

SYPRIS SOLUTIONS INC
Form 10-K
March 23, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the fiscal year ended December 31, 2009.

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____.

Commission file number 0-24020

SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

101 Bullitt Lane, Suite 450

Louisville, Kentucky 40222
(Address of principal executive

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

offices, including zip code)

including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)
Common Stock, \$.01 par value

(Name of each exchange on which registered)
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (July 5, 2009) was \$12,278,668.

There were 19,693,262 shares of the registrant's common stock outstanding as of March 17, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Stockholders to be held May 11, 2010 are incorporated by reference into Part III to the extent described therein.

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In this Form 10-K, Sypris, SYPR, the Company, we, us and our refer to Sypris Solutions, Inc. and its subsidiaries and predecessors, collectively. Sypris Solutions and Sypris are our trademarks. All other trademarks, servicemarks or trade names referred to in this Form 10-K are the property of their respective owners.

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PART I

Item 1. Business
General

We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies principally in the markets for industrial manufacturing and aerospace & defense electronics.

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

Industrial Manufacturing. We are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We produce drive train components including axle shafts, gear sets, differential cases, steer axle forgings, and other components under multi-year, sole-source contracts with ArvinMeritor, Inc. (ArvinMeritor) and Dana Holding Corporation (DHC), the two primary providers of drive train assemblies for use by the leading truck manufacturers, including Ford Motor Company (Ford), Freightliner LLC (Freightliner), Mack Trucks, Inc. (Mack), Navistar International Corporation (Navistar), PACCAR, Inc. (PACCAR) and Volvo Truck Corporation (Volvo). We also supply ArvinMeritor with trailer axle beams for use by the leading trailer manufacturers, including Great Dane Limited Partnership (Great Dane), Hyundai Motor Company (Hyundai), Stoughton Trailers, LLC (Stoughton), Utility Trailer Manufacturing Company (Utility) and Wabash National Corporation (Wabash). We continue to support our customers' strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies. During 2008 and 2009, the commercial vehicle industry experienced a severe recession highlighted by an unprecedented plunge in industry volumes. The industry was significantly affected by deteriorating global economic conditions, unstable credit markets and declining consumer confidence. Our industrial manufacturing business accounted for approximately 57% of net revenue in 2009. Our diversification strategy resulted in the recent addition of new long-term agreements with Eaton Corporation and American Axle, under which we will supply forgings. Additionally, we have developed, in conjunction with a leading alternative energy company, a unique and innovative forging that could lead Sypris into the growing alternative energy industry.

Aerospace & Defense Electronics. The Electronics Group is organized around two primary business lines: Information Security Solutions (ISS) and Electronic Manufacturing Services (EMS).

Information Security Solutions (ISS). Our ISS business provides solutions in cyber security, secure communications, global electronic key management, Sypris Data Systems branded products, and product design and development to the United States Government, both defense and civilian agencies, international government agencies, as well as defense and aerospace prime organizations. This group has several long-term contracts with the Department of Defense to design and build information assurance products, including link encryptors, data recording products and electronic key fill devices.

Electronic Manufacturing Services (EMS). Our EMS business is focused on circuit card and full box build manufacturing, dedicated space and high reliability manufacturing, integrated design and engineering services, systems assembly and integration, design for manufacturability, and design to specification work. A sampling of our customers include Honeywell International, Inc. (Honeywell), Lockheed Martin Corporation (Lockheed), Northrop Grumman Corporation (Northrop Grumman) and Raytheon Company (Raytheon).

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The U.S. defense budget for fiscal 2010 contains provisions to increase spending for space, smart weapons, surveillance, intelligence and secure communications, areas for which we have long provided essential services and products. However, funds have been diverted to finance the armed forces and related equipment and expendable supplies for the war in Iraq and Afghanistan, and we expect this to continue throughout 2010. Additionally, significant government funds are being mobilized within the U.S. Government for cyber activities related to network defense, secure computing, cloud computing, and certification and accreditation training, all of which are expected to create significant opportunities for our ISS business. Our aerospace & defense electronics business accounted for approximately 43% of net revenue in 2009.

Dana Reorganization. On March 3, 2006, the Company's largest customer, Dana Corporation (Dana), and 40 of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. On August 7, 2007, the Company entered into a comprehensive settlement agreement with Dana (the Settlement Agreement) to resolve all outstanding disputes between the parties, terminate previously approved arbitration payments and replace three existing supply agreements with a single, revised contract running through 2014. In addition, Dana provided the Company with an allowed general unsecured non-priority claim in the face amount of \$89.9 million (the Claim).

Sypris and Dana conducted a series of negotiations during the period beginning March 3, 2006 and ending on the settlement date of August 7, 2007. The negotiations covered a wide range of commercial issues including compliance with the terms and conditions of past contractual matters and establishing terms and conditions for a new long-term supply agreement. Throughout these negotiations, Sypris developed and maintained a discounted cash flow valuation methodology to determine the potential economic impact to Sypris of each commercial issue under negotiation and to assign a value to each issue. The discounted cash flow valuation used the expected annual net cash flow from each commercial issue over the specific time period associated with the issue. The commercial issues were tracked and valued individually, however the Company summarized the commercial issues into the following elements:

1. Pricing concessions on future shipments of certain parts under a new supply agreement;
2. The transfer of future production for certain parts from Sypris to Dana;
3. Dana's obligation under prior supply agreements to transfer the production of certain parts from Dana to Sypris;
4. Dana's obligation under prior supply agreements to transfer contractual production volumes for certain parts from Dana to Sypris; and
5. A commitment by Sypris to relocate certain assets among Sypris's existing facilities related to the production of certain parts under a new supply agreement.

The Claim provided to Sypris was agreed to by Sypris and Dana as consideration for the aggregate economic impact of the various elements the two parties were negotiating. The Settlement Agreement did not specifically set forth values attributable to each of the above defined elements, nor did Sypris and Dana enter into any formal agreement as to the allocation of the Claim. Therefore, after the aggregate Claim value of \$89.9 million was established, Sypris allocated the aggregate Claim value to each commercial issue included under the five defined elements based upon the estimated net present values determined by Sypris's internal valuation methodology.

Sypris recorded the Claim at the estimated fair value on August 7, 2007 in accordance with ASC 845-10 (formerly APB 29, *Accounting for Nonmonetary Transactions*). Since Dana was still in bankruptcy at that date, the estimated fair value for the Claim was calculated by estimating the aggregate residual value of Dana (the Dana Residual Value) available to all unsecured claim holders in the bankrupt Dana estate in relation to the aggregate amount of eligible unsecured claims (the Eligible Claims), which included Sypris's Claim for \$89.9 million. The Dana Residual Value was calculated by applying a peer-group based market multiple to Dana's expected earnings before interest, taxes, depreciation, amortization and restructuring charges (EBITDAR), as adjusted for certain specific values associated with Dana's Chapter 11 restructuring plan to arrive at a gross enterprise value. Dana's anticipated net debt, convertible preferred shares and minority interests were deducted from gross enterprise value to arrive at the Dana Residual Value. Sypris initially estimated the Dana Residual Value at \$2.6 billion and the

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Eligible Claims at \$3.0 billion. The ratio of Dana Residual Value to Total Claims of 85% (\$2.6 billion divided by \$3.0 billion) represented the expected recovery rate for the Eligible Claims. Sypris applied the estimated 85% recovery rate to its Claim of \$89.9 million, resulting in an estimated fair value of \$76.5 million for the Claim.

Sypris allocated the estimated fair value of \$76.5 million to the commercial issues under each of the five elements related to the Claim. Sypris established the criteria for revenue recognition of each element of the Claim in accordance with ASC 605-10-99 (formerly Staff Accounting Bulletin 104, *Revenue Recognition*). In accordance with ASC 605-10-99, each of those items which required the Company's continued involvement was deferred and will be recognized over the applicable period of the involvement.

Upon Dana's emergence from bankruptcy on January 31, 2008, the Claim entitled the Company to receive an initial distribution of 3,090,408 shares of common stock in Dana Holding Corporation (DHC), the right to participate in additional distributions of reserved shares of common stock of DHC if certain disputed matters are ultimately resolved for less than Dana's reserves for those matters (estimated by the Company to represent an additional 739,000 shares) and the right to receive a distribution of cash of \$6.9 million.

On February 1, 2008, the newly issued shares of DHC began trading on the New York Stock Exchange. On February 11, 2008, the Company received its initial distribution of common stock (3,090,408 shares), and on March 18, 2008 the Company received its cash distribution totaling \$6.9 million. On April 21, 2008, July 30, 2008 and October 10, 2008, the Company received 114,536, 152,506 and 384,931 of DHC common shares, respectively.

The aforementioned cash distribution of \$6.9 million was recorded as a reduction in the Company's \$76.5 million recorded fair value basis in the Claim. The remaining balance of the \$69.6 million was equivalent to approximately \$18.17 per share of DHC common stock, based on the number of DHC shares that the Company expected to receive in consideration for the Claim. This amount represented the Company's cost basis in the initial distribution of DHC common stock and the stock to be received as consideration for the Claim. For the first quarter of 2008, the \$69.6 million was allocated on a pro rata basis as follows: \$56.2 million was attributed to an initial distribution of 3,090,408 shares received by the Company on February 11, 2008, and the remaining \$13.4 million was attributed to the expected subsequent distribution of approximately 739,000 shares. For the second quarter of 2008, the remaining \$13.4 million in recorded fair value was further allocated on a pro rata basis as follows: \$2.1 million was attributed to 114,536 additional shares actually received on April 21, 2008 and the remaining \$11.3 million was attributed to the expected subsequent distribution of approximately 624,000 shares. For the third quarter of 2008, the remaining \$11.3 million in recorded fair value was further allocated on a pro rata basis as follows: \$2.8 million was attributed to 152,506 additional shares actually received on July 30, 2008 and the remaining \$8.6 million was attributed to the expected subsequent distribution of approximately 472,000 shares. All of these allocations were based on \$18.17 per share, the Company's estimated cost basis in the shares based on the fair value of the Claim when received and affirmed by the court. There was no change in the number of shares expected to be received in the aggregate during this period. As of December 31, 2009, the Company has received approximately 98% of the total common shares it expects to receive.

At the end of each of the first three quarters of 2008, the Company analyzed whether declines in the quoted market prices of DHC common stock were temporary or other-than-temporary, in accordance with the factors outlined in ASC 820-10 (formerly SFAS No. 157) and ASC 320-10-99 (formerly SAB Topic 5M). As of March 30, 2008 and June 29, 2008 (the end of our first and second quarters), the economy had been sluggish as a result of a weak housing market and rising fuel costs. However, the commercial vehicle markets were still expected to rebound in late 2008 in anticipation of CAFE emission standards changes effective January 1, 2010, which generally drive substantial replacement fleet sales. In addition to a cyclical weakening in the economy, management believed DHC's capital structure upon emergence from bankruptcy was temporarily distorting its stock price. At emergence, the majority of DHC's stockholders were unsecured creditors who were not natural holders of DHC common stock. This was believed to be causing temporary downward pressure on the stock price as those stockholders began liquidating their holdings. Additionally, approximately one-third of DHC stockholders at the end of the first quarter of 2008 were holders of Series A or B Preferred stock and could not trade the stock for the first six months following emergence due to contractual lock up restrictions. Furthermore, many equity mutual funds, who would be the likeliest natural holders of DHC stock, are restricted by their investment policies from purchasing stock in businesses that have recently emerged from bankruptcy. This was believed to create a temporary, but very negative, market environment for DHC stock, continuing through the first half of 2008. As these restrictions were lifted, the demand for the stock was expected to increase along with the price.

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Economic volatility and highly erratic market pricing behavior continued throughout the third quarter at historically unprecedented levels. On September 18, 2008, the Commission issued Release No. 34-58592, EMERGENCY ORDER PURSUANT TO SECTION 12(k)(2) OF THE SECURITIES EXCHANGE ACT OF 1934 TAKING TEMPORARY ACTION TO RESPOND TO MARKET DEVELOPMENTS (the Emergency Order). Among other things, the Commission's Emergency Order made it temporarily illegal to engage in certain short sales of a number of specified companies, stating that: "Given the importance of confidence in our financial markets as a whole, we have become concerned about recent sudden declines in the prices of a wide range of securities. Such price declines can give rise to questions about the underlying financial condition of an issuer, which in turn can create a crisis of confidence, *without a fundamental underlying basis*." Three days later, the Emergency Order was amended to allow the stock market exchanges to designate additional companies whose stock could not be shorted, and the NYSE promptly added General Motors Corporation to the list. As of September 28, 2008 (the end of our third quarter), the commercial vehicle and automotive sectors of the stock market were in severe turmoil, despite the fact that automotive sales volumes were still expected to rebound somewhat in the fourth quarter of 2008, and crude oil prices, which had peaked early in the third quarter at over \$140 per barrel, were trading in the high \$60's per barrel in October.

In this environment, the Company's management strongly believed that commercial vehicle and automotive stocks had been speculatively oversold and that the government's intervention, including the passage of the \$700 billion Troubled Asset Relief Program, would rapidly free up liquidity for banks in the fourth quarter, resulting in a dramatic improvement in the overall market as stock prices returned to levels that reflected fundamental values. In particular, the automotive sector and its supply chain had received or were targeted to receive substantial financial support from the government, which was expected to have a positive cascading impact on automotive suppliers in the future. Based upon these factors, and the Company's willingness and financial ability to hold the DHC stock until the expected recovery in valuations, we continued to assess the impairment in DHC stock as a temporary phenomenon, and accordingly, the Company reported the differences between DHC's stock price on the last day of each quarter and the initial estimated fair value of \$18.17 as other comprehensive loss for that quarter. As a result, the carrying value of the investment at the end of each fiscal quarter was recorded at the fair market value at each respective date in accordance with ASC 320-10 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*).

During the fourth quarter of 2008, the Company initially continued to believe that the severe turmoil in the financial markets was a temporary phenomenon and that DHC stock in particular had been speculatively oversold in a manner that did not reflect its fundamental value, which was still believed to be supportive of the Company's recorded value of \$18.17 per share. When the Company received an additional distribution of 384,931 shares of DHC stock on October 10, 2008, \$7.0 million of the remaining \$8.6 million in recorded value was attributed to those shares, while the final \$1.6 million in recorded value was attributed to the approximately 87,000 in additional shares (which the Company still expects to receive).

As the fourth quarter progressed, the financial markets continued to decline and DHC announced that it was revising its 2008 earnings before interest, taxes, depreciation and amortization (EBITDA) outlook down approximately 40% from its Plan of Reorganization and projected significantly lower revenues for 2009 than previously disclosed. The market reacted negatively to this news and DHC's stock price plummeted to \$0.74 per share by the end of December. As a result of the severity and duration of the decline in fair value of the DHC stock and the financial condition and near-term prospects of DHC, the Company determined that its investment in DHC common stock was other-than-temporarily impaired as of December 31, 2008. Accordingly, the Company recorded a \$66.8 million impairment charge during the fourth quarter. The non-cash impairment was based on DHC's closing stock price of \$0.74 per share on December 31, 2008.

At December 31, 2009, the Company's right to participate in additional distributions of DHC common stock, presently estimated to be 87,000 additional shares, is carried at \$0.1 million in other assets. Had these shares been received at December 31, 2009, the Company would have recorded a \$0.9 million unrealized holding gain to other comprehensive loss.

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Recent Developments

During the fourth quarter 2009, the Company liquidated its holdings in DHC common stock for approximately \$21.0 million in net cash proceeds. The 3,742,381 shares were sold at an average price of \$5.62 per share, net of commission costs, while the basis in the stock was recorded at \$0.74 per share prior to the sale. The Company recognized a gain of approximately \$18.3 million on the sale.

On October 26, 2009, the Company sold all of the stock of its wholly owned subsidiary, Sypris Test & Measurement, Inc., for \$39.0 million, of which \$3.0 million was deposited in an 18-month escrow account in connection with certain customary representations, warranties, covenants and indemnifications of the Company. The Test & Measurement business provides technical services for the calibration, certification and repair of test & measurement equipment in and outside the U.S., and prior to the sale was part of our Electronics Group. The Company used proceeds of \$34.0 million from the sale to reduce the amounts outstanding under its Revolving Credit Agreement and Senior Notes. The Company recorded a gain of \$7.8 million, net of taxes of \$5.1 million, on this transaction in the fourth quarter.

On October 26, 2009, the Company amended its Revolving Credit Agreement and Senior Notes agreements. The Loan amendment extended the maturity date of the Revolving Credit Agreement from January 15, 2010 through January 15, 2012, while the Note amendments implement the same maturity date for the Senior Notes. The Company used certain net proceeds from the sale of the Test & Measurement business and of the Company's holdings of DHC common stock to reduce the lending commitments under the Revolving Credit Agreement from \$50.0 million to approximately \$21.0 million and under the Senior Notes from \$30.0 million to approximately \$13.3 million. The amendments substituted new financial covenants regarding: quarterly minimum net worth and liquidity levels, cumulative quarterly EBITDAR levels (earnings before interest, taxes, depreciation, amortization and restructuring costs), cumulative quarterly fixed charge ratios and cumulative quarterly debt to EBITDAR ratios, among others. The amendments also committed the Company to obtain the consent of the Banks and the Noteholders before making any dividend payments and imposed certain fees and interest rate increases. To the extent that marketable securities or other collateral are sold outside of the ordinary course of business, the amendments also provide for certain prepayments to the banks and the noteholders.

Industry Overview

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

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

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

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

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

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

Our Markets

Industrial Manufacturing. The industrial manufacturing markets includes truck components & assemblies, trailer components and specialty closures. The truck components & assemblies market which consists of the original equipment manufacturers, or OEMs, including Chrysler Group LLC, Ford, Freightliner, General Motors Company, Mack, Navistar, PACCAR and Volvo, and an extensive supply chain of companies of all types and sizes that are classified into different levels or tiers. The trailer market consists of OEMs including Great Dane, Wabash, Utility, Hyundai, Vanguard and Stoughton. Tier I companies represent the primary suppliers to the OEMs and include ArvinMeritor, DHC, Delphi Automotive LLP, Eaton Corporation, and Visteon Corporation (Visteon), among others. Many of the Tier I companies are confronted with excess capacity, high hourly wage rates, costly benefit packages and aging capital equipment. Below this group of companies reside numerous suppliers that either supply the OEMs directly or supply the Tier I companies. In all segments of the truck components & assemblies and the trailer markets, however, suppliers are under intense competitive pressure to improve product quality and to reduce capital expenditures, production costs and inventory levels. The specialty closures market consists primarily of oil and gas pipelines, which are also facing significant pressures to improve quality, reduce costs and defer capital expenditures.

During 2008 and 2009, the commercial vehicle industry experienced a severe recession highlighted by an unprecedented plunge in industry volumes. Deteriorating global economic conditions, unstable credit markets, rising unemployment and declining consumer confidence have all led to weakened OEMs, many of which were experiencing financial distress prior to 2009. Along with the general economic decline, the industry continues to experience declining U.S. production volumes, reduced U.S. domestic OEM market share, intense global competition, volatile commodity prices and significant pricing pressures.

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

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

The market conditions for our ISS business should be favorable, given the growing cyber security market. Our EMS business, dedicated to the aerospace and defense market, faces various market conditions. The nature of providing outsourced manufacturing services to the aerospace & defense electronics industry differs substantially

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

Our Business Strategy

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

Concentrate on our Core Markets. We are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We have been an established supplier of manufacturing and technical services to major aerospace & defense companies and agencies of the U.S. Government for over 40 years. We will continue to focus on those markets where we have the expertise, qualifications and opportunity for market share to sustain a competitive advantage.

Dedicate our Resources to Support Strategic Partnerships. We will continue to dedicate our resources to support the needs of industry leaders that embrace multi-year contractual relationships as a strategic component of their supply chain management and have the potential for long-term growth. We prefer contracts that are sole-source by part number so we can work closely with the customer to the mutual benefit of both parties. ArvinMeritor and DHC have awarded us with sole-source supply agreements for certain parts that run through 2013 and 2014, respectively. Historically, we entered into multi-year manufacturing services agreements with Boeing, Honeywell, Lockheed Martin, Northrop Grumman and Raytheon. Our success in establishing outsourcing partnerships with key customers has historically led to additional contracts, and we believe that if we continue to successfully perform on current contracts, we will have additional growth opportunities with these and other customers.

Pursue the Strategic Acquisition of Assets. Over the long term, we will continue to target the strategic acquisition of assets that serve to consolidate our position in our core markets, expand our presence outside the U.S., create or strengthen our relationships with leading companies and expand our range of value-added services in return for multi-year supply agreements. We intend to acquire assets that can be integrated with our core businesses and that can be used to support other customers, thereby improving asset utilization and achieving greater productivity, flexibility and economies of scale.

Grow Through the Addition of New Value-Added Services. We will continue to grow through the addition of new value-added manufacturing capabilities and the introduction of additional components in the supply chain that enable us to provide a more complete solution by improving quality and reducing product cost, inventory levels and cycle times for our customers. In many instances, we offer a variety of state-of-the-art machining capabilities to our customers in the industrial manufacturing markets that enable us to reduce labor and shipping costs and minimize cycle times for our customers over the long-term, providing us with significant additional growth opportunities in the future. Migrating from design and manufacturing of complex circuit card assemblies to box builds will increase product content with our customers and allow us to be a more significant player in the aerospace & defense market.

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

Our Services and Products

We are a diversified provider of outsourced services and specialty products. Our services consist of manufacturing, technical and other services and products that are delivered as part of our customers' overall supply chain management. We provide our customers with services that exceed the scope of many manufacturing service companies, including software development, design services, prototype development, product re-engineering,

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feature enhancement, product ruggedization, cost reduction, product miniaturization, and electro-magnetic interference and shielding. We also apply our core technologies to the development and production of our own product line of high assurance security components, including cryptographic key management programs and data encryption and recording products for our U.S. Government and defense customers. The information below is representative of the types of products we manufacture, services we provide and the customers and industries for which we provide such products or services.

Industrial Manufacturing:

ArvinMeritor	Axle shafts and drive train components for medium and heavy-duty trucks as well as axle beams for trailers.
DHC	Drive train components (including axle shafts, differential cases, gear sets, full float tubes) and steer axle components for use in light, medium and heavy-duty trucks.
Eaton	Transmission shafts for heavy-duty trucks.
Jamison Products	Specialty closures for oil and gas pipelines.

Aerospace & Defense Electronics:

Honeywell	Complex circuit cards for the color display systems used in military aircraft.
U.S. Government	Encryption devices, secure communications equipment and data recording systems.
Raytheon	Complex circuit cards for use in a missile guidance system and an integrated air defense network.

Manufacturing Services

Our manufacturing services typically involve the fabrication or assembly of a product or subassembly according to specifications provided by our customers. We purchase raw materials or components from our customers and independent suppliers in connection with performing our manufacturing services. We strive to enhance our manufacturing capabilities by advanced quality and manufacturing techniques, lean manufacturing, just-in-time procurement and continuous flow manufacturing, statistical process control, total quality management, stringent and real-time engineering change control routines and total cycle time reduction techniques.

Industrial Manufacturing Services. We provide our customers with a wide range of capabilities, including automated forging, extruding, machining, induction hardening, heat-treating and testing services to meet the exacting requirements of our customers. We also design and fabricate production tooling, manufacture prototype products and provide other value-added services for our customers. Our manufacturing services contracts for the truck components & assemblies markets are generally sole-source by part number. Part numbers may be specified for inclusion in a single model or a range of models. Where we are the sole-source provider by part number, we are the exclusive provider to our customer of the specific parts and for any replacements for these parts that may result from a design or model change for the duration of the manufacturing contract.

Electronics Manufacturing Services. We provide our customers with a broad variety of solutions, from low-volume prototype assembly to high-volume turnkey manufacturing. We employ a multi-disciplined engineering team that provides comprehensive manufacturing and design support to customers. The manufacturing solutions we offer include design conversion and enhancement, materials procurement, system assembly, testing and final system configuration. Our manufacturing services contracts for the aerospace & defense electronics market are generally sole-source by part number.

Products

In addition to our outsourced services, we provide some of our customers with specialized products including digital and analog data systems and encryption devices used in military applications and specialty closures and joints used in pipeline and chemical systems. As we look to grow our business, emphasis will be placed on funding of new products to broaden our portfolio and meet the needs of our customers.

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Our Customers

Our customers include large, established companies and agencies of the federal government. We provide some customers with a combination of outsourced services and products, while other customers may be in a single category of our service or product offering. Our five largest customers in 2009 were DHC, ArvinMeritor, Honeywell, CPU Tech and Northrop Grumman, which in the aggregate accounted for 66% of net revenue in 2009. Our five largest customers in 2008 were DHC, ArvinMeritor, Ford, Honeywell and Traxle, which accounted for 65% of net revenue in 2008. In 2009, DHC and ArvinMeritor represented approximately 40% and 7% of our net revenue, respectively. In 2008, DHC and ArvinMeritor represented approximately 43% and 11% of our net revenue, respectively. In addition, U.S. governmental agencies accounted for 16% and 13% of net revenue in 2009 and 2008, respectively.

Geographic Areas

Our operations are located in the U.S. and Mexico. Our Mexican subsidiaries and affiliates are a part of our Industrial Group and manufacture and sell a number of products similar to those the Industrial Group produces in the U.S. In addition to normal business risks, operations outside the U.S. may be subject to a greater risk of changing political, economic and social environments, changing governmental laws and regulations, currency revaluations and market fluctuations. Fluctuations in foreign currency exchange rates have historically impacted our earnings only to the extent of remeasurement gains or losses related to U.S. dollar denominated accounts of our foreign subsidiary, because the vast majority of our transactions are denominated in U.S. dollars. For the year ended December 31, 2009, other income, net includes foreign currency translation gains of \$0.1 million. For 2008, other income, net included foreign currency translation losses of \$1.9 million.

Consolidated net revenues from Mexican operations were \$52.6 million, or 20%, and \$64.8 million, or 18%, of our consolidated net revenues in 2009 and 2008, respectively. In 2009, net income from our Mexican operations was \$13.3 million as compared to a consolidated loss from continuing operations of \$5.3 million. In 2008, net income from our Mexican operations was \$34.4 million as compared to a consolidated loss from continuing operations of \$130.4 million. You can find more information about our regional operating results, including our export sales, in Note 21 Segment Information in Item 8 of this Form 10-K.

Sales and Business Development

Our principal sources of new business originate from the expansion of existing relationships, referrals and direct sales through senior management, direct sales personnel, domestic and international sales representatives, distributors and market specialists. We supplement these selling efforts with a variety of sales literature, advertising in numerous trade media and participation in trade shows. We also utilize engineering specialists extensively to facilitate the sales process by working with potential customers to reduce the cost of the service they need. Our specialists achieve this objective by working with the customer to improve their product's design for ease of manufacturing, reducing the amount of set-up time or material that may be required to produce the product, or by developing software that can automate the test and/or certification process. The award of contracts or programs can be a lengthy process, which in some circumstances can extend well beyond 12 months. We may need to commit resources to potential contracts or programs that we ultimately do not win.

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

Competition

The markets that we serve are highly competitive, and we compete against numerous domestic companies in addition to the internal capabilities of some of our customers. In the truck components & assemblies market, we compete primarily against companies including Mid-West Forge, Inc., Spencer Forge and Machine, Inc. and Traxle, which serve as suppliers to many Tier I and smaller companies. In the aerospace & defense electronics market, we

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compete primarily against companies including Celestica Inc., Jabil Circuit, Inc., LaBarge, Inc., and Safenet, Inc. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours. In addition, we will face new competitors as we continue to increase and expand our business.

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

Suppliers

For significant portions of our business, we purchase raw materials and component parts from our customers or from suppliers chosen by our customers, at prices negotiated by our customers. When these suppliers increase their prices, cause delays in production schedules or fail to meet our customers' quality standards, our customers have contractually agreed to reimburse us for the costs associated with such price increases and not to charge us for costs caused by such delays or quality issues. Accordingly, our risks are largely limited to accurate inspections of such materials, timely communications, and the collection of such reimbursements or charges, along with any additional costs incurred by us due to delays in, interruptions of, or non-optimal scheduling of, production schedules. However, for a growing part of our business, we arrange our own suppliers and assume the additional risks of price increases, quality concerns and production delays.

Raw steel and fabricated steel parts are a major component of our cost of sales and net revenue for the truck components & assemblies business. We purchase a significant portion of our steel for use in this business at the direction of our customers, with any periodic changes in the price of steel being reflected in the prices we are paid for our services. Increases in the costs of steel or other supplies can increase our working capital requirements, scrap expenses and borrowing costs.

There can be no assurance that supply interruptions or price increases will not slow production, delay shipments to our customers or increase costs in the future, any of which could adversely affect our financial results. Delays, interruptions, or non-optimal scheduling of production related to interruptions in raw materials supplies can be expected to increase our costs.

Research and Development

Our research and development activities are mainly related to our product lines that serve the aerospace & defense electronics market. Process improvement expenditures related to our outsourced services are not reflected in research and development expense. Accordingly, our research and development expense represents a relatively small percentage of our net revenue. We invested \$2.8 million and \$3.4 million in research and development in 2009 and 2008, respectively.

Patents, Trademarks and Licenses

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

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

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Government Regulation

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

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

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

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

Employees

As of December 31, 2009, we had a total of 1,162 employees, 909 of our employees are engaged in manufacturing and providing our technical services, 30 are engaged in sales and marketing, 98 are engaged in engineering and 125 engaged in administration. Approximately 486 of our employees are covered by collective bargaining agreements with various unions that expire on various dates through 2012. Excluding certain Mexico employees covered under an annually ratified agreement, collective bargaining agreements covering 31 employees expire within the next 12 months. Although we believe overall that our relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably, that negotiations will be successful or that we will not experience a work stoppage, which could adversely affect our consolidated results of operations.

Internet Access

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website (www.sypris.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission.

Item 1A. Risk Factors

Risks Related to Our Business and Forward-Looking Statements

This annual report, and our other oral or written communications, may contain forward-looking statements. These statements may include our expectations or projections about the future of our industries, business strategies, potential acquisitions or financial results and our views about developments beyond our control including domestic or global economic conditions, trends and market forces. These statements are based on

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management's views and assumptions at the time originally made and we undertake no obligation to update these statements, even if, for example, they remain available on our website after our outlook has changed. There can be no assurance that our expectations, projections or views will come to pass, and you should not place undue reliance on these forward-looking statements.

A number of significant risk factors could materially affect our specific business operations, and cause our performance to differ materially from any future results projected or implied by our prior statements, including those described below. Many of these risk factors are also identified in connection with the more specific descriptions contained throughout this report.

Customers

Customer contracts could be less profitable than expected.

We generally bear the risk that our contracts could be unprofitable or less profitable than planned, despite our estimates of revenues and future costs to complete such contracts.

A material portion of our business is conducted under multi-year contracts, which generally include fixed prices or periodic price reductions without minimum purchase requirements. In an economic downturn, our revenues may not cover our operating costs which could adversely impact our results. Our financial results are at greater risk when we must accept contractual responsibility for raw material or component prices, when we cannot offset price reductions and cost increases with operating efficiencies or other savings, when we must submit contract bid prices before all key design elements are finalized or when we are subjected to other competitive pressures which erode our margins. The profitability of our contracts also can be adversely affected by unexpected start-up costs on new programs, operating inefficiencies, ineffective capital investments, inflationary pressures or inaccurate forecasts of future unit costs.

In the past, we have signed long-term supply agreements with DHC and ArvinMeritor and acquired their facilities in Morganton, North Carolina and Toluca, Mexico, among other manufacturing assets. Although most of these acquired facilities have well-established product markets, these customers or their products may not continue to be successful, product enhancements may not be made in a timely fashion, our long-term pricing agreements could generate lower margins than anticipated and there can be no assurance that we will successfully restructure or integrate these operations, including necessary plant shutdowns or transfers of business. In addition, our failure to identify potential liabilities with respect to certain indemnified environmental and other conditions, or our assertion of related claims, could adversely affect our operating results, our ability to dispose of idle plant properties or our customer relationships. Our efforts to restructure, relocate and consolidate a significant number of the operations in these plants could cause certain of these facilities to operate at underutilized levels which could materially adversely affect our business, results of operations and financial condition.

If our customers seek bankruptcy protection, they could act to terminate all or a portion of their business with us, originate new business with our competitors and terminate or assign our long-term supply agreements. Any loss of revenue from our major customers, including the non-payment or late payment of our invoices, could materially adversely affect our business, results of operations and financial condition.

Unexpected changes in our customers' demand levels have harmed our operating results in the past and could do so in the future. Many of our customers will not commit to firm production or delivery schedules. Disagreements over pricing, quality, delivery, capacity, exclusivity, or trade credit terms could disrupt order schedules. Orders also fluctuate due to changing global capacity and demand, new products, changes in market share, reorganizations or bankruptcies (by our customers or by their customers or other suppliers of critical components needed to produce the assemblies which utilize our components), material shortages, labor disputes or other factors that discourage outsourcing. These forces could increase, decrease, accelerate, delay or cancel our delivery schedules.

Inaccurate forecasting of our customers' requirements can disrupt the efficient utilization of our manufacturing capacity, inventories or workforce. If we lose anticipated revenues, we might not succeed in redeploying our substantial capital investment and other fixed costs, potentially forcing additional plant closures, impairments of long-lived and other assets, or increased losses. If we receive unanticipated orders, these incremental volumes could be unprofitable due to the higher costs of operating above our optimal capacity.

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We depend on a few key customers in challenging industries for most of our revenues.

Our five largest customers in 2009 were DHC, ArvinMeritor, Honeywell, CPU Tech and Northrop Grumman, collectively accounting for 66% of net revenue. Our five largest customers in 2008 were DHC, ArvinMeritor, Ford, Honeywell and Traxle, collectively accounting for 65% of net revenue. In addition, U.S. governmental agencies accounted for 16% and 13% of net revenue in 2009 and 2008, respectively. The truck components & assemblies industry has experienced credit risk, highly cyclical market demand, labor unrest, rising steel costs, bankruptcy and other obstacles, while the aerospace & defense electronics industry has seen consolidation, increased competition and uncertain funding.

We depend on the continued growth and financial stability of these customers and our core markets, as well as general economic conditions. Adverse changes affecting these customers, markets or general conditions could harm our operating results. The truck components & assemblies market is highly cyclical, due in part to regulatory deadlines.

Rising costs of steel or component parts could increase our inventory and working capital levels and present challenges to our customers who seek to pass those costs on to their customers. Many of our customers' labor disputes, financial difficulties and restructuring needs have created rising uncertainty and risk, which could increase our costs or impair our business model. The aerospace & defense industry is pressured by cyclicity, technological change, shortening product life cycles, decreasing margins, unpredictable funding levels and government procurement and certification processes. Any of these factors, particularly in our secured electronic communications or missile programs, could impair our business model.

As of March 17, 2010, we had a net receivable of \$1.1 million recorded related to ArvinMeritor and DHC, each of which currently carries at least one non-investment grade credit rating on its unsecured debt, indicating a high potential risk of default. There can be no assurance that any of our customers will not default on, delay or dispute payment of, or seek to reject our outstanding invoices in bankruptcy or otherwise.

Congressional budgetary constraints or reallocations can reduce our government sales.

Our Electronics Group sells manufacturing services and products to a number of U.S. government agencies, which in the aggregate represented approximately 16% and 13% of our net revenue in 2009 and 2008, respectively. We also serve as a contractor for large aerospace & defense companies such as Boeing, Honeywell, Lockheed Martin, Northrop Grumman and Raytheon, typically under federally funded programs, which represented approximately 15% and 9% of net revenue during 2009 and 2008, respectively.

Our government contracts have many inherent risks that could adversely impact our financial results. These contracts depend upon the continuing availability of Congressional appropriations. Future levels of governmental spending, including delays, declines or reallocations in the funding of certain programs could adversely affect our financial results, if we are unable to offset these changes with new business or cost reductions.

Suppliers

Interruptions in the supply of key components could disrupt production.

Some of our manufacturing services or products require one or more components that are available from a limited number of providers or from sole-source providers. In the past, some of the materials we use, including steel, certain forgings or castings, capacitors and memory and logic devices, have been subject to industry-wide shortages. As a result, suppliers have been forced to allocate available quantities among their customers, and we have not been able to obtain all of the materials desired. More recently, the tightening of credit markets has threatened the financial viability of an increasing number of suppliers of key components and raw materials, and forced unanticipated shutdowns. Our inability to reliably obtain these or any other materials when and as needed could slow production or assembly, delay shipments to our customers, impair the recovery of our fixed costs and increase the costs of recovering to customers' schedules, including overtime, expedited freight, equipment maintenance, operating inefficiencies, higher working capital and the obsolescence risks associated with larger buffer inventories. Each of these factors could reduce operating results.

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Shortages or increased costs of utilities could harm our business and our customers.

We and our customers depend on a constant supply of electricity and natural gas from utility providers for the operation of our respective businesses and facilities. In the past, we have experienced power outages which reduced our ability to deliver products and meet our customers demand for those products. If we or our customers experience future interruptions in service from these providers, our production and/or delivery of products could be negatively affected. Additionally, due to the heavy consumption of energy in our production process and the businesses of our customers, if the cost of energy significantly increases, our results of operations, and those of our customers, could be negatively impacted.

Execution

We must operate more efficiently, or our results could decline further.

If we are unable to improve the cost, efficiency and yield of our operations, our costs could increase and our financial results could decline further. A number of major obstacles could include: the loss of substantial revenues due to an extended economic downturn; inflationary pressures; changes in anticipated product mix and the associated variances in our profit margins; efforts to increase our manufacturing capacity and launch new programs; efforts to migrate, restructure or move business operations from one location to another; the breakdown of critical machinery or equipment; the need to identify and eliminate our root causes of scrap; our ability to achieve expected annual savings or other synergies from past and future business combinations; inventory risks due to shifts in market demand; obsolescence; price erosion of raw material or component parts; shrinkage, or other factors affecting our inventory valuations; and an inability to successfully manage growth, contraction or competitive pressures in our primary markets.

Our management or systems could be inadequate to support our existing or future operations, especially as we downsize our operating staff to reduce expenses in an extended economic downturn. Growth in our business could require us to invest in additional equipment to improve our efficiency. We may have limited experience or expertise in installing or operating such equipment, which could negatively impact our ability to deliver products on time or with acceptable costs. In addition, a material portion of our manufacturing equipment requires significant maintenance to operate effectively and we may experience maintenance and repair issues. Our efforts to restructure, relocate and consolidate a significant number of the operations, especially in our truck component manufacturing plants, could cause certain of these facilities to operate at underutilized levels, which could materially adversely affect our business, results of operations and financial condition. In our electronics business, the risk of technical failures, nonconformance with customer specifications or other quality concerns could materially impair our operating results.

Our growth strategies could be ineffective due to the risks of further acquisitions.

Our growth strategy has included acquiring complementary businesses. We could fail to identify, finance or complete suitable acquisitions on acceptable terms and prices. Acquisition efforts could increase a number of risks, including: diversion of management's attention; difficulties in integrating systems, operations and cultures; potential loss of key employees and customers of the acquired companies; lack of experience operating in the geographic market of the acquired business; an increase in our expenses and working capital requirements; risks of entering into markets or producing products where we have limited or no experience, including difficulties in integrating purchased technologies and products with our technologies and products; our ability to improve productivity and implement cost reductions; our ability to secure collective bargaining agreements with employees; and exposure to unanticipated liabilities.

Our discovery of, or failure to discover, material issues during due diligence investigations of acquisition targets, either before closing with regard to potential risks of the acquired operations, or, after closing with regard to the timely discovery of breaches of representations or warranties, or of certain indemnified environmental conditions, could seriously harm our business.

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Competition

Increasing competition could limit or reduce our market share.

We operate in highly competitive environments that include our customers' internal capabilities. We believe that the principal competitive factors in our markets include the availability of manufacturing capacity, technological strength, speed and flexibility in responding to design or schedule changes, price, quality, delivery, cost management and financial strength. Our earnings could decline if our competitors or customers can provide comparable speed and quality at a lower cost, or if we fail to adequately invest in the range and quality of manufacturing services and products our customers require.

Some of our competitors have greater financial and organizational resources, customer bases and brand recognition than we do. As a result, our competitors may respond more quickly to technological changes or customer needs, consume lower fixed and variable unit costs, negotiate reduced component prices, and obtain better terms for financing growth. If we fail to compete in any of these areas, we may lose market share and our business could be seriously harmed. There can be no assurance that we will not experience increased competition or that we will be able to maintain our profitability if our competitive environment changes.

Our technologies could become obsolete, reducing our revenues and profitability.

The markets for our products and services are characterized by changing technology and continuing process development. The future of our business will depend in large part upon the continuing relevance of our technological capabilities. We could fail to make required capital investments, develop or successfully market services and products that meet changing customer needs, and anticipate or respond to technological changes in a cost-effective and timely manner. We could encounter competition from new or revised technologies that render our technologies and equipment less profitable or obsolete in our chosen markets, and our operating results may suffer.

Access to Capital

An inability to obtain favorable financing could impair our growth.

Our operating results could be materially adversely impacted by the costs and supply of debt, equity capital, or insurance (including the possibility that our common stock could cease to qualify for listing on the NASDAQ Global Market due to a sustained decline in price per share, and that any reverse stock split or other restructuring of our debt or equity financing could be accompanied by the deregistration of our common stock or other going private transaction). Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including the pace at which we grow our business and acquire new facilities or the loss of anticipa