectively in order to reduce future compensation expense related to outstanding options. Substantially all other options terms remained unchanged. After amendment of the underlying option agreements, compensation expense to be recognized in the statement of operations, subsequent to the adoption of SFAS No. 123(R) was reduced by approximately $1,573,000, net of tax.

Reclassifications

Certain amounts in the Company s 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

(2) Dana Bankruptcy

On March 3, 2006 (Filing Date), the Company s largest customer, Dana, and 40 of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. Dana s European, South American, Asia-Pacific, Canadian and Mexican subsidiaries were excluded from the Chapter 11 filing.

On December 6, 2006, an independent arbitrator initially held that Dana had breached certain of its agreements with Sypris by failing to transfer certain volumes of business and by failing to pay the appropriate prices for the volumes that were transferred. As a result, the arbitrator awarded payments to Sypris totaling $1,812,212 plus $146,258 per month on an ongoing basis. On January 29, 2007, this award became final; and accordingly, net revenue in the consolidated statements of operations for the year ended December 31, 2007 includes $2,875,000 pertaining to the arbitration award. On July 24, 2007, the Company announced that its wholly-owned subsidiary, Sypris Technologies, Inc., entered into a comprehensive settlement agreement with Dana to resolve all outstanding disputes between the parties, terminate any further arbitration payments and enter into a new long-term supply contract running through 2014. This settlement was approved by the bankruptcy court on August 7, 2007.

Pursuant to the settlement agreement, Dana and the Company have (i) entered into a new, long-term master supply agreement in lieu of the three prior supply contracts, (ii) exchanged production of certain non-core components, (iii) rebalanced production among Company plants to reduce costs for both parties, and (iv) ceased all litigation with regard to prior contract disputes, including the release of Dana from certain committed but undelivered production volumes and termination of the arbitration payments. In addition, Dana provided the Company with an allowed general unsecured non-priority claim in the amount of $89,900,000, which was recorded by the Company at its estimated fair value of $76,483,000 as of the August 7, 2007 settlement date. At December 31, 2007, this amount is included in other current assets given the Company s intention, as of that date, to dispose of the investment during the ensuing year.

At December 31, 2007, the Company had deferred $55,772,000 associated with the settlement, of which $12,576,000 is carried in accrued liabilities and $43,196,000 is carried in other liabilities in the consolidated balance sheets. The deferred revenue will be recognized over the term of the new master supply agreement. Approximately $8,911,000 related to the settlement agreement was recognized into revenue, of which $7,634,000 was reflected in gross profit during the year ended December 31, 2007. Approximately $11,798,000 million of the settlement recognized as a non-recurring gain was offset by settlement related charges and professional fees. See Note 20, Subsequent Events, for additional information.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(3) Accounts Receivable

Accounts receivable consists of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Commercial	$ 48,494	$ 60,529
U.S. Government	11,168	849
	59,662	61,378
Allowance for doubtful accounts	(595)	(1,502)
	$ 59,067	$ 59,876

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 2007 and 2006, of $9,680,000 and $746,000 respectively.

(4) Inventory

Inventory consists of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Raw materials, including perishable tooling of $1,129 and $1,276 in 2007 and 2006, respectively	$ 21,140	$ 28,885
Work in process	12,815	12,576
Finished goods	7,439	10,129
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	39,936	40,451
Progress payments related to long-term contracts and programs	(2,565)	(11,107)
Reserve for excess and obsolete inventory	(6,976)	(6,788)
	$ 71,789	$ 74,146

(5) Other Current Assets

Other current assets consist of the following:

	December 31, 2007	December 31, 2006

	(in thousands)	
Dana claim	$ 76,483	$
Deferred contract costs	19,341	18,813
Other	11,308	15,201
	$ 107,132	$ 34,014

Included in other current assets are prepaid expenses, income taxes refundable, and other items, none of which exceed 5% of total current assets.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(6) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Land and land improvements	$ 5,420	$ 5,408
Buildings and building improvements	38,498	37,304
Machinery, equipment, furniture and fixtures	259,614	252,174
Construction in progress	3,661	4,408
	307,193	299,294
Accumulated depreciation	(170,089)	(143,953)
	$ 137,104	$ 155,341

Depreciation expense totaled approximately $28,384,000, $27,819,000 and $25,295,000 for the years ended December 31, 2007, 2006 and 2005, respectively. In addition, there were capital expenditures of approximately $976,000 and $334,000 included in accounts payable at December 31, 2007 and 2006, respectively.

(7) Other Assets

Other assets consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Intangible assets:		
Gross carrying value:		
Industrial Group	$ 800	$ 3,407
Aerospace & Defense	920	920
Test & Measurement	872	720
Electronics Group	1,792	1,640
Total gross carrying value	2,592	5,047
Accumulated amortization:		
Industrial Group	(326)	(1,398)
Aerospace & Defense	(502)	(424)
Test & Measurement	(872)	(699)
Electronics Group	(1,373)	(1,123)
Total accumulated amortization	(1,700)	(2,521)

Intangible assets, net	892	2,526
Prepaid benefit cost	2,351	2,015
Other	13,943	3,436
	$ 17,186	$ 7,977

Intangible assets consist primarily of long-term supply agreements in the Industrial Group and non-compete and royalty agreements in both segments of the Electronics Group. The weighted average amortization period for intangible assets was 9 years and 8 years at December 31, 2007 and 2006, respectively. Other includes deferred tax assets of $10,285,000 resulting primarily from the Dana settlement agreement and unamortized loan costs for the Revolving Credit Agreement and Senior Notes of approximately $542,000 and $813,000, respectively, at December 31, 2007. Unamortized loan costs at December 31, 2006 were $512,000 and $451,000, respectively. Amortization

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

expense for intangible assets and loan costs is expected to be $713,000, $599,000, $345,000, $314,000, and $282,000 in each of the five fiscal years subsequent to December 31, 2007, respectively.

(8) Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Salaries, wages, employment taxes and withholdings	$ 2,562	$ 2,248
Employee benefit plans	4,179	3,827
Income, property and other taxes	11,595	2,437
Deferred revenue	17,476	4,386
Other	6,121	6,532
	$ 41,933	$ 19,430

Included in other accrued liabilities are accrued operating expenses, accrued warranty expenses, accrued interest and other items, none of which exceed 5% of total current liabilities. Deferred revenue at December 31, 2007 includes $10,878,000 related to the Dana settlement agreement.

(9) Other Liabilities

Other liabilities consist of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Deferred revenue	$ 43,196	$
Deferred tax liability	6,195	8,330
Other	4,138	5,096
	$ 53,529	$ 13,426

Included in other liabilities are pension liabilities and other items, none of which exceed 5% of total liabilities. The balance of deferred revenue at December 31, 2007 relates to components of the Dana settlement agreement, which will be amortized through 2014.

(10) Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2007	2006
	(in thousands)	
Revolving Credit Agreement	$ 35,000	$ 5,000
Senior notes	30,000	55,000
	65,000	60,000
Less current portion	(5,000)	(5,000)
	$ 60,000	$ 55,000

In April 2007, the Company s Revolving Credit Agreement was amended and restated to: i) limit total borrowings at $50,000,000, with $50,000,000 of additional borrowings available upon lead bank approval, ii) extend

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

the Credit Agreement through October 2009, iii) revise certain financial covenants, iv) increase the Company s interest rate structure, and v) add a security interest in the Company s accounts receivable, inventory and equipment. Other terms of the Revolving Credit Agreement remained substantially unchanged.

The Company also amended the Senior Notes in April 2007 to enable a portion of their repayment, revise certain financial covenants, modify the June 30, 2014 principal payment to June 30, 2012, increase the Company s fixed interest rates and among other things, add a security interest in the Company s accounts receivable, inventory and equipment. Other terms of the Senior Notes remained substantially unchanged. The Company paid $25,000,000 on the Senior Notes in April 2007.

After the aforementioned modifications, the Company s principal commitment under the Revolving Credit Agreement is due in 2009, while the Company s principal commitment under the Senior Notes consist of $4,100,000 of notes due in 2009 bearing interest at 7.25%, $15,000,000 of notes due in 2011 bearing interest at 7.45% and $10,900,000 due in 2012 bearing interest at 7.55%. Current maturities of long-term debt represent amounts due under a short-term borrowing arrangement included in the Revolving Credit Agreement.

At December 31, 2007, the Company had total availability for borrowings and letters of credit under the Revolving Credit Agreement of $15,000,000 along with an unrestricted cash balance of $14,622,000, which provides for total cash and borrowing capacity of $29,622,000. Approximately $2,523,000 of the unrestricted cash balance relates to our Mexican subsidiaries. On September 13, 2005, the Company signed a collateral sharing agreement which pledged 65% of the stock in our Mexico subsidiary as collateral under the Credit Agreement. Standby letters of credit up to a maximum of $15,000,000 may be issued under the Revolving Credit Agreement of which $1,913,000 and $1,720,000 were issued at December 31, 2007 and 2006, respectively.

Under the terms of the amended Revolving Credit Agreement, interest rates are determined at the time of borrowing and are based on the London Interbank Offered Rate plus a margin of 1.25% to 3.50%; or the greater of the prime rate or the federal funds rate plus 0.50%, plus a margin up to 1.00%. The Company also pays a fee of 0.20% to 0.50% 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 net funded debt to earnings before interest, taxes, depreciation and amortization.

The Revolving Credit Agreement and Senior Notes contain customary affirmative and negative covenants, including financial covenants requiring the maintenance of interest coverage and leverage ratios and minimum levels of net worth. As of December 31, 2007, the Company was in compliance with all covenants.

The weighted average interest rate for outstanding borrowings at December 31, 2007 was 7.2%. The weighted average interest rates for borrowings during the years ended December 31, 2007, 2006 and 2005 were 6.7%, 5.5% and 5.2% respectively. Interest incurred, net of amounts capitalized, during the years ended December 31, 2007, 2006 and 2005 totaled approximately $4,240,000, $4,275,000 and $6,279,000, respectively. The Company had no capitalized interest in 2007 or 2006. Capitalized interest for the year ended December 31, 2005 approximated $328,000. Interest paid during the years ended December 31, 2007, 2006 and 2005 totaled approximately $5,718,000, $3,843,000 and $$6,541,000, respectively.

(11) 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 fair value for the Senior Notes exceeded the carrying value by approximately $1,274,000 at December 31, 2007. The carrying amount of debt outstanding at December 31, 2007 and 2006 under the Credit Agreement approximates fair value because borrowings are for terms of less than six months and have rates that reflect currently available terms and conditions for similar debt.

SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS   CONTINUED

As discussed in Note 2, the Company s allowed general unsecured non-priority claim of $89,900,000 provided by Dana in connection with the August 7, 2007 settlement was recorded at its estimated fair value of $76,483,000 at that date. The Company s estimate of fair value for this asset at December 31, 2007 had not changed. See Note 20, Subsequent Events, for further information regarding Dana s emergence from bankruptcy in 2008 and the Company s receipt of Dana common stock.

(12) Employee Benefit Plans

The Industrial Group sponsors noncontributory defined benefit pension plans (the Pension Plans) covering certain of its employees. 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. All of the Company s pension plans are frozen to new participants and certain plans are frozen to additional benefit accruals. The Company s funding policy is to make the minimum annual contributions required by the applicable regulations. The Pension Plans assets are primarily invested in equity securities and fixed income securities. The following table details the components of pension (income) expense:

	Years ended December 31,		
	2007	2006	2005
		(in thousands)	
Service cost	$ 93	$ 98	$ 105
Interest cost on projected benefit obligation	2,161	2,152	2,202
Net amortizations and deferrals	168	439	503
Expected return on plan assets	(3,103)	(2,791)	(2,722)
	$ (681)	$ (102)	$ 88

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,	
	2007	2006
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 41,111	$ 40,407
Service cost	93	98
Interest cost	2,161	2,152
Actuarial loss	41	546
Benefits paid	(2,199)	(2,092)
Benefit obligation at end of year	$ 41,207	$ 41,111
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 38,833	$ 34,383
Actual return on plan assets	3,612	5,420
Company contributions	391	1,122
Benefits paid	(2,199)	(2,092)

Fair value of plan assets at end of year	$ 40,637	$ 38,833
Underfunded status of the plans	$ (570)	$ (2,278)

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	December 31,	
	2007	2006
	(in thousands)	
Balance sheet assets (liabilities):		
Other assets	$ 2,351	$ 1,859
Other liabilities	(2,920)	(4,137)
Accumulated other comprehensive loss	6,458	7,095
Net amount recognized	$ 5,889	$ 4,817
Pension plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	$ 25,738	$ 25,599
Accumulated benefit obligation	25,583	25,452
Fair value of plan assets	22,818	21,462
Projected benefit obligation and net periodic pension cost assumptions:		
Discount rate	5.80%	5.50%
Rate of compensation increase	4.00	4.00
Expected long-term rate of return on plan assets	8.25	8.25
Weighted average asset allocation:		
Equity securities	60%	65%
Debt securities	40	35
Total	100%	100%

The Company uses November 30 as the measurement date for the Pension Plans. Total estimated contributions expected to be paid to the plans during 2008 ranges from $100,000 to $500,000. The expected long-term rates of return on plan assets for determining net periodic pension cost for 2007 and 2006 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.

Accumulated other comprehensive loss at December 31, 2007 includes the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credits of $392,000 and unrecognized actuarial losses $6,850,000. The prior service credit and actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2008 is $78,000 and $188,000, respectively.

At December 31, 2007, the benefits expected to be paid in each of the next five fiscal years, and in aggregate for the five fiscal years thereafter are as follows (in thousands):

2008	$ 2,677
2009	2,809
2010	2,916
2011	3,012
2012	3,145
2013-2017	16,108
	$ 30,667

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 provide discretionary contributions. Contributions to the Defined Contribution Plan in 2007, 2006 and 2005 totaled approximately $2,332,000, $2,142,000 and $2,543,000, respectively.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The Company has self-insured medical plans (the Medical Plans) covering substantially all domestic employees. The number of employees participating in the Medical Plans was approximately 1,522, 1,700 and 1,853 at December 31, 2007, 2006 and 2005, respectively. The Medical Plans limit the Company s annual obligations to fund claims to specified amounts per participant. The Company is adequately insured for amounts in excess of these limits. Employees are responsible for payment of a portion of the premiums. During 2007, 2006 and 2005, the Company charged approximately $14,424,000, $14,245,000 and $10,694,000, respectively, to operations related to medical claims incurred and estimated, reinsurance premiums, and administrative costs for the Medical Plans.

In addition, certain of the Company s non-U.S. employees are covered by various defined benefit and defined contribution plans. The Company s expenses for these plans related to continuing operations totaled approximately $160,000, $177,000 and $160,000 in 2007, 2006 and 2005, respectively. The aggregate benefit plan assets and accumulated benefit obligation of these plans are not significant.

(13) 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, 2007 are as follows (in thousands):

2008	$ 7,323
2009	5,981
2010	3,053
2011	2,700
2012	2,560
2013 and thereafter	7,253
	$ 28,870

Rent expense for the years ended December 31, 2007, 2006 and 2005 totaled approximately $9,083,000 $8,362,000 and $8,377,000, respectively.

As of December 31, 2007, the Company had outstanding purchase commitments of approximately $38,425,000 primarily for the acquisition of inventory and manufacturing equipment.

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

The Company is involved in certain litigation and contract issues arising in the normal course of business. While the outcome of these matters cannot, at this time, be predicted in light of the uncertainties inherent therein, management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company. For example, the Company has purchased certain plants with various potential environmental issues under purchase agreements which include indemnification provisions for, among other things, environmental conditions that existed on the sites at closing.

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS   CONTINUED

(14) Stock Option and Purchase Plans

The Company s stock compensation program provides for the grant of performance-based stock options (Target Options), restricted shares, and stock options. A total of 3,000,000 shares of common stock were reserved for issuance under the 2004 equity plan. The aggregate number of shares available for future grant as of December 31, 2007 and 2006 was 1,479,043 and 2,033,271, respectively.

The terms and conditions of the Target 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. The Company has not granted Target Options since the first quarter of 2003.

On August 1, 2005, the Company first issued restricted shares under the 2004 Equity Plan, including certain shares subject to performance requirements (Performance Restricted Stock). The 2004 Equity Plan provides for restrictions which lapse after one, two, three or four years for certain grants or for certain other shares, one-third of the restriction is removed after three, five and seven years, respectively. During the restricted period, which is commensurate with each vesting period, the recipients receive dividends and voting rights for the shares. Generally, if a recipient leaves the Company before the end of the restricted period or if performance requirements, if any, are not met, the shares will be forfeited.

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. Stock option grants under the 2004 Equity Plan include both six and ten year lives along with graded vesting over three, four and five years of service.

Fair value for restricted shares is equal to the stock price on the date of grant. The fair values of Target Options were determined by a third party valuation firm using a Monte-Carlo Simulation Model, while the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing method. The Company uses historical Company and industry data to estimate the expected price volatility, the expected option life, the expected forfeiture rate and the expected dividend yield. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The following weighted average assumptions were used to estimate the fair value of options granted using the Black-Scholes option-pricing model:

	Years ended December 31,		
	2007	**2006**	**2005**
Expected life (years)	3.1	5.3	5.8
Expected volatility	48.5%	48.0%	53.0%
Risk-free interest rates	4.58%	4.81%	4.12%
Expected dividend yield	1.77%	1.26%	1.06%

On May 14, 2007 the Company offered eligible participants, including executive officers and directors of the Company, the opportunity to surrender certain vested outstanding, unexercised stock options which have exercise prices greater than $7.90 per share in exchange for shares of common stock or new options to acquire common stock with an exercise price of $7.90 per share, pursuant to the 2004 Equity Plan. Participants could participate in the offer if they remained employed through June 13, 2007, the date on which the Company canceled eligible options under the offer. At the participant s election, the participant could exchange all of the eligible options owned by such participant for either (i) shares of common stock having a fair value equivalent to the fair value of each such eligible option, or (ii) new options to purchase shares of Sypris common stock having a fair value equivalent to the fair value of each such eligible option.

The ratio of shares subject to eligible options cancelled to common stock and new options issued was calculated using the Black-Scholes Merton Valuation Model. If a participant elected to exchange any eligible options, he or she also surrendered any Target Options granted under any Sypris equity plan. Each share of common

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

stock and new option granted with respect to an exchanged option was fully vested. All new options are exercisable through May 14, 2011 unless earlier forfeited.

Pursuant to the Exchange Offer and in exchange for the options surrendered, the Company issued 159,974 shares of common stock and 374,529 options to purchase common stock. Additionally, participants surrendered 150,500 Target Options under the program, which represented all remaining Target Options outstanding at the date of exchange.

On January 12, 2007, the Company granted 258,000 restricted stock awards under a key employee retention program which vest over two or four years, as applicable. On March 1, 2007, the Company also granted 305,290 restricted stock awards under a long-term incentive program. Twenty-five percent of the restricted stock awards will vest in one-third increments on each of the third, fifth and seventh anniversaries of the grant date. Seventy-five percent of the restricted stock awards will vest in one-quarter increments on each of the first, second, third and fourth anniversaries of the achievement of the Vesting Trigger Date. This Vesting Trigger Date is the first business day following the Company s achievement of a specified target for aggregate net income as measured over the previous four fiscal quarters. If no Vesting Trigger Date occurs before March 1, 2010, this portion of the restricted stock awards will be immediately forfeited.

A summary of the restricted stock activity is as follows (excluding performance restricted stock):

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2007	192,000	$ 11.72
Granted	370,243	6.87
Forfeited	(68,438)	8.24
Nonvested shares at December 31, 2007	493,805	$ 8.57

The total fair value of shares vested during 2006 was $42,000. No shares vested during 2007 or 2005. In conjunction with the vesting of restricted shares and payment of taxes thereon, the Company received into treasury 2,259 restricted shares at $7.06 per share, the closing market price on the date the restricted stock vested. Such repurchased shares are presented as treasury stock in the stockholders equity section of the consolidated balance sheet.

A summary of the performance restricted stock activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2007	40,000	$ 11.83
Granted	243,047	6.11
Forfeited	(32,820)	6.11
Nonvested shares at December 31, 2007	250,227	$ 7.02

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The following table summarizes option activity for the year ended December 31, 2007:

	Number of Shares	Weighted-average Exercise Price Per Share	Weighted-average Remaining Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	2,303,317	$ 10.08		
Granted	403,529	7.85		
Exchanged	(1,101,655)	11.93		
Forfeited	(111,811)	9.32		
Expired	(136,192)	7.74		
Exercised	(75,748)	6.29		
Outstanding at December 31, 2007	1,281,440	$ 8.33	3.09	$ 81,716
Exercisable at December 31, 2007	1,000,690	$ 8.11	2.83	$ 81,166

The weighted average grant date fair value based on the Black-Scholes option pricing model for options granted in the year ended December 31, 2007, 2006 and 2005 was $2.66, $4.13 and $5.65 per share, respectively. The total intrinsic value of options exercised was $145,000, $284,000 and $476,000 during the years ended December 31, 2007, 2006 and 2005, respectively.

As of December 31, 2007, there was $2,853,000 of total unrecognized compensation cost, after estimated forfeitures, related to unvested share-based compensation granted under our plans. That cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of option shares vested was $1,556,000, $1,020,000 and $7,958,000 during the years ended December 31, 2007, 2006 and 2005, respectively.

(15) Stockholders Equity

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, 2007, 24,850 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 loss for adjustments in the minimum pension liability, net of tax, totaled $4,470,000, $4,342,000 and $3,191,000 at December 31, 2007, 2006 and 2005, respectively. Other comprehensive loss also included cumulative foreign currency translation gains of $527,000, $708,000 and $1,257,000 at December 31, 2007, 2006 and 2005, respectively. For the years ended December 31, 2007, 2006 and

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2005, other income, net includes foreign currency remeasurement gains of $106,000, $102,000 and $871,000, respectively.

(16) 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 consolidated financial statements.

The components of (loss) income before taxes are as follows:

	Years ended December 31,		
	2007	2006	2005
		(in thousands)	
Domestic	$ (6,960)	$ (11,560)	$ 579
Foreign	2,421	8,104	6,989
	$ (4,539)	$ (3,456)	$ 7,568

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

	Years ended December 31,		
	2007	2006	2005
		(in thousands)	
Current:			
Federal	$ 601	$ (214)	$ 661
State	175	320	23
Foreign	12,197	2,879	2,654
Total current income tax expense	12,973	2,985	3,338
Deferred:			
Federal	(3,202)	(3,830)	(519)
State	(734)	(720)	6
Foreign	(11,437)	(529)	(578)
Total deferred income tax benefit	(15,373)	(5,079)	(1,091)
	$ (2,400)	$ (2,094)	$ 2,247

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The Company files a consolidated federal income tax return which includes all domestic subsidiaries. Federal and state income taxes paid in the U.S. during 2007, 2006 and 2005 totaled approximately $123,000, $546,000 and $465,000, respectively. Foreign income taxes paid during 2007, 2006 and 2005 totaled approximately $2,542,000, $4,536,000 and $801,000, respectively. The Company received approximately $614,000, $1,365,000 and $4,266,000 in federal income tax refunds during 2007, 2006 and 2005, respectively. At December 31, 2007, the Company had approximately $9,454,000 of federal net operating loss carryforwards available to offset federal taxable income, which will expire on December 31, 2026. At December 31, 2007, the Company had approximately $12,705,000 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	$ 1,918
2010	560
2011	5,999
2018	464
2026	627
2027	3,137
	$ 12,705

The following is a reconciliation of income tax (benefit) expense to that computed by applying the federal statutory rate to (loss) income before income taxes:

	Years ended December 31,		
	2007	2006	2005
	(in thousands)		
Federal tax at the statutory rate	$ (1,589)	$ (1,209)	$ 2,573
Current year permanent differences	91	156	150
State income taxes, net of federal tax benefit	(167)	(137)	23
Change in estimate of tax contingencies	(104)	(402)	(200)
Change in estimate of blended tax rate			144
Research tax credits		100	(100)
Effect of tax rates of foreign subsidiaries	(88)	(486)	(300)
Provision to return reconciliation and other	(543)	(116)	(43)
	$ (2,400)	$ (2,094)	$ 2,247

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Deferred income tax assets and liabilities are as follows:

	December 31, 2007	December 31, 2006
	(in thousands)	
Deferred tax assets:		
Compensation and benefit accruals	$ 1,712	$ 1,094
Inventory valuation	3,225	2,990
Federal and State net operating loss carryforwards	4,535	6,835
Deferred revenue	4,428	
Accounts receivable allowance	231	584
Foreign deferred revenue and other provisions	11,360	339
AMT credits	395	232
Other		309
Total deferred tax assets	25,886	12,383
Deferred tax liabilities:		
Depreciation	(14,145)	(15,544)
Defined benefit pension plan	(348)	
Contract provisions	(280)	(525)
Other	(446)	(209)
Total deferred tax liabilities	(15,219)	(16,278)
Net deferred tax asset (liability)	$ 10,667	$ (3,895)

The Company s net deferred tax asset is primarily attributable to Mexico. The Company has been profitable in Mexico in the past and anticipates continuing profitability in the future.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Specifically, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. The impact of the Company s tax positions reassessment in accordance with the requirements of FIN 48 was not significant.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits at January 1, 2007	$ 1,030
Increases based on tax positions prior to 2007	8
Decreases based on tax positions prior to 2007	(91)
Increases in tax positions related to 2007	4
Lapse in statute of limitations	(86)

Unrecognized tax benefits at December 31, 2007	$ 865

If the Company s positions are sustained by the taxing authority in favor of the Company, the entire balance at December 31, 2007 would reduce the Company s effective tax rate. The Company does not expect any reasonably possible material changes to the estimated amount of liability associated with its uncertain tax positions through December 2008. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2007 and 2006, the Company had accrued approximately $331,000 and

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

$270,000, respectively, for the payment of tax-related interest and penalties. The liability for uncertain tax positions including interest and penalties is carried in accrued liabilities in the consolidated balance sheets.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (IRS) is not currently examining the Company s U.S. income tax returns for 2004 through 2007, for which the statute has yet to expire. In addition, open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material.

The American Jobs Creation Act of 2004 (the Act), which was signed into law on October 22, 2004, introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (Repatriation Provision), provided certain criteria are met. The FASB issued Staff Position No. FAS 109-2 in December 2004, which requires the recording of tax expense if and when an entity decides to repatriate foreign earnings subject to the Act. The Company has considered the implications of the Act on the repatriation of certain foreign earnings, which reduces the Federal income tax rate on dividends from non-U.S. subsidiaries. The Company did not repatriate earnings under the Act in fiscal 2007 or 2006 because it intends to indefinitely reinvest foreign earnings outside the U.S., and has not provided an estimate for any U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries ($14,841,000 at December 31, 2007) that might be payable if these earnings were repatriated. However, the Company believes that U.S. foreign tax credits would, for the most part, eliminate any additional U.S. tax.

(17) (Loss) Earnings Per Common Share

Basic (loss) earnings per common share is calculated by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted (loss) 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 (loss) earnings per common share:

	Years ended December 31,		
	2007	**2006**	**2005**
	(in thousands, except for per share data)		
Shares outstanding:			
Weighted average shares outstanding	18,231	18,079	18,016
Effect of dilutive employee stock options			307
Adjusted weighted average shares outstanding and assumed conversions	18,231	18,079	18,323
Net (loss) income applicable to common stock	$ (2,139)	$ (1,362)	$ 5,321
(Loss) earnings per common share:			
Basic	$ (0.12)	$ (0.08)	$ 0.30
Diluted	$ (0.12)	$ (0.08)	$ 0.29

Weighted average anti-dilutive options outstanding excluded from diluted earnings per common share were 508,000 at December 31, 2005.

(18) Segment Information

The Company is organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group is one reportable business segment, while the Electronics Group includes two reportable business segments, Aerospace & Defense and Test & Measurement. The segments are each managed separately because of the distinctions between the products, services, markets, customers, technologies, and workforce skills of the

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

segments. 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. The Aerospace & Defense reportable segment provides manufacturing and technical services as an outsourced service provider and manufactures complex data storage systems. The Test & Measurement reportable segment provides a wide range of technical services for a diversified customer base as an outsourced service provider and manufactures magnetic instruments, current sensors, and other electronic products. Revenue derived from outsourced services for the Industrial Group accounted for 60%, 70% and 67% of total net revenue in 2007, 2006 and 2005, respectively. Revenue derived from outsourced services for the Aerospace & Defense reportable segment accounted for 11%, 8% and 11% of total net revenue in 2007, 2006 and 2005, respectively. Revenue derived from outsourced services for the Test & Measurement reportable segment accounted for 11%, 8% and 8% of total net revenue in 2007, 2006 and 2005, respectively. There was no intersegment net revenue recognized for any year presented.

The following table presents financial information for the reportable segments of the Company:

	Years ended December 31,		
	2007	2006	2005
		(in thousands)	
Net revenue from unaffiliated customers:			
Industrial Group	$ 279,082	$ 364,570	$ 359,602
Aerospace & Defense	104,505	87,491	115,863
Test & Measurement	52,328	45,603	47,301
Electronics Group	156,833	133,094	163,164
	$ 435,915	$ 497,664	$ 522,766
Gross profit:			
Industrial Group	$ 17,590	$ 17,676	$ 22,916
Aerospace & Defense	9,009	13,659	17,496
Test & Measurement	13,197	9,755	10,926
Electronics Group	22,206	23,414	28,422
	$ 39,796	$ 41,090	$ 51,338
Nonrecurring (income) expense, net:			
Industrial Group	$ (5,874)	$	$
General, corporate and other	2,628	1,485	
	$ (3,246)	$ 1,485	$
Operating (loss) income:			
Industrial Group	$ 13,731	$ 7,849	$ 14,014
Aerospace & Defense	(4,512)	489	4,305
Test & Measurement	2,014	(94)	354
Electronics Group	(2,498)	395	4,659
General, corporate and other	(12,056)	(8,379)	(6,451)

	$	(823)	$	(135)	$	12,222

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	Years ended December 31,		
	2007	2006	2005
		(in thousands)	
Total assets:			
Industrial Group	$ 264,182	$ 227,358	$ 278,967
Aerospace & Defense	108,189	89,433	83,443
Test & Measurement	30,337	30,772	33,631
Electronics Group	138,526	120,205	117,074
General, corporate and other	19,352	31,470	21,583
	$ 422,060	$ 379,033	$ 417,624
Depreciation and amortization:			
Industrial Group	$ 20,139	$ 18,639	$ 16,045
Aerospace & Defense	4,358	5,096	5,642
Test & Measurement	4,132	4,422	3,963
Electronics Group	8,490	9,518	9,605
General, corporate and other	757	625	259
	$ 29,386	$ 28,782	$ 25,909
Capital expenditures:			
Industrial Group	$ 5,767	$ 5,167	$ 28,391
Aerospace & Defense	1,354	2,233	2,889
Test & Measurement	3,012	2,764	4,366
Electronics Group	4,366	4,997	7,255
General, corporate and other	22	162	618
	$ 10,155	$ 10,326	$ 36,264

The Company s export sales from the U.S. totaled $24,976,000, $44,963,000 and $47,622,000 in 2007, 2006 and 2005, respectively. Approximately $53,552,000, $86,166,000 and $68,671,000 of net revenue in 2007, 2006 and 2005, respectively, and $29,027,000, $29,774,000 and $32,304,000 of long lived assets at December 31, 2007, 2006 and 2005, respectively, relate to the Company s international operations.

(19) Quarterly Financial Information (Unaudited)

The following is an analysis of certain items in the consolidated statements of operations by quarter for the years ended December 31, 2007 and 2006:

	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except for per share data)							
Net revenue	$ 111,439	$ 116,247	$ 104,520	$ 103,709	$ 129,997	$ 132,233	$ 125,955	$ 109,479

Gross profit	12,007	7,701	10,472	9,616	12,619	10,434	10,236	7,801
Operating income (loss)	262	(3,200)	4,201	(2,086)	2,207	273	(529)	(2,086)
Net (loss) income	(245)	(2,301)	2,637	(2,230)	857	(444)	(802)	(973)
(Loss) earnings per common share:								
Basic	$ (0.01)	$ (0.13)	$ 0.14	$ (0.12)	$ 0.05	$ (0.02)	$ (0.04)	$ (0.05)
Diluted	$ (0.01)	$ (0.13)	$ 0.14	$ (0.12)	$ 0.05	$ (0.02)	$ (0.04)	$ (0.05)
Cash dividends declared per common share	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.03

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SYPRIS SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(20) Subsequent Events

On December 12, 2007 the bankruptcy court approved Dana s plan of reorganization. Pursuant to the terms included therein, the Company became entitled to receive an initial distribution of 3,090,408 shares of common stock in Dana Holding Corporation (DAN), the right to participate in additional distributions of reserved shares of common stock of DAN if certain disputed matters are ultimately resolved for less than DAN s current reserves for those matters (presently estimated by the Company to be 300,000 to 500,000 shares to be received by the Company in 2008 and 2009) and the right to receive cash of approximately $6,300,000 by mid-March, 2008, depending on various factors in the administration of Dana s bankruptcy estate. Dana emerged from bankruptcy on January 31, 2008, and on February 1, 2008, the newly issued shares of Dana Holding Corporation began trading on the New York Stock Exchange under the ticker symbol DAN . The closing market price for DAN common stock on March 5, 2008 was $11.80 per share.

Upon receipt of the shares in February 2008, the Company will account for its common stock in Dana in accordance with Statement of Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). The Company will account for its shares in Dana as available-for-sale securities in accordance with SFAS No. 115 with associated unrealized holding gains or losses reported as a component of other comprehensive income/(loss), subject to an impairment analysis. Any decline in value deemed to be other than temporary will result in a charge to earnings.

The Company believes that the price for Dana s common stock at March 5, 2008 is temporarily depressed. A number of market issues including sub-prime lending issues, tightening credit markets and recession concerns have driven market prices down in recent months. A substantial portion of the current owners of DAN stock are contractually restricted from trading those shares for at least six months after the confirmation date and many equity mutual funds are restricted from purchasing stock in businesses that have recently emerged from bankruptcy. The automotive sector has been under considerable scrutiny due to bankruptcies and significant losses recorded by major companies within the sector. The Company believes that these negative factors will begin to improve during 2008 and it possesses the ability and intent to hold its shares of Dana common stock until a full recovery of the current carrying value occurs.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this annual report, an evaluation was performed under the supervision and with the participation of the Company s management, including the President and Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective.

Management s Report on Internal Control over Financial Reporting

The management of Sypris Solutions, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management s report on internal control over financial reporting is included in Part II, Item 8 of this Form 10-K. Additionally, Ernst & Young LLP, our independent auditors and a registered public accounting firm, has issued a report on Sypris Solutions, Inc. s internal control over financial reporting, which is included in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference from sections of the Company s Proxy Statement titled Section 16(a) Beneficial Ownership Reporting Compliance, Governance of the Company Committees of the Board of Directors, Governance of the Company Audit and Finance Committee, Proposal One, Election of Directors, and Executive Officers, which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

The Company has adopted a Code of Business Conduct that applies to all of its directors, officers (including its chief executive officer, chief financial officer, chief accounting officer and any person performing similar functions) and employees. The Company has made the Code of Business Conduct available on its website at www.sypris.com.

Item 11. Executive Compensation

The information required herein is incorporated by reference from sections of the Company s Proxy Statement titled Governance of the Company Compensation of Directors, Governance of the Company Compensation Committee Interlocks and Insider Participation, Summary Compensation Table, Grants of Plan-Based Awards in 2007, Outstanding Equity Awards at Fiscal Year-End 2007, Option Exercises and Stock Vested, Pension Benefits, Director Compensation, Compensation Discussion and Analysis and Compensation Committee Report which Pr Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is incorporated by reference from the section of the Company s Proxy Statement titled Stock Ownership of Certain Beneficial Owners which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 with respect to shares of Sypris common stock that may be issued under our equity compensation plans.

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Stockholders	1,281,440(1)	$ 8.33(2)	1,479,043(2)
Equity Compensation Plans Not Approved by Stockholders			
Total	1,281,440	$ 8.33	1,479,043

(1) Consists of (a) 452,695 outstanding options under the 1994 Stock Option Plan for Key Employees (1994 Key Plan), which Plan expired on October 27, 2004, (b) 238,642 outstanding options under the 1994 Independent Directors Stock Option Plan, which Plan expired on October 27, 2004, and (c) 590,103 outstanding options under the 2004 Equity Plan.

(2) Shares remaining available for issuance under the 2004 Equity Plan.

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Item 13. Certain Relationships and Related Transactions and Director Independence

The information required herein is incorporated by reference from the sections of the Company s Proxy Statement titled Governance of the Company Transactions with Related Persons, Governance of the Company Certain Employees, and Governance of the Company Independence which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Item 14. Principal Accountant Fees and Services

The information required herein is incorporated by reference from the section of the Company s Proxy Statement titled Relationship with Independent Public Accountants, which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1. Financial Statements

The financial statements as set forth under Item 8 of this report on Form 10-K are included.

2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

All other consolidated financial statement schedules have been omitted because the required information is shown in the consolidated financial statements or notes thereto or they are not applicable.

3. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the quarterly period ended June 30, 2004 filed on August 3, 2004 (Commission File No. 000-24020)).
3.2	Bylaws of the Company (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8 filed May 9, 2002 (No. 333-87880)).
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Company s Form 10-K for the fiscal year ended December 31, 1998 filed on March 5, 1999 (Commission File No. 000-24020)).
4.2	Rights Agreement dated as of October 23, 2001 between the Company 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 Company s Form 8-K filed on October 23, 2001 (Commission File No. 000-24020)).
10.1	Purchase and Sale Agreement among Honeywell Inc., Defense Communications Products Corporation (prior name of Group Technologies Corporation) and Group Financial Partners, Inc. dated May 21, 1989 (incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.2	Purchase and Sale Agreement among Alliant Techsystems Inc., MAC Acquisition I, Inc. and Group Technologies Corporation dated December 31, 1992 (incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.3	Purchase and Sale Agreement among Philips Electronic North America Corporation and Group Technologies Corporation dated June 25, 1993 (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.4	Asset Purchase Agreement dated April 6, 2001 by and between Tube Turns Technologies, Inc. and Dana Corporation as amended by a First Amendment dated May 4, 2001 and as amended by a Second Amendment on May 15, 2001 (incorporated by reference to Exhibit 2.1 to the Company s Form 10-Q for the quarterly period ended June 30, 2001 filed on July 30, 2001 (Commission File No. 000-24020)).

10.5	Asset Purchase Agreement between Sypris Technologies, Inc. and Dana Corporation dated December 8, 2003 (incorporated by reference to Exhibit 10.7 to the Company s Form 10-K for the fiscal year ended December 31, 2003 filed on February 12, 2004 (Commission File No. 000-24020)).

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Exhibit Number	Description
10.6	1999 Amended and Restated Loan Agreement between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated October 27, 1999 (incorporated by reference to Exhibit 10.1 to the Company s Form 10-K for the fiscal year ended December 31, 1999 filed on February 25, 2000 (Commission File No. 000-24020)).
10.6.1	2000A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated November 9, 2000 (incorporated by reference to Exhibit 10.6.1 to the Company s Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.6.2	2001A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated February 15, 2001 (incorporated by reference to Exhibit 10.6.2 to the Company s Form 10-Q for the quarterly period ended April 1, 2001 filed on April 30, 2001 (Commission File No. 000-24020)).
10.6.3	2002A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated December 21, 2001 (incorporated by reference to Exhibit 10.6.3 to the Company s Form 10-K for the fiscal year ended December 31, 2001 filed on January 31, 2002 (Commission File No. 000-24020)).
10.6.4	2002B Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated July 3, 2002 (incorporated by reference to Exhibit 10.25 to the Company s Form 10-Q for the quarterly period ended June 30, 2002 filed on July 29, 2002 (Commission File No. 000-24020)).
10.6.5	2003A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated October 16, 2003 (incorporated by reference to Exhibit 99.1 to the Company s Form 10-Q for the quarterly period ended September 28, 2003 filed on October 29, 2003 (Commission File No. 000-24020)).
10.6.6	2005A Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated March 10, 2005 (incorporated by reference to Exhibit 10.6.6 to the Company s Form 10-K for the fiscal year ended December 31, 2004 filed on March 11, 2005 (Commission File No. 000-24020)).
10.6.7	2005B Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated May 10, 2005 (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.6.8	2005C Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated August 3, 2005 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).

Exhibit Number	Description
10.6.9	2006A Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated February 28, 2006 (incorporated by reference to Exhibit 10.6.9 to the Company s Form 10-K for the fiscal year ended December 31, 2005 filed on March 15, 2006 (Commission File No. 000-24020)).
10.6.10	Amended and Restated Loan Agreement dated as of April 6, 2007 between Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC; and JP Morgan Chase Bank, N.A., LaSalle Bank National Association, and National City Bank (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on April 11, 2007 (Commission File No. 000-24020)).
10.6.11	2007A Amendment to Loan Documents between JP Morgan Chase Bank, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC and Sypris Technologies Kenton, Inc. dated September 17, 2007 (incorporated by reference to Exhibit 10.3 to the Company s Form 10-Q filed on November 2, 2007 (Commission File No. 000-24020)).
10.7	Note Purchase Agreement between The Guardian Life Insurance Company of America, Connecticut General Life Insurance Company, Life Insurance Company of North America, Jefferson Pilot Financial Insurance Company, Jefferson-Pilot Life Insurance Company, Jefferson Pilot LifeAmerica Insurance Company, and Sypris Solutions, Inc. dated as of June 10, 2004 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-Q for the quarterly period ended June 30, 2004 filed on August 3, 2004 (Commission File No. 000-24020)).
10.7.1	First Amendment to Note Purchase Agreement between The Guardian Life Insurance Company of America, Connecticut General Life Insurance Company, Life Insurance Company of North America, Jefferson Pilot Financial Insurance Company, Jefferson-Pilot Life Insurance Company, Jefferson Pilot LifeAmerica Insurance Company, and Sypris Solutions, Inc. dated as of August 3, 2005 (incorporated by reference to Exhibit 10.3 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.7.2	Second Amendment to Note Purchase Agreement between The Guardian Life Insurance Company of America, Connecticut General Life Insurance Company, Life Insurance Company of North America, Jefferson Pilot Financial Insurance Company, Jefferson-Pilot Life Insurance Company, Jefferson Pilot LifeAmerica Insurance Company, and Sypris Solutions, Inc. dated as of March 13, 2006 (incorporated by reference to Exhibit 10.7.2 to the Company s Form 10-K for the fiscal year ended December 31, 2005 filed on March 15, 2006 (Commission File No. 000-24020)).
10.7.3	Third Amendment to the Note Purchase Agreement dated as of April 6, 2007 between Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC; and The Guardian Life Insurance Company Of America, Connecticut General Life Insurance Company, Life Insurance Company of North America, Jefferson Pilot Financial Insurance Company, Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York. (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on April 11, 2007(Commission File No. 000-24020))
10.7.4	Security Interest Agreement dated April 6, 2007 (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on April 11, 2007(Commission File No. 000-24020)).
10.8	Lease between John Hancock Mutual Life Insurance Company and Honeywell, Inc. dated April 27, 1979; related Notice of Assignment from John Hancock Mutual Life Insurance Company to Sweetwell Industrial Associates, L.P., dated July 10, 1986; related Assignment and Assumption of Lease between Honeywell, Inc. and Defense Communications Products Corporation (prior name of Group Technologies Corporation) dated May 21, 1989; and related Amendment I to Lease Agreement between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated October 25,

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Exhibit Number	Description
	1991, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.8.1	Agreement related to Fourth Renewal of Lease between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated November 1, 2000, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.8.1 to the Company s Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.8.2	Agreement related to Fifth Renewal of Lease between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated October 12, 2006, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.8.2 to the Company s Form 10-K for the fiscal year ended December 31, 2006 filed on March 14, 2007 (Commission File No. 000-24020)).
10.9	Lease between Metrum-Datatape, Inc. (assignee of Metrum, Inc.) and Alliant Techsystems, Inc. dated March 29, 1993 and amended July 29, 1993, May 2, 1994, November 14, 1995, December 4, 1996 and February 12, 1998 regarding 4800 East Dry Creek Road Property (incorporated by reference to Exhibit 10.25 to the Company s Form 10-Q for the quarterly period ended June 28, 1998 filed on August 4, 1998 (Commission File No. 000-24020)).
10.10	Lease between Sypris Data Systems, Inc. and Via Verde Venture, LLC. dated September 24, 2003 regarding 160 East Via Verde, San Dimas, California (incorporated by reference to Exhibit 10.11 to the Company s Form 10-K for the fiscal year ended December 31, 2003 filed on February 12, 2004 (Commission File No. 000-24020)).
10.11*	Sypris Solutions, Inc. 1994 Stock Option Plan for Key Employees as Amended and Restated effective February 26, 2002 (incorporated by reference to Exhibit 4.5 to the Company s Form S-8 filed on May 9, 2002 (Registration No. 333-87880)).
10.12*	Sypris Solutions, Inc. Share Performance Program For Stock Option Grants dated July 1, 1998 (incorporated by reference to Exhibit 10.28 to the Company s Form 10-Q for the quarterly period ended June 28, 1998 filed on August 4, 1998 (Commission File No. 000-24020)).
10.13*	Sypris Solutions, Inc. Independent Directors Stock Option Plan as Amended and Restated effective February 26, 2002 (incorporated by reference to Exhibit 4.5 to the Company s Form S-8 filed on May 9, 2002 (Registration No. 333-87882)).
10.14*	Sypris Solutions, Inc., Directors Compensation Program As Amended and Restated Effective February 24, 2004 and as amended December 15, 2004, (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on December 21, 2004 (Commission File No. 000-24020)).
10.15*	Sypris Solutions, Inc. Directors Compensation Program adopted on September 1, 1995 Amended and Restated on March 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 3, 2005 (Commission File No. 000-24020)).
10.16*	Sypris Solutions, Inc. Directors Compensation Program adopted on September 1, 1995 Amended and Restated on February 20, 2007 (incorporated by reference to Exhibit 10.16 to the Company s Form 10-K for the fiscal year ended December 31, 2006 filed on March 14, 2007 (Commission File No. 000-24020)).
10.17*	Sypris Solutions, Inc. Executive Bonus Plan, effective as of January 1, 2003 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-Q for the quarterly period ended March 30, 2003 filed on April 30, 2003 (Commission File No. 000-24020)).
10.18*	Sypris Solutions, Inc. Incentive Bonus Plan, effective as of January 1, 2004 (incorporated by reference to Exhibit 10.17 to the Company s Form 10-K for the fiscal year ended December 31, 2004 filed on March 11, 2005 (Commission File No. 000-24020)).
10.19*	Sypris Solutions, Inc. Incentive Bonus Plan, effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on March 3, 2005 (Commission File No. 000-24020)).

Exhibit Number	Description
10.20*	2004 Sypris Equity Plan effective as of April 27, 2004 (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the quarterly period ended March 31, 2004 filed on April 30, 2004 (Commission File No. 000-24020)).
10.21*	Form of non-qualified stock option award agreement for non-employee directors (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on December 21, 2004 (Commission File No. 000-24020)).
10.22*	Form of non-qualified stock option award agreement for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on December 21, 2004 (Commission File No. 000-24020)).
10.23*	Form of performance-based stock option award agreement for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on December 21, 2004 (Commission File No. 000-24020)).
10.24*	Form of Restricted Stock Award Agreement for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on March 3, 2005 (Commission File No. 000-24020)).
10.25*	Form of Non-Qualified Stock Option Award Agreement for Six-Year Stock Option for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on March 3, 2005 (Commission File No. 000-24020)).
10.26*	Form of Amendment to Stock Option Agreements to Accelerate Vesting Periods for Certain Underwater Options for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.25 to the Company s Form 10-K for the fiscal year ended December 31, 2004 filed on March 11, 2005 (Commission File No. 000-24020)).
10.27*	Employment Agreement by and between Metrum-Datatape, Inc. and G. Darrell Robertson dated February 28, 2000 (incorporated by reference to Exhibit 10.20 to the Company s Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.28	Underwriting Agreement dated March 20, 2002 among Sypris Solutions, Inc., Needham & Company, Inc. and A.G. Edwards & Sons, Inc. (incorporated by reference to Exhibit 10.20 to the Company s Form 10-Q for the quarterly period ended March 31, 2002 filed on April 29, 2002 (Commission File No. 000-24020)).
10.29	Underwriting Agreement dated March 11, 2004 among Sypris Solutions, Inc. and Needham & Company, Inc. (incorporated by reference to Exhibit 10.3 to the Company s Form 10-Q for the quarterly period ended March 31, 2004 filed on April 30, 2004 (Commission File No. 000-24020)).
10.30*	Amendment to Stock Option Agreements to David D. Johnson (incorporated by reference to Exhibit 10.7 to the Company s Form 10-Q filed on May 6, 2005 (Commission File No. 000-24020)).
10.31*	Sypris Solutions, Inc. Incentive Bonus Plan (July 1, 2005 December 31, 2005) (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)).
10.32*	Form of Two-Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)).
10.33*	Amended Form of Two-Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.8 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.34*	Form of 1-3-5 Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)).

Exhibit Number	Description
10.35*	Amended Form of 1-3-5 Year Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.9 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.36*	Long-term Incentive Program and Form of Long-term Incentive Award Agreements for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on June 27, 2005 (Commission File No. 000-24020)).
10.37*	Amended Executive Long-Term Incentive Program and Alternate Form of Executive Long-Term Incentive Award Agreements for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.10 to the Company s Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.38*	Form of Amendment to Stock Option Agreements to Accelerate Vesting Periods for Certain Underwater Options for grants to executive officers and other key employees (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on January 6, 2006 (Commission File No. 000-24020)).
10.39	Preliminary Settlement Agreement between Sypris Solutions, Inc, and Dana Corporation (Debtor in Possession) dated May 10, 2006 (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on May 10, 2006 (Commission File No. 000-24020)).
10.40*	Form of Four-year Restricted Stock Award Agreement for Grants to Executive Officers and Terms of Awards Under the 2007 Special Incentive Executive Award Program (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on January 17, 2007 (Commission File No. 000-24020)).
10.41*	Form of Refund Agreement to Award Cash Incentive Grants (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on January 17, 2007 (Commission File No. 000-24020)).
10.42*	Form of Standard Terms of Executive Awards Granted Under the 2007 Stock Option Exchange Program (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on May 18, 2007 (Commission File No. 000-24020)).
10.43*	Form of 3-4-5 Restricted Stock Award Agreement for Grants to Executive Officers and Other Key Employees, Amends and Replaces Exhibit 10.24, Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K Filed on March 3, 2005 (Commission File No. 000-24020)) (incorporated by reference to Exhibit 10.5 to the Company s Form 10-Q filed on August 8, 2007 (Commission File No. 000-24020)).
10.44	Redacted copy of Settlement Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007 (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q filed on November 2, 2007 (Commission File No. 000-24020)).
10.45	Redacted copy of Supply Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-Q filed on November 2, 2007 (Commission File No. 000-24020)).
21	Subsidiaries of the Company
23	Consent of Ernst & Young LLP
31.1	CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
31.2	CFO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
32	CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 10, 2008.

SYPRIS SOLUTIONS, INC.
(Registrant)

/s/ Jeffrey T. Gill
(Jeffrey T. Gill)
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 10, 2008:

/s/ Robert E. Gill	Chairman of the Board
(Robert E. Gill)	
/s/ Jeffrey T. Gill	President, Chief Executive Officer and Director
(Jeffrey T. Gill)	
/s/ T. Scott Hatton	Vice President and Chief Financial Officer
(T. Scott Hatton)	(Principal Financial Officer)
/s/ M. Glen French	Controller
(M. Glen French)	(Principal Accounting Officer)
/s/ John F. Brinkley	Director
(John F. Brinkley)	
/s/ William G. Ferko	Director
(William G. Ferko)	
/s/ R. Scott Gill	Director
(R. Scott Gill)	
/s/ William L. Healey	Director
(William L. Healey)	
/s/ Sidney R. Petersen	Director
(Sidney R. Petersen)	

/s/ Robert Sroka	Director
(Robert Sroka)	

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SCHEDULE II

SYPRIS SOLUTIONS, INC.

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in thousands)		
Allowance for doubtful accounts:					
Year ended December 31, 2007	$ 1,502	$ (132)	$	$ (775)(1)	$ 595
Year ended December 31, 2006	$ 1,898	$ 437	$	$ (833)(1)	$ 1,502
Year ended December 31, 2005	$ 1,697	$ 607	$	$ (406)(1)	$ 1,898
Reserve for inactive, obsolete and unsalable inventory:					
Year ended December 31, 2007	$ 6,788	$ 1,322	$	$ (1,134)(2)	$ 6,976
Year ended December 31, 2006	$ 6,342	$ 836	$	$ (390)(2)	$ 6,788
Year ended December 31, 2005	$ 5,902	$ 739	$	$ (299)(2)	$ 6,342

(1) Uncollectible accounts written off.
(2) Inactive, obsolete and unsalable inventory written off.