**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington D.C. 20549**

# FORM 10-Q

(Mark One)

x Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the quarterly period ended April 4, 2010

OR

☐ Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the transition period from _____ to _____

**Commission file number: 0-24020**

## SYPRIS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **61-1321992**<br>(I.R.S. Employer Identification No.) |
| **101 Bullitt Lane, Suite 450**<br>**Louisville, Kentucky 40222**<br>(Address of principal executive offices) (Zip code) | **(502) 329-2000**<br>(Registrant's telephone number, including area code) |

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

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):

o Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller reporting company

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

As of May 7, 2010, the Registrant had 19,674,459 shares of common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### SYPRIS SOLUTIONS, INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS

**(in thousands, except for per share data)**

| | Three Months Ended April 4, 2010 | Three Months Ended April 5, 2009 |
|---|---|---|
| | (Unaudited) | (Unaudited) |
| Net revenue: | | |
| Outsourced services | $ 56,999 | $ 51,550 |
| Products | 5,904 | 16,159 |
| Total net revenue | 62,903 | 67,709 |
| Cost of sales: | | |
| Outsourced services | 52,215 | 54,837 |
| Products | 4,675 | 12,318 |
| Total cost of sales | 56,890 | 67,155 |
| Gross profit | 6,013 | 554 |
| Selling, general and administrative | 6,575 | 7,746 |
| Research and development | 155 | 959 |
| Amortization of intangible assets | 28 | 28 |
| Restructuring expense, net | 413 | 1,981 |
| Operating loss | (1,158) | (10,160) |
| Interest expense, net | 601 | 711 |
| Other expense, net | 466 | 307 |
| Loss from continuing operations, before taxes | (2,225) | (11,178) |
| Income tax expense | 199 | 355 |
| Loss from continuing operations | (2,424) | (11,533) |
| Income from discontinued operations, net of tax | — | 188 |
| Net loss | $ (2,424) | $ (11,345) |
| Basic income (loss) per share: | | |
| Loss per share from continuing operations | $ (0.13) | $ (0.63) |
| Income per share from discontinued operations | — | 0.01 |
| Net loss per share | $ (0.13) | $ (0.62) |
| Diluted income (loss) per share: | | |
| Loss per share from continuing operations | $ (0.13) | $ (0.63) |
| Income per share from discontinued operations | — | 0.01 |
| Net loss per share | $ (0.13) | $ (0.62) |
| Weighted average shares outstanding: | | |
| Basic | 18,543 | 18,434 |
| Diluted | 18,543 | 18,434 |

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

**Sypris Solutions, Inc.**

**Consolidated Balance Sheets**

**(in thousands, except for share data)**

| | April 4, 2010 (Unaudited) | December 31, 2009 (Note) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 14,162 | $ 15,608 |
| Restricted cash - current | 74 | 74 |
| Accounts receivable, net | 39,848 | 38,317 |
| Inventory, net | 31,190 | 29,042 |
| Other current assets | 6,121 | 6,406 |
| Total current assets | 91,395 | 89,447 |
| Restricted cash | 3,000 | 3,000 |
| Property, plant and equipment, net | 77,956 | 80,280 |
| Goodwill | 6,900 | 6,900 |
| Other assets | 10,540 | 10,320 |
| Total assets | $ 189,791 | $ 189,947 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 38,539 | $ 36,185 |
| Accrued liabilities | 21,332 | 22,279 |
| Current portion of long-term debt | 5,000 | 4,000 |
| Total current liabilities | 64,871 | 62,464 |
| Long-term debt | 18,305 | 19,305 |
| Other liabilities | 40,532 | 41,960 |
| Total liabilities | 123,708 | 123,729 |
| 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; 19,971,578 shares issued and 19,693,262 outstanding in 2010 and 20,015,128 shares issued and 19,472,499 outstanding in 2009 | 200 | 200 |
| Additional paid-in capital | 147,794 | 147,644 |
| Retained deficit | (66,855) | (64,434) |
| Accumulated other comprehensive loss | (15,053) | (17,187) |
| Treasury stock, 278,316 and 542,629 shares in 2010 and 2009, respectively | (3) | (5) |
| Total stockholders' equity | 66,083 | 66,218 |
| Total liabilities and stockholders' equity | $ 189,791 | $ 189,947 |

Note: The balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

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

Sypris Solutions, Inc.

Consolidated Cash Flow Statements

**(in thousands)**

| | Three Months Ended April 4, 2010 | Three Months Ended April 5, 2009 |
|---|---|---|
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | $ (2,424) | $ (11,345) |
| Income from discontinued operations | — | 188 |
| Loss from continuing operations | (2,424) | (11,533) |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 3,720 | 3,960 |
| Noncash compensation expense | 268 | 83 |
| Other noncash items | (400) | 305 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,541) | (842) |
| Inventory | (2,656) | 5,816 |
| Other current assets | 286 | (160) |
| Accounts payable | 2,330 | (4,824) |
| Accrued and other liabilities | (850) | (511) |
| Net cash used in operating activities – continuing operations | (1,267) | (7,706) |
| Net cash used in operating activities – discontinued operations | — | (188) |
| Net cash used in operating activities | (1,267) | (7,894) |
| Cash flows from investing activities: | | |
| Capital expenditures, net | (244) | (1,694) |
| Proceeds from sale of assets | 8 | 26 |
| Changes in nonoperating assets and liabilities | 57 | 142 |
| Net cash used in investing activities – continuing operations | (179) | (1,526) |
| Net cash used in investing activities – discontinued operations | — | (179) |
| Net cash used in investing activities | (179) | (1,705) |
| Cash flows from financing activities: | | |
| Net change in debt under revolving credit agreements | — | 2,000 |
| Debt modification costs | — | (652) |
| Cash dividends paid | — | (386) |
| Net cash provided by financing activities | — | 962 |
| Net decrease in cash and cash equivalents | (1,446) | (8,637) |
| Cash and cash equivalents at beginning of period | 15,608 | 13,717 |
| Cash and cash equivalents at end of period | $ 14,162 | $ 5,080 |

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

**(1) Nature of Business**

Sypris is a diversified provider of outsourced services and specialty products. The Company performs a wide range of manufacturing, engineering, design, and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for industrial manufacturing and aerospace & defense electronics. The Company provides such services through its Industrial and Electronics Groups.

**(2) Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, "Sypris" or the "Company"), and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. All significant intercompany transactions and accounts have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three months ended April 4, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2009 as presented in the Company's Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation. See Note 4, Discontinued Operations.

**(3) Recent Accounting Pronouncements**

Any new accounting pronouncements issued but not yet effective have been deemed not to be relevant to the operations of the Company. Accordingly, the effects of any such undisclosed new accounting pronouncements are not expected to have any impact on the results of operations or financial position of the Company.

**(4) Discontinued Operations**

On October 26, 2009, the Company sold all of the stock of its wholly owned subsidiary, Sypris Test & Measurement, for $39,000,000, of which $3,000,000 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 provided technical services for the calibration, certification and repair of test & measurement equipment in and outside the U.S., and prior to the sale was a part of the Company's Electronics Group. The Company used the proceeds of $34,000,000 from the sale to reduce the amounts outstanding under its Revolving Credit Agreement and Senior Notes.

The results of the Test & Measurement segment have been reported as discontinued operations in the consolidated statements of operations for all periods presented. In accordance with the provisions of ASC 205-20-45-6 *(*formerly *Allocation of Interest to Discontinued Operations* EITF 87-24), interest expense incurred on the debt required to be repaid from the net proceeds of the sale has been allocated to discontinued operations. During the period ended April 5, 2009, interest expense allocated to discontinued operations was $552,000 based on the $34,000,000 in debt required to be repaid as a result of the transaction.

The key components of income from discontinued operations related to the Test & Measurement segment were as follows (in thousands):

| | Three Months Ended April 5, 2009 (Unaudited) |
|---|---|
| Net revenue | $ 13,982 |
| Cost of sales and operating expense | (13,114) |
| Allocated interest expense | (552) |
| Income before taxes | 316 |
| Income taxes | 128 |
| Income from discontinued operations | $ 188 |

## (5) Dana Claim

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 $89,900,000 (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 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 $89,900,000 was established, Sypris allocated the aggregate Claim value to each commercial issue based upon the estimated net present values determined by Sypris' internal valuation methodology.

Sypris recorded the Claim at the estimated fair value of $76,483,000 on August 7, 2007 in accordance with ASC 845-10 (formerly APB 29, *Accounting for Nonmonetary Transactions).* Sypris allocated the estimated fair value of to each commercial issue, and each of those items which required the Company's continued involvement was deferred and will be recognized over the applicable period of the involvement.

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 $6,891,000.

Dana emerged from bankruptcy on January 31, 2008, and on February 1, 2008, the newly issued shares of DHC began trading on the New York Stock Exchange. During 2008, the Company received distributions of DHC common stock totaling 3,742,381 shares and a cash distribution of $6,891,000. As of April 4, 2010, the Company has received approximately 98% of the total common shares it expects to receive.

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 $66,758,000 impairment charge during the fourth quarter of 2008. The non-cash impairment was based on DHC's closing stock price of $0.74 per share on December 31, 2008.

During the fourth quarter 2009, the Company liquidated its holdings in DHC common stock for approximately $21,024,000 in net cash proceeds. The Company recognized a gain of $18,255,000 on the sale.

At April 4, 2010, the Company's right to participate in additional distributions of DHC common stock, presently estimated to be 87,000 additional shares, is carried at $64,000 in other assets. Had these shares been received at April 4, 2010, the Company would have recorded a $986,000 unrealized holding gain to other comprehensive loss.

## (6) Restructuring, Impairments and Other Nonrecurring Charges

As announced during the fourth quarter of 2008, the Company committed to a restructuring program, which included the closure of its Kenton, Ohio facility, significant reductions in the workforce in its Marion, Ohio facility and the integration of its Electronics Group subsidiaries. The purpose of the restructuring program is to reduce fixed costs, accelerate integration efficiencies, exit certain unprofitable product lines and significantly improve operating earnings on a sustained basis. The restructuring activities are expected to result in $25,000,000 in annual savings. The activities generating the expected savings are from the following: i) annual savings of $12,500,000 from current and potential facility closings, ii) annual savings of $7,500,000 from operational efficiencies, iii) annual savings of $3,000,000 from product costing changes implemented during the first quarter of 2009, and iv) annual savings of $2,000,000 from various quality improvement initiatives implemented during 2009. The Company expects to substantially complete its program by the end of 2010. As a result of these initiatives, the Company recorded charges of $413,000, or $0.02 per share, and $1,981,000, or $0.11 per share during the first quarter of 2010 and 2009, respectively in restructuring expense, net. All $413,000 incurred during the three months ended April 4, 2010 was recorded within the Industrial Group. Of these costs, $8,000 was for severance and benefit-related costs, $99,000 related to equipment relocation costs, and $306,000 represented other charges, primarily related to mothball costs associated with closed or partially closed facilities. The charges for the three months ended April 5, 2009 included $711,000 for severance and benefit-related costs, $712,000 related to equipment relocation costs, $121,000 for non-cash impairment costs and $437,000 for other costs, primarily related to IT and process reengineering consultants. Of the expected aggregate $54,767,000 of pre-tax costs for the total program, the Company expects $15,251,000 will be cash expenditures, the majority of which has been spent as of April 4, 2010. A summary of the pre-tax charges is as follows (in thousands):

| | | Costs Incurred | | |
|---|---|---|---|---|
| | Total Program | Three Months Ended April 4, 2010 | Total Recognized to date | Remaining Costs to be Recognized |
| Severance and benefit related costs | $ 4,090 | $ 8 | $ 3,708 | $ 382 |
| Asset impairments | 13,517 | — | 13,517 | — |
| Deferred contract costs write-offs | 17,798 | — | 17,798 | — |
| Inventory related charges | 7,895 | — | 7,895 | — |
| Equipment relocation costs | 2,791 | 99 | 1,963 | 828 |
| Asset retirement obligations | 1,501 | — | 1,501 | — |
| Contract termination costs | 3,209 | — | 3,209 | — |
| Other | 3,966 | 306 | 3,604 | 362 |
| | $ 54,767 | $ 413 | $ 53,195 | $ 1,572 |

A summary of restructuring activity and related reserves at April 4, 2010 is as follows (in thousands):

| | Accrued Balance at December 31, 2009 | 2010 Charge | Gross Cash Payments | Accrued Balance at April 4, 2010 |
|---|---|---|---|---|
| Severance and benefit related costs | $ 211 | $ 8 | $ (23) | $ 196 |
| Asset retirement obligations | 1,395 | — | (64) | 1,331 |
| Contract termination costs | 918 | — | — | 918 |
| Equipment relocation costs | — | 99 | (99) | — |
| Other | — | 306 | (306) | — |
| | $ 2,524 | $ 413 | $ (492) | $ 2,445 |

A summary of total expenses recognized to date by reportable segment is as follows (in thousands):

| | Industrial Group | Electronics Group | Total |
|---|---|---|---|
| Severance and benefit-related costs | $ 2,562 | $ 1,146 | $ 3,708 |
| Asset impairments | 13,517 | — | 13,517 |
| Deferred contract costs write-offs | — | 17,798 | 17,798 |
| Inventory related charges | — | 7,895 | 7,895 |
| Equipment relocation costs | 1,963 | — | 1,963 |
| Asset retirement obligations | 1,501 | — | 1,501 |
| Contract termination costs | 1,868 | 1,341 | 3,209 |
| Other | 945 | 2,659 | 3,604 |
| | $ 22,356 | $ 30,839 | $ 53,195 |

The total pre-tax costs of $54,767,000 expected to be incurred includes $23,149,000 within the Industrial Group and $31,618,000 within the Electronics Group. The Company expects to incur additional pre-tax costs of $1,572,000, including approximately $793,000 within the Industrial Group and $779,000 within the Electronics Group.

**(7) Stock-Based Compensation**

On March 2, 2010, the Company granted 302,000 restricted stock awards under a long term incentive program. These awards vest on the third anniversary of the grant date. The Company also granted 131,889 options on March 2, 2010 with a five year life and cliff vesting at three years of service. The grants did not have a significant impact on the Company's consolidated financial statements during the current period.

**(8) (Loss) Earnings Per Common Share**

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Accordingly, distributed and undistributed earnings attributable to unvested restricted shares (participating securities) have been excluded, as applicable, from net income or loss attributable to common shareholders utilized in the basic and diluted earnings per share calculations.

For the three months ended April 4, 2010 and April 5, 2009, diluted weighted average common shares do not include the impact of outstanding stock options and unvested compensation-related shares because the effect of these items on diluted net loss would be anti-dilutive.

A reconciliation of the weighted average shares outstanding used in the calculation of basic and diluted (loss) earnings per common share is as follows (in thousands):

| | Three Months Ended | |
|---|---|---|
| | April 4, 2010 | April 5, 2009 |
| | (Unaudited) | |
| Earnings attributable to stockholders: | | |
| Loss from continuing operations attributable to stockholders. | $ (2,424) | $ (11,533) |
| Discontinued operations, net of tax | — | 188 |
| Net loss | $ (2,424) | $ (11,345) |
| Less distributed and undistributed earnings allocable to restricted award holders | — | — |
| Net income (loss) allocable to common stockholders | $ (2,424) | $ (11,345) |
| Basic earnings (loss) per common share attributable to stockholders: | | |
| Continuing operations. | $ (0.13) | $ (0.63) |
| Discontinued operations | — | 0.01 |
| Net income (loss) | $ (0.13) | $ (0.62) |
| Diluted earnings (loss) per common share attributable to stockholders: | | |
| Continuing operations. | $ (0.13) | $ (0.63) |
| Discontinued operations | — | 0.01 |
| Net income (loss) | $ (0.13) | $ (0.62) |
| Weighted average shares outstanding – basic. | 18,543 | 18,434 |
| Weighted average additional shares assuming conversion of potential common shares | — | — |
| Weighted average shares outstanding – diluted. | 18,543 | 18,434 |

Our potentially dilutive securities include potential common shares related to our stock options and restricted stock. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted earnings per share excludes the impact of potential common shares related to our stock options in periods in which the option exercise price is greater than the average market price of our common stock for the period. All potential common shares were excluded from earnings per share for the periods ended April 4, 2010 and April 5, 2009, because the effect of inclusion would be anti-dilutive.

**(9) Inventory**

Inventory consisted of the following (in thousands):

| | April 4, 2010 | December 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| Raw materials | $ 4,450 | $ 3,916 |
| Work in process | 5,546 | 5,933 |
| Finished goods | 2,684 | 2,899 |
| Costs relating to long-term contracts and programs | 19,340 | 17,288 |
| Reserve for excess and obsolete inventory | (830) | (994) |
| | $ 31,190 | $ 29,042 |

**(10) Segment Data**

The Company is organized into two business groups, the Industrial Group and the Electronics Group. The segments are each managed separately because of the distinctions betweens products, services, markets, customers, technologies and workforce skills of the 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 Electronics Group provides manufacturing and technical services as an outsourced service provider and manufactures complex data storage systems. There was no intersegment net revenue recognized in any of the periods presented.

The following table presents financial information for the reportable segments of the Company (in thousands):

| | Three Months Ended | |
|---|---|---|
| | April 4, 2010 | April 5, 2009 |
| | (Unaudited) | |
| Net revenue from unaffiliated customers: | | |
| Industrial Group | $ 44,106 | $ 37,498 |
| Electronics Group | 18,797 | 30,211 |
| | $ 62,903 | $ 67,709 |
| | | |
| Gross profit (loss): | | |
| Industrial Group | $ 2,453 | $ (2,702) |
| Electronics Group | 3,560 | 3,256 |
| | $ 6,013 | $ 554 |
| | | |
| Operating (loss) income: | | |
| Industrial Group | $ (207) | $ (6,684) |
| Electronics Group | 1,062 | (1,225) |
| General, corporate and other | (2,013) | (2,251) |
| | $ (1,158) | $ (10,160) |

**(11) Commitments and Contingencies**

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 April 4, 2010 and December 31, 2009 was $956,000 and $1,008,000, respectively. The Company's warranty expense for the quarters ended April 4, 2010 and April 5, 2009 was $122,000 and $135,000, respectively.

Additionally, the Company sells three and five-year extended warranties for one of its link encryption products. The revenue from the extended warranties is deferred and recognized ratably over the contractual term. As of April 4, 2010 and December 31, 2009, the Company had deferred $1,583,000 and $1,558,000, respectively, related to extended warranties, which is included in other liabilities in the accompanying balance sheets.

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

As of April 4, 2010, the Company had outstanding purchase commitments of approximately $12,801,000, primarily for the acquisition of inventory and manufacturing equipment. As of April 4, 2010, the Company also had outstanding letters of credit approximating $2,398,000 primarily under the aforementioned captive insurance program.

**(12) Income Taxes**

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company provides for income taxes for its domestic operations at a statutory rate of 35% and for its foreign operations at a statutory rate of 30% in 2010 and 28% in 2009. The Company's foreign operations are also subject to minimum income taxes in periods where positive cash flows exceed taxable income. In the first quarter of 2010, minimum income taxes were required for the Company's foreign operations. Reconciling items between the federal statutory rate and the effective tax rate also include state income taxes, valuation allowances and certain other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with ASC 740, *Income Taxes* (formerly SFAS No. 109, *Accounting for Income Taxes*). These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets or liabilities are recovered or settled. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company evaluates its deferred tax position on a quarterly basis and valuation allowances are provided as necessary. During this evaluation, the Company reviews its forecast of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. Based on the Company's current forecast, a valuation allowance of $1,065,000 was recorded through earnings for the three months ended April 4, 2010; however, there can be no assurances that the Company's forecasts are now, or in the future will be, accurate or that other factors impacting this deferred tax asset will not materially and adversely affect its business, results of operations and financial condition. The valuation allowance recorded for the three months ended April 5, 2009 was $4,206,000.

**(13) Employee Benefit Plans**

Pension expense (benefit) consisted of the following (in thousands):

| | Three Months Ended | |
|---|---|---|
| | April 4, 2010 | April 5, 2009 |
| | (Unaudited) | |
| Service cost | $ 16 | $ 18 |
| Interest cost on projected benefit obligation | 576 | 595 |
| Net amortizations, deferrals and other costs | 146 | 252 |
| Expected return on plan assets | (657) | (587) |
| | $ 81 | $ 278 |

## (14) Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of the accumulated net unrealized losses on available-for-sale investments, employee benefit related adjustments and foreign currency translation adjustments.

The components of comprehensive loss, net of tax, are as follows for the periods indicated (in thousands):

| | Three Months Ended | |
|---|---|---|
| | April 4, 2010 | April 5, 2009 |
| | (Unaudited) | |
| Net loss | $ (2,424) | $ (11,345) |
| Other comprehensive loss: | | |
| Unrealized loss on available-for-sale securities | — | (299) |
| Foreign currency translation adjustments | 2,134 | (502) |
| Total comprehensive loss | $ (290) | $ (12,146) |

Accumulated other comprehensive loss consisted of the following (in thousands):

| | April 4, 2010 | December 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| Foreign currency translation adjustments | $ (2,570) | $ (4,704) |
| Employee benefit related adjustments, net of tax of $2,512 – U.S. | (12,049) | (12,049) |
| Employee benefit related adjustments - Mexico | (434) | (434) |
| Accumulated other comprehensive loss | $ (15,053) | $ (17,187) |

## (15) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying value for the Senior Notes approximates fair value at April 4, 2010, given the agreement was signed in during the fourth quarter of 2009. The carrying amount of debt outstanding at April 4, 2010 and December 31, 2009 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.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Overview

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.

In December 2008, we announced a restructuring program, which included the closure of the Industrial Group’s Kenton, Ohio facility, the significant reduction in volumes at the Marion, Ohio facility (which remains under consideration for potential closure depending upon the cost of moving certain equipment, the need for continuing capacity, the possibility of new business opportunities and overall market conditions) and the consolidation of Sypris Electronics and Sypris Data Systems into a single operation within the Electronics Group. Additionally, we have exited several programs within the Electronics Group. The purpose of the restructuring program was to reduce fixed costs, accelerate integration efficiencies, and significantly improve operating earnings on a sustained basis. As a result of these initiatives, we recorded, or expect to record in future periods, aggregate pre-tax expenses of approximately $54.8 million, consisting of the following: $4.1 million in severance and benefit costs, $13.5 million in non-cash asset impairments, $17.8 million in non-cash deferred contract costs write-offs, $7.9 million in inventory related charges, $2.8 million in equipment relocation costs, $1.5 million in asset retirement obligations, $3.2 million in contract termination costs and $4.0 million in other restructuring charges. Of the aggregate $54.8 million in pre-tax costs, the Company expects approximately $15.2 million to be cash-related.

### Results of Operations

The table presented below, which compares our first quarterly period of operations from 2010 to 2009, presents the results for each period, the change in those results from 2010 to 2009 in both dollars and percentage change and the results for each period as a percentage of net revenue.

- The first two data columns in the table show the absolute results for each period presented.
- The columns entitled “Year Over Year Change” and “Year Over Year Percentage Change” show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when our net revenue increases from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative number in both columns.
- The last two columns in the 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 the table, “NM” means “not meaningful.”

### Three Months Ended April 4, 2010 Compared to Three Months Ended April 5, 2009

| | Three Months Ended, April 4, 2010 | Three Months Ended, April 5, 2009 | Year Over Year Change Favorable (Unfavorable) | Year Over Year Percentage Change Favorable (Unfavorable) | Results as Percentage of Net Revenue for the Three Months Ended April 4, 2010 | Results as Percentage of Net Revenue for the Three Months Ended April 5, 2009 |
|---|---|---|---|---|---|---|
| | (in thousands, except percentage data) | | | | | |
| Net revenue: | | | | | | |
| Industrial Group | $ 44,106 | $ 37,498 | $ 6,608 | 17.6% | 70.1% | 55.4% |
| Electronics Group | 18,797 | 30,211 | (11,414) | (37.8) | 29.9 | 44.6 |
| Total | 62,903 | 67,709 | (4,806) | (7.1) | 100.0 | 100.0 |
| Cost of sales: | | | | | | |
| Industrial Group | 41,653 | 40,200 | (1,453) | (3.6) | *94.4* | *107.2* |
| Electronics Group | 15,237 | 26,955 | 11,718 | 43.5 | *81.1* | *89.2* |
| Total | 56,890 | 67,155 | 10,265 | 15.3 | 90.4 | 99.2 |
| Gross profit (loss): | | | | | | |
| Industrial Group | 2,453 | (2,702) | 5,155 | NM | *5.6* | *(7.2)* |
| Electronics Group | 3,560 | 3,256 | 304 | 9.3 | *18.9* | *10.8* |
| Total | 6,013 | 554 | 5,459 | 985.4 | 9.6 | 0.8 |
| Selling, general and administrative | 6,575 | 7,746 | 1,171 | 15.1 | 10.5 | 11.4 |
| Research and development | 155 | 959 | 804 | 83.8 | 0.2 | 1.4 |
| Amortization of intangible assets | 28 | 28 | — | — | 0.0 | 0.0 |
| Restructuring expense, net | 413 | 1,981 | 1,568 | 79.2 | 0.7 | 2.9 |
| Operating loss | (1,158) | (10,160) | 9,002 | 88.6 | (1.8) | (15.0) |
| Interest expense, net | 601 | 711 | 110 | 15.5 | 1.0 | 1.1 |
| Other expense, net | 466 | 307 | (159) | (51.8) | 0.7 | 0.4 |
| Loss from continuing operations, before taxes | (2,225) | (11,178) | 8,953 | 80.1 | (3.5) | (16.5) |
| Income tax expense | 199 | 355 | 156 | 43.9 | 0.3 | 0.5 |
| Loss from continuing operations | (2,424) | (11,533) | 9,109 | 79.0 | (3.9) | (17.0) |
| Income from discontinued operations, net of tax | — | 188 | (188) | NM | — | 0.3 |
| Net loss | $ (2,424) | $ (11,345) | $ 8,921 | 78.6 | (3.9)% | (16.7)% |

*Net Revenue*. The Industrial Group primarily derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group increased 17.6% or $6.6 million for the three months ended April 4, 2010 compared to the first quarter of 2009. Increased volumes for heavy duty commercial trucks and light trucks have contributed to increased revenue of $6.2 million and $0.6 million for the first quarter of 2010, respectively. Partially offsetting this was a decline of $0.2 million for the off-highway business in the first quarter of 2010.

The Electronics Group derives its revenue from product sales and technical outsourced services. Net revenue in the Electronics Group for the first quarter of 2010 decreased 37.8% or $11.4 million from the same period in 2009, primarily due to a delay on the production and shipping for one of its secured communication products and the completion of shipments of certain older programs. Additionally, sales for our data recording products have decreased $1.6 million over the prior year. The delay on one of the secured communication products is due to a stop work order that the Company received on March 30, 2010 from the government due to a technical issue with the product. The Company is currently working with the government to remediate the technical issue, and we believe that the stop work order will be lifted and shipments will resume during the third quarter of 2010. However, we cannot predict the outcome of this matter with certainty and there could be additional delays or costs associated with this issue. The Company has received certification for one of its link encryption devices and expects to begin shipping that product late in the second quarter with production ramping up during the second half of the year. As a result, we expect revenues in this segment to begin to increase in the third quarter of 2010.

*Gross Profit*. The Industrial Group's gross profit increased to $2.5 million in the first quarter of 2010 as compared to a loss of $2.7 million in the first quarter of 2009. The increase in sales volume resulted in an increase in gross profit of approximately $1.5 million. The Industrial Group also realized an increase in gross profit of $3.2 million as a result of restructuring efforts. Favorable health insurance costs resulted in an increase in gross profit of approximately $0.6 million. Partially offsetting this was a $0.2 million cost increase due to the strengthening of the Mexican peso as compared to the prior year quarter.

The Electronics Group's gross profit increased $0.3 million in the first quarter of 2010, primarily due to product mix and the results of continuous improvement initiatives. The Electronics Group experienced increased sales on its higher margin space business during the quarter, which helped offset the margin on lower sales. Additionally, the quarter was favorably impacted by a $0.6 million receipt for the completion and settlement on a certification assurance program. Gross profit as a percentage of revenue in the first quarter of 2010 increased to 18.9% as compared to 10.8% in the prior year period.

*Selling, General and Administrative*. Selling, general and administrative expense decreased $1.2 million in the first quarter of 2010 and decreased as a percentage of revenue to 10.5% from 11.4% in the first quarter of 2009. The prior period results include approximately $0.5 million of non-capitalized legal and professional fees related to the debt amendment in that period. Additionally, selling general and administrative expense decreased in the first quarter of 2010 as a result of reductions in compensation and employee benefit costs.

*Research and Development*. Research and development costs decreased $0.8 million to $0.2 million in the first quarter of 2010 from the prior year quarter primarily due to the redirection of engineering efforts during the first quarter to assist with a technical issue with one of our products, as noted above. Additionally, development efforts within our Electronics Group for a next generation secured communications device were largely completed during the beginning of the first quarter of 2010. However, research and development costs are expected to increase from current levels for the balance of 2010 in support of the Electronics Group's self-funded product and technology development activities.

*Restructuring Expense, Net*. As a result of the Company's restructuring program we recorded $0.4 million, or $0.02 per share, related to these initiatives during the three months ended April 4, 2010, which is included in restructuring expense, net on the consolidated statement of operations. The charge consisted of $0.1 million in equipment relocation costs and $0.3 million in other various charges, primarily related to mothball costs associated with closed or partially closed facilities. During the three months ended April 5, 2009, we recorded $2.0 million, or $0.11 per share, related to these initiatives, which consisted of $0.7 million for employee severance and benefit costs, $0.7 million in equipment relocation costs, $0.1 million in non-cash asset impairments and $0.5 million in other various charges, primarily related to information technology and process reengineering consultants. See Note 6 to the consolidated financial statements included in this Form 10-Q.

*Interest Expense.* Interest expense for the first quarter of 2010 decreased $0.1 million due to a decrease in the weighted average debt outstanding, partially offset by an increase in the weighted average interest rate. Our weighted average debt outstanding decreased to $19.2 million for the first quarter of 2010 from $72.5 million during the first quarter of 2009. The weighted average interest rate increased to 9.6% in the first quarter of 2010 from 5.8% in the first quarter of 2009 as a result of the modification of our Credit Agreement and Senior Notes in March 2009. Interest expense incurred on the debt required to be repaid from the net proceeds of the sale of the Test & Measurement Segment has been allocated to discontinued operations. During the period ended April 5, 2009, interest expense allocated to discontinued operations was $552,000 based on the $34,000,000 in debt required to be repaid as a result of the transaction.

*Income Taxes.* The provision for income taxes in the first quarter of 2010 is associated exclusively with our Mexican subsidiaries. The provision for income taxes in the first quarter of 2009 includes a benefit of $0.1 million recorded due to the required intraperiod tax allocation resulting from the loss from continuing operations and income from discontinued operations.

*Discontinued Operations.* On October 26, 2009, the Company sold all of the outstanding stock of its wholly owned subsidiary, Sypris Test & Measurement, for approximately $39,000,000. In accordance with requirements of ASC 205-20-45 (formerly SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets)*, the results of the Test & Measurement segment have been reported as discontinued operations for all periods presented. This business was previously included within the Electronics Group. Test & Measurement net income was $0.2 million for the first quarter of 2009.

**Liquidity, Capital Resources and Financial Condition**

Net cash used by operating activities (continuing operations) was $1.3 million in the first quarter of 2010, as compared to net cash used of $7.7 million in the same period of 2009, primarily due to the decreased net loss experienced during the first quarter of 2010. Accounts receivable increased within the Industrial Group and used $4.9 million of cash as a result of an overall increase in revenue primarily towards the end of the period. Approximately 39% of the Industrial Group’s shipments occurred during the last month of the first quarter. Partially offsetting this was a decrease in accounts receivable within the Electronics Group resulting from lower sales, providing $3.2 million of cash during the period. Inventory increased and used $2.7 million of cash primarily as a result of a shipping delay within the Electronics Group for one of its secured communication products as discussed above. Other current assets decreased and provided $0.3 million of cash primarily as a result of the timing of prepaid expenses. In the first quarter of 2010, accounts payable increased and provided $2.3 million primarily due to the timing of payments to our suppliers and increased purchases by our Industrial Group. Accrued liabilities decreased and used $0.9 million of cash primarily as a result of payments of state taxes related to the sale of Sypris Test & Measurement and the timing of various accruals.

Net cash used in investing activities (continuing operations) decreased $1.3 million to $0.2 million for the first three months of 2010, primarily due to lower capital expenditures.

The Company’s financing activities were cash neutral in the first three months of 2010, as compared to net cash provided of $1.0 million in the first three months of 2009. We had no additional borrowings or payments on the Revolving Credit Agreement during the three months ended April 4, 2010 as compared to additional borrowings of $2.0 million during the three months ended April 5, 2009. Partially offsetting the borrowings in 2009 were financing fees of $0.7 million paid in conjunction with modifications of our debt in 2009 and dividends of $0.4 million paid during the first quarter of 2009.

At April 4, 2010, we had total availability for borrowings and letters of credit under the Revolving Credit Agreement of $8.6 million along with an unrestricted cash balance of $14.2 million, which provides for total cash and borrowing capacity of $22.8 million. Approximately $4.2 million of the unrestricted cash balance relates to our Mexican subsidiaries. Maximum borrowings available under the Revolving Credit Agreement are $21.0 million, and standby letters of credit up to a maximum of $15.0 million may be issued under the Revolving Credit Agreement, of which $2.4 million were issued at April 4, 2010.

We also had purchase commitments totaling approximately $12.8 million at April 4, 2010, primarily for inventory and manufacturing equipment.

We believe that sufficient resources will be available to satisfy our cash requirements for at least the next twelve months. Cash requirements for periods beyond the next twelve months depend on our profitability, our ability to manage working capital requirements and our rate of growth. If 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, results of operations and financial condition could be adversely affected.

**Critical Accounting Policies**

See the information concerning our critical accounting policies included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. There have been no significant changes in our critical accounting policies during the first quarter of 2010.

**Forward-looking Statements**

This quarterly 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 developments. These statements are based on management's views and assumptions at the time originally made, and, except as required by law, we undertake no obligation to update these statements, even if, for example, they remain available on our website after those views and assumptions have changed. There can be no assurance that our expectations, projections or views will come to pass, and undue reliance should not be placed on these forward-looking statements.

A number of significant factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: our inability to successfully launch or sustain new or next generation programs; the effects of a continuing economic downturn which could reduce our revenues, negatively impact our customers or suppliers and materially, adversely affect our financial results; potential impairments, non-recoverability or write-offs of goodwill, assets or deferred costs, including deferred tax assets in the U.S. or Mexico; breakdowns, relocations or major repairs of machinery and equipment; the cost, efficiency and yield of our operations and capital investments, including working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; cost and availability of raw materials such as steel, component parts, natural gas or utilities; volatility of our customers' forecasts, financial conditions, market shares, product requirements or scheduling demands; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; failure to adequately insure or to identify environmental or other insurable risks; inventory valuation risks including obsolescence, shrinkage, theft, overstocking or underbilling; changes in government or other customer programs; reliance on major customers or suppliers, especially in the automotive or aerospace and defense electronics sectors; revised contract prices or estimates of major contract costs; dependence on, recruitment or retention of key employees; union negotiations; pension valuation, health care or other benefit costs; labor relations; strikes; risks of foreign operations; currency exchange rates; the costs and supply of debt, equity capital, or insurance; fees, costs or other dilutive effects of refinancing, compliance with covenants in, or acceleration of, our loan and other debt agreements; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; weaknesses in internal controls; the costs of compliance with our auditing, regulatory or contractual obligations; regulatory actions or sanctions; disputes or litigation, involving customer, supplier, lessor, landlord, creditor, stockholder, product liability or environmental claims; war, terrorism or political uncertainty; unanticipated or uninsured disasters, losses or business risks; inaccurate data about markets, customers or business conditions; or unknown risks and uncertainties and the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to report the quantitative and qualitative measures of market risk specified in Item 305 of Regulation S-K.

## Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) *Changes in internal controls*. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Part II. Other Information

## Item 1. Legal Proceedings

From time-to-time, the Company is involved in litigation matters arising in the normal course of business. Neither we, nor any of our subsidiaries, are currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding currently threatened against us.

## Item 1A. Risk Factors

Information regarding risk factors appears in “MD&A — Forward-Looking Statements,” in Part I — Item 2 of this Form 10-Q and in Part I — Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2009.

In addition, on May 13, 2010, the Pension Benefit Guaranty Corp (“PBGC”) informed the Company by telephone of its actuarial estimate that the Company could have approximately $6.1 million in underfunded liabilities with respect to a defined benefit plan for former employees of our Marion, Ohio plant (calculated as if the plan were terminated). PBGC has asserted its view that the Company would be liable to provide funding or other adequate security under Section 4062(e) of ERISA in the amount of such underfunding, if the Company terminated a sufficient number of plan participants as a result of a cessation of operations at the Marion facility. The Company disputes whether such a cessation has occurred, the potential amount of any liability under Section 4062(e) and whether this Section is applicable to the Company’s maintenance of the plan at issue. However, there can be no assurances that the PBGC will accept the Company’s position or that the Company will otherwise prevail.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 25, 2010, and March 1, 2010, the restrictions on 109,000 and 10,936 restricted shares expired, respectively. As a result of such vesting, 39,315 and 4,235 shares, respectively, were withheld by the Company to satisfy withholding tax obligations. The common shares withheld were immediately cancelled. The following table summarizes our repurchases during the first quarter ended April 4, 2010 (which consisted entirely of shares withheld to satisfy withholding taxes):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| February 25, 2010 | 39,315 | $ 2.58 | - | $ - |
| March 1, 2010 | 4,235 | $ 2.84 | - | $ - |

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. [Removed and Reserved]

## Item 5. Other Information

None.

## Item 6. Exhibits

| Exhibit Number | Description |
|---|---|
| 4.1 | Notice of Removal of Rights Agent and Appointment of Successor rights Agent and Amendment to the Right Agreement effective as of October 26, 2009. |
| 10.1 | Amended 2010 Executive Long-Term Incentive Program and Alternate Form of Executive Long-Term Incentive Award Agreements for Grants to Executive Officers. |
| 10.2 | Form of Employment Agreement between Sypris Solutions, Inc. and participants in the Sypris Solutions, Inc. Executive Long-Term Incentive Program for 2010 dated March 2, 2010. |
| 31(i).1 | CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002. |
| 31(i).2 | CFO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002. |
| 32 | CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002. |

**SIGNATURES**

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

SYPRIS SOLUTIONS, INC.
(Registrant)

| | | | |
|---|---|---|---|
| Date: | May 18, 2010 | By: | /s/ Brian A. Lutes<br>(Brian A. Lutes)<br>Vice President & Chief Financial Officer |
| Date: | May 18, 2010 | By: | /s/ Rebecca R. Eckert<br>(Rebecca R. Eckert)<br>Controller (Principal Accounting Officer) |

Exhibit 4.1

Computershare Investor Services
250 Royall Street
Canton Massachusetts 02021
Telephone 1 781 575 2000
Facsimile 1 312 601 4356
www.computershare.com

October 1, 2009

Sypris Solutions, Inc.
101 Bullitt Lane
Suite 450
Louisville, Kentucky 40222

Dear John:

As you know, Computershare Inc. has purchased the stock transfer business of National City Bank (“National City”). Effective October 26, 2009 (the “Effective Date”), Computershare Trust Company, N.A. will become your transfer agent.

Your company also has a Rights Agreement dated October 23, 2001 pursuant to which National City serves as the Rights Agent. Pursuant to Section 22 of the Rights Agreement, this serves as notice that National City will be resigning as the Rights Agent on the Effective Date.

Computershare Trust Company, N.A. agrees to serve as the successor Rights Agent beginning on the Effective Date, and will continue to provide all of the services set forth in the Rights Agreement under the terms and conditions set forth therein. Computershare Trust Company, N.A. further hereby confirms that it will be qualified to act as the successor Rights Agent under Section 22 of the Rights Agreement as it will be the principal transfer agent for your Common Shares.

We would appreciate your signing below to acknowledge your appointment of Computershare Trust Company, N.A. as successor Rights Agent, subject to the conditions set forth above.

Please feel free to contact Rachel Leon at National City Bank with any questions.

Very truly yours,

/s/ Michael Lang
Michael Lang
Computershare Trust Company, N.A.

Very truly yours,

/s/ Rachel A. Leon
Rachel A. Leon
Assistant Vice President
National City Bank

Acknowledged and Agreed:
Sypris Solutions, Inc.

/s/ John R. McGeeney
By: John R. McGeeney
Title: General Counsel
Date: October 23, 2009

Exhibit 10.1

# EXECUTIVE LONG-TERM INCENTIVE AWARD AGREEMENT

## NON-QUALIFIED STOCK OPTIONS

Effective as of **[date of award]** ("Grant Date"), the Company hereby grants to **[participant]** certain rights to purchase up to: **[number of options]** total Option Shares for **$x.xx** per Share until **[date of expiration]** ("Expiration Date") on the Terms of this Agreement, the attached Program, and the 2004 Sypris Equity Plan ("Plan") as follows:

| Vesting Date | # of Options Vesting | Option Prices | Expiration Dates |
|---|---|---|---|
| [third anniversary of grant date] | [100% of award] | [closing price on grant date] | [Fifth Anniversary of grant date] |

## RESTRICTED STOCK

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

| Vesting Dates | # of Shares Vesting |
|---|---|
| [third anniversary of grant date] | [100% of award] |

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

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

# 2010 EXECUTIVE LONG-TERM INCENTIVE PROGRAM

**1.** **Purpose of the Program.** The Company's Executive Long-Term Incentive Program ("ELTIP") under the 2004 Sypris Equity Plan ("Plan") shall be effective for all Awards incorporating these Terms on or after February 25, 2009, to advance the Company's growth and prosperity by providing long-term financial incentives to its executives, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines. [

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

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

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

2.3. [<u>Option Vesting</u>. Unless otherwise determined by the Committee, Option Awards will vest 100% on the third anniversary of its Grant Date ("Vesting Date"), unless forfeited before such Vesting Date.]

2.4. [<u>Expiration Date</u>. Each Option's "Expiration Date" will be the fifth anniversary of its Grant Date.]

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

**4.** **[Awards.** Each ELTIP Participant will be eligible to receive an annual Award of Restricted Shares as determined by the Committee.]

**5.** **[Restricted Shares.** Each “Restricted Share” is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.]

5.1. [<u>Restricted Share Vesting</u>. Unless otherwise determined by the Committee, grants of Restricted Shares will vest as follows: 100% of each Award on the third anniversary of its Grant Date (each such anniversary, a “Vesting Date”) as provided in the applicable Award Agreement, unless forfeited before such Vesting Date.]

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

**6.** Reduction in Job Responsibilities. If a Participant’s job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the ELTIP with respect to future Awards, unless otherwise determined by the Committee.

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

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

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

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

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

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

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

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

# EXECUTIVE LONG-TERM INCENTIVE PROGRAM
# 2010 EMPLOYMENT AGREEMENT

**THIS AGREEMENT**, is effective as of [date of agreement], by and between Sypris Solutions, Inc., a Delaware corporation ("Company"), and [participant name] ("Employee").

**WHEREAS**, the Company desires to recognize the Employee's leadership and contribution to the long-term success of the Company and therefore is pleased to designate the Employee as a participant in the Company's Executive Long-Term Incentive Program ("ELTIP") for 2010 the benefits of which include a contract of employment through March 2, 2011.

**NOW, THEREFORE**, in reliance on the premises and terms hereof, the parties agree as follows:

**1. Termination Benefits.** If, during the term of this Agreement, the Employee's employment is terminated by the Company (or applicable subsidiary) without Cause, then:

**(a) Salary.** The Employee will continue to receive 100% of his or her current salary (subject to withholding of all applicable taxes) for a period of twelve (12) months following the date of such termination (the "Transition Period") in the same frequency as it was being paid prior to termination; provided, however, that should the Employee become employed by another entity prior to the expiration of the Transition Period, the Employee will receive 30% of such current salary from the date of such new employment through the remaining term of the Transition Period. The Employee's "current salary" will be the highest rate in effect during the six-month period prior to the Employee's termination.

**(b) Equity Compensation.** As of any such termination date (without Cause), all of the Employee's outstanding restricted stock and stock options will become 100% vested and remain exercisable until the expiration dates otherwise in effect had the Employee remained employed by the Company.

**2. Definition of Cause. "Cause"** means the Employee's: (i) fraud, gross negligence, willful misconduct or failure to perform essential job duties, which causes material harm to the Business, and which remains uncured for 30 days after receipt of detailed written request for cure, (ii) conviction of any felony or any other crime of moral turpitude, (iii) inability or unwillingness to perform his or her duties for a continuous period of thirty days after receipt of the Company's written notice thereof, and (iv) death or disability.

**3. Confidentiality and Non-Compete.** The Employee agrees not to disclose or to use in any way harmful to the Company, any of the Company's information (including the existence or terms of this Agreement) which has not been made public by the Company, including without limitation, any customer, supplier, technical, marketing or financial information. The Employee will not engage within North America directly or indirectly in competition with any of the Company's business activities from the date of this Agreement through the Transition Period. If the scope of this provision is deemed overbroad, the parties agree that it shall be construed to apply to the greatest extent legally permissible. If the Employee breaches this Section 3, the Company's obligation to provide any of the termination benefits described in Section 1 (whether salary continuation payments, equity benefits or otherwise) shall cease immediately and the Company shall be entitled to recover any such benefits previously received by the Employee.

**4. Non-Solicitation.** In consideration of the benefits provided herein, the Employee covenants that during the Transition Period, the Employee will not, either directly or indirectly, (a) divert or attempt to divert or solicit any prospective or existing customer of the Company to any competitor by direct or indirect inducement or otherwise; or (b) directly or indirectly employ or seek to employ either as an employee, agent, independent contractor or the like any person who is employed by the Company on the Employee's last date of employment with the Company, or was employed by the Company at any time within one year prior to the Employee's last date of employment with the Company, nor directly or indirectly induce or solicit such person to leave his or her employment with the Company. If the Employee breaches this Section 4, the Company's obligation to provide any of the termination benefits described in Section 1 (whether salary continuation payments, equity benefits or otherwise) shall cease immediately and the Company shall be entitled to recover any such benefits previously received by the Employee.

**5. Term.** This Agreement will be deemed to commence upon the expiration of any current employment agreement with Employee and will expire on March 2, 2011, unless earlier terminated by either party by written notice to the other, and this Agreement will not be renewed or extended except by the execution of a separate written agreement.

**6. Assignment.** This Agreement shall be binding upon, and shall be for the benefit of the Company and the Employee, as well as their respective heirs, personal representatives, successors and assigns.

**7. Notices.** Any notice to a party required hereunder may be hand delivered, electronically transmitted by facsimile or e-mail, or sent by registered or certified mail.

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|---|---|
| If to Employee: | [participant name]<br>[participant address] |
| If to Company: | Attn: General Counsel<br>Sypris Solutions, Inc.<br>101 Bullitt Lane, Suite 450<br>Louisville, KY 40222 |

**8. Applicable Law; Disputes.** This Agreement will be governed by the internal laws of the Commonwealth of Kentucky. Any dispute arising under this Agreement will be resolved by arbitration in Louisville, Kentucky, in accordance with the commercial arbitration rules of the American Arbitration Association. The arbitration award will be final and binding upon the parties, and judgment upon the award may be entered in any court having jurisdiction. In the event the Employee incurs legal fees and other expenses to enforce any rights or benefits in connection with this Agreement and is successful in enforcing such rights or benefits, the Employee will be entitled to any reasonable legal fees and expenses. Otherwise, each party will pay its own legal fees and expenses associated with any dispute.

**9. Amendment; Waiver.** This Agreement is the entire agreement between the parties with respect to the subject matter hereof and may only be amended, modified or terminated by a written instrument signed by the parties hereto, which makes specific reference to this Agreement. No waiver of either party's rights will be implied from any forbearance or communication except a written waiver, expressly designated as such by the waiving party.

**IN WITNESS WHEREOF,** the parties have caused this Agreement to be duly executed effective as of the date first set forth above.

| | | | |
|---|---|---|---|
| **SYPRIS SOLUTIONS, INC.** | | **EMPLOYEE** | |
| By: | ____________________ | Signed: | ____________________ |
| Name: | ____________________ | Name: | ____________________ |
| Date: | ____________________ | Date: | ____________________ |

**Exhibit 31(i).1**

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

I, Jeffrey T. Gill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sypris Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | | |
|---|---|---|---|
| Date: | May 18, 2010 | By: | /s/ Jeffrey T. Gill |
| | | | Jeffrey T. Gill |
| | | | President & Chief Executive Officer |

**Exhibit 31(i).2**

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

I, Brian A. Lutes, certify that:

1. I have reviewed this quarter report on Form 10-Q of Sypris Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 18, 2010

By: /s/ Brian A. Lutes
Brian A. Lutes
Vice President & Chief Financial Officer

**Exhibit 32**

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

In connection with the Quarterly Report of Sypris Solutions, Inc. (the Company) on Form 10-Q for the period ending April 4, 2010 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions, Inc., that to his knowledge:

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

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

| | | | |
|---|---|---|---|
| Date: | May 18, 2010 | By: | /s/ Jeffrey T. Gill |
| | | | Jeffrey T. Gill<br>President & Chief Executive Officer |
| Date: | May 18, 2010 | By: | /s/ Brian A. Lutes |
| | | | Brian A. Lutes<br>Vice President & Chief Financial Officer |

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

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