NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP /DC/
Form S-3ASR
September 09, 2016

As filed with the Securities and Exchange Commission on September 9, 2016

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

National Rural Utilities

Cooperative Finance Corporation

(Exact name of registrant as specified in its charter)

District of Columbia	**52-089-1669**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

20701 Cooperative Way

Dulles, Virginia 20166

(703) 467-1800

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

Roberta B. Aronson, General Counsel

National Rural Utilities Cooperative Finance Corporation

20701 Cooperative Way

Dulles, Virginia 20166

(703) 467-1800

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

Copies to:

Gregory F. Parisi **Hogan Lovells US LLP** **Columbia Square** **555 Thirteenth Street, NW** **Washington, D.C. 20004** **(202) 637-8575**	**Michael F. Fitzpatrick, Jr.** **Hunton & Williams LLP** **200 Park Avenue** **New York, New York 10166** **(212) 309-1000**

Approximate date of commencement of proposed sale to public: From time to time after the effective date of this registration statement.

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

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

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

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

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. þ

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

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 o	**Accelerated filer o**
Non-accelerated filer þ	**Smaller reporting company o**

CALCULATION OF REGISTRATION FEE

Proposed Proposed

Title of each class of securities to be registered	Amount to be registered	maximum offering price per unit	maximum aggregate offering price	Amount of registration fee
Collateral trust bonds	(1)	(1)	(1)	(1)

(1) An indeterminate amount of collateral trust bonds is being registered as may from time to time be sold at indeterminate prices. In accordance with Rules 456(b) and 457(r) under the Securities Act, the registrant hereby defers payment of the registration fee required in connection with this registration statement.

PROSPECTUS

National Rural Utilities

Cooperative Finance Corporation

Collateral Trust Bonds

We plan to issue from time to time collateral trust bonds. We will provide the specific terms of the collateral trust bonds and the offering in one or more supplements to this prospectus. A prospectus supplement may also add, change or update information contained in this prospectus. You should read this prospectus and any applicable supplement carefully before you invest.

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

Investing in the collateral trust bonds involves certain risks. See "Risk Factors" beginning on page 2 of this prospectus, as well as the risk factors that are incorporated by reference in this prospectus.

This prospectus may not be used to consummate sales of collateral trust bonds unless accompanied by a prospectus supplement.

The date of this prospectus is September 9, 2016

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ABOUT THIS PROSPECTUS

To understand the terms of the collateral trust bonds (the “bonds”) offered by this prospectus, you should carefully read this prospectus and any prospectus supplement. You should also read the documents referred to under the heading “Where You Can Find More Information” and “Incorporation By Reference” for information on National Rural Utilities Cooperative Finance Corporation (“CFC” or the “Company,” also referred to as “we,” “us” and “our”), including its financial statements. Certain capitalized terms used in this prospectus are defined elsewhere in this prospectus.

This prospectus is part of a registration statement that we have filed with the U.S. Securities and Exchange Commission (the “SEC”), using a “shelf” registration procedure. Under this procedure, we may offer and sell bonds from time to time. Each time we offer bonds, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the bonds being offered, including the names of any underwriters, dealers or agents, the compensation of any underwriters, dealers or agents and the net proceeds to us. The prospectus supplement may contain information about any material U.S. federal income tax considerations relating to the bonds covered by the prospectus supplement. The prospectus supplement may also add, update or change information contained in this prospectus.

We are not making an offer of these bonds in any state or jurisdiction where the offer is not permitted.

RISK FACTORS

Investing in the bonds involves significant risks. Before you invest in the bonds, you should carefully consider, among other matters, the following risks relating to the bonds, together with the risks and uncertainties discussed under "Forward-Looking Statements" and the other information included or incorporated by reference in this prospectus, including the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended May 31, 2016, as such risk factors may be updated from time to time in our Quarterly Reports on Form 10-Q. Any of these risks, as well as other risks and uncertainties, could harm our financial condition, results of operations or cash flows.

The Trustee May Experience Difficulty Liquidating or Enforcing Payment on Mortgage Notes Pledged as Collateral After an Event of Default

If an event of default occurs under the indenture and is continuing 30 days following notice from the trustee requiring us to remedy such event of default, the trustee may sell any or all of the mortgage notes or other property pledged as collateral.

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If the trustee attempts to sell any or all of the mortgage notes or any other pledged property, the trustee may be unable to find a purchaser for such notes or property, or be unable to liquidate such notes or property in an orderly or timely manner. Additionally, the market value of such notes or property realized in any sale may not be sufficient to make bondholders whole. The amount to be received upon such sale would depend on many factors, including, but not limited to, the time and manner of sale.

The Bonds May have Limited or No Liquidity

There is currently no secondary market for the bonds to be issued and there can be no assurance that a secondary market will develop for such bonds. If a secondary market does develop, there can be no assurance that it will continue or that it will be sufficiently liquid to allow you to resell your bonds when you want or at a price that you wish to receive for your bonds. Unless the applicable prospectus supplement indicates otherwise, the bonds are not, and will not be, listed on any securities exchange. Future trading prices of the bonds, if any, will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. Our SEC filings are also available to the public at the SEC's website at http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act"), relating to the bonds covered by this prospectus. As permitted by SEC rules, this prospectus may not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, exhibits and schedules for more information about us and the bonds. The registration statement, exhibits and schedules are available through the SEC's public reference room or website.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" into this prospectus information we have filed with the SEC, which means that we can disclose important information to you by referring you to those filed documents. The information incorporated by reference is an important part of this prospectus, and the information we subsequently file with the SEC will automatically update and supersede the information in this prospectus. Absent unusual circumstances, we will have no obligation to amend this prospectus, other than filing subsequent information with the SEC. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") until this offering is completed:

- Annual Report on Form 10-K for the year ended May 31, 2016 (filed August 25, 2016); and

- Current Reports on Form 8-K, dated May 31, 2016 (filed June 2, 2016), July 1, 2016 (filed July 1, 2016) and September 1, 2016 (filed September 1, 2016).

We are not incorporating by reference any document or information that is deemed to be furnished and not filed in accordance with SEC rules.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may also request, at no cost, a copy of these filings (other than an exhibit to these filings, unless we have specifically incorporated that exhibit by reference into such filings) by writing to or telephoning us at the following address:

National Rural Utilities Cooperative Finance Corporation

20701 Cooperative Way

Dulles, VA 20166

(703) 467-1800

Attn: J. Andrew Don

Senior Vice President and Chief Financial Officer

These filings are also available through the Financial Reporting subsection of the Investor Relations section of our website: www.nrucfc.coop. Information on our website does not constitute a part of this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized anyone, including any salesman or broker, to provide you with different information. You should not assume that the information contained or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front cover of the document in question.

FORWARD-LOOKING STATEMENTS

This prospectus, including the information incorporated by reference herein, contains certain statements that are considered "forward-looking statements" within the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity" and similar ex whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the appropriateness of the allowance for loan losses, operating income and expenses, leverage and debt to equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance may differ materially from our forward-looking statements due to several factors. Factors that could cause future results to vary from our forward-looking statements include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, non-performance of counterparties to our derivative agreements, the costs and effects of legal or governmental proceedings involving CFC or its members, and other factors discussed in our annual and quarterly reports previously filed with the SEC. Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

THE COMPANY

CFC is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC's principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service of the United States Department of Agriculture. CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. As a member owned cooperative, CFC's objective is not to maximize profit, but rather to offer its members cost-based financial products and services consistent with sound financial management. CFC annually allocates its net earnings, which consist of net income excluding the effect of certain non-cash accounting entries, to (i) a cooperative education fund; (ii) a general reserve, if necessary; (iii) members based on each member's patronage of CFC's loan programs during the year; and (iv) a members' capital reserve. As a member-owned cooperative, CFC has no publicly held equity securities outstanding. CFC funds its activities primarily through a combination of publicly and privately held debt securities, member investments and retained equity. The Company's headquarters are located at 20701 Cooperative Way, Dulles, VA 20166 and its telephone number is (703) 467-1800.

Our financial statements include the consolidated accounts of CFC, Rural Telephone Finance Cooperative (“RTFC”) and National Cooperative Services Corporation (“NCSC”) and certain entities created and controlled by CFC to hold foreclosed assets resulting from defaulted loans or bankruptcy.

RTFC is a taxable Subchapter T cooperative association originally incorporated in South Dakota in 1987 and reincorporated as a member-owned cooperative association in the District of Columbia in 2005. RTFC’s principal purpose is to provide financing for its rural telecommunications members and their affiliates. RTFC’s membership consists of a combination of not-for-profit entities and for-profit entities. CFC is the sole lender to and manages the business operations of RTFC through a management agreement in effect until December 1, 2016, which is automatically renewed for one-year terms thereafter unless terminated by either party. Under a guarantee agreement, RTFC pays CFC a fee and, in exchange, CFC reimburses RTFC for loan losses. As permitted under

Subchapter T of the Internal Revenue Code, RTFC pays income tax based on its net income, excluding patronage-sourced earnings allocated to its patrons. RTFC is headquartered with CFC in Dulles, Virginia.

NCSC is a taxable cooperative incorporated in 1981 in the District of Columbia as a member-owned cooperative association. The principal purpose of NCSC is to provide financing to its members, government or quasi-government entities which own electric utility systems that meet the Rural Electrification Act definition of "rural," and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. NCSC's membership consisted of distribution systems, power supply systems and statewide and regional associations that were members of CFC as of May 31, 2016. CFC, which is the primary source of funding for NCSC, manages NCSC's business operations under a management agreement that is automatically renewable on an annual basis unless terminated by either party. NCSC pays CFC a fee and, in exchange, CFC reimburses NCSC for loan losses under a guarantee agreement. As a taxable cooperative, NCSC pays income tax based on its reported taxable income and deductions. NCSC is headquartered with CFC in Dulles, Virginia.

At May 31, 2016, after taking into consideration systems that are members of both CFC and NCSC and eliminating memberships between CFC, RTFC and NCSC, our consolidated membership totaled 1,463 members and 230 associates. Our consolidated members include 839 electric distribution systems, 71 power supply systems, 487 telecommunication members, 66 statewide and regional associations, and one national association of cooperatives. The service territories of our electric distribution systems, power supply systems and telecommunication members are located in 49 states, the District of Columbia and two U.S. territories.

RATIO OF EARNINGS TO FIXED CHARGES

The ratios of earnings to fixed charges for CFC for each of the five years ended May 31, 2016, 2015, 2014, 2013 and 2012 are included in Exhibit 12 to the Annual Report on Form 10-K for the year ended May 31, 2016 and are incorporated by reference into this prospectus.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, the net proceeds from the sale of the bonds will be added to the general funds of CFC and will be available for loans and for use in connection with the retirement of debt.

DESCRIPTION OF THE COLLATERAL TRUST BONDS

The following description summarizes the general terms and provisions that may apply to the bonds. Each prospectus supplement will state the particular terms of the bonds and the extent, if any, to which the general provisions may apply to the bonds included in the prospectus supplement.

General

The bonds will be issued under an indenture between CFC and U.S. Bank National Association as trustee, or other trustee to be named, dated as of October 25, 2007 (the “indenture”). The statements in this prospectus concerning the indenture, one or more supplemental indentures, board resolutions or officers’ certificates establishing the bonds, and the bonds are merely an outline and do not purport to be complete. We refer you to the indenture and any supplemental indenture, each of which is or will be incorporated by reference into this prospectus, for further information.

Reference is made to the prospectus supplement relating to any particular issue of bonds for the following terms:

- the title and any limit on the aggregate principal amount of the bonds to be issued;
- the persons to whom interest on the bonds, or any tranche thereof, is payable, if other than the persons in whose names the bonds are registered on the regular record date;
- the date or dates on which the bonds will mature;

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- the annual rate or rates (which may be fixed or variable) at which such bonds, or any tranche thereof, will bear interest or any formula or method by which such rate or rates will be determined;
- the date or dates from which the interest will accrue and the date or dates at which interest will be payable;
- the place or places where payments may be made on the bonds or any tranche thereof, registration of transfer may be effected, exchanges of bonds or any tranche thereof may be effected and notices to or demands upon the Company may be served;
- any redemption or sinking fund terms;
  - the obligation or obligations, if any, to redeem or purchase the bonds, or any tranche thereof, pursuant to any sinking fund or other mandatory redemption provisions or at the option of a holder and the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which the bonds will be redeemed or purchased;
- the denominations in which the bonds, or any tranche thereof, will be issuable, if other than $1,000 and any integral multiple thereof;
- the currency or currencies in which payment of the principal of and premium, if any, and interest, if any, on the bonds, or any tranche thereof, will be payable (if other than U.S. dollars), and, if to be payable in a currency or currencies other than that in which the bonds, or any tranche thereof, are denominated, the period or periods within which, and the terms and conditions upon which, the election may be made, and if denominated or payable in any currency or currencies other than U.S. dollars, the method by which the bonds, or any tranche thereof, will be valued;
- if the principal of or premium, if any, or interest, if any, on the bonds, or any tranche thereof, is to be payable in securities or other property at the election of CFC or a holder, the type and amount of the securities or other property, or the formula or method by which the amount will be determined, and the periods within which, and the terms and conditions upon which, any election may be made;
- if the amount payable in respect of principal of or any premium, if any, or interest, if any, on such bonds, or any tranche thereof, may be determined with reference to an index or other fact or event ascertainable outside the indenture, the manner in which the amounts will be determined;
- if other than the principal amount of the bonds, the portion of the principal amount of the bonds, or any tranche thereof, payable upon declaration of the acceleration of the maturity;

- the terms, if any, on which bonds, or any tranche thereof, may be converted into or exchanged for securities of CFC or any other person;
- any events of default, in addition to those specified under "Events of Default" in the indenture, with respect to the bonds, and any covenants of CFC for the benefit of the holders of the bonds, in addition to those set forth in Article 7 of the indenture;
- if the bonds or any tranche thereof are to be issued in global form, the depositary with respect to the global bond or bonds, any limitations on the rights of the holders of the bonds to transfer or exchange them or to obtain the registration of transfer or to obtain certificates in definitive form in lieu of temporary form, and any and all other matters incidental to such bonds;
- if the bonds or any tranche thereof are to be issuable as bearer securities, any and all matters incidental thereto;
- any limitations on the rights of a holder to transfer or exchange the bonds or to obtain the registration of transfer thereof, and the amount or terms of any service charge for the registration of transfer or exchange of

the bonds;

- the right, if any, of CFC to limit or discharge the indenture as to the bonds or any tranche thereof;

- whether and under what circumstances CFC will pay additional amounts on the bonds, or any tranche thereof, held by a person who is not a U.S. person in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether and on what terms CFC will have the option to redeem the bonds rather than pay the additional amounts; and

- any other terms of the bonds or any tranche thereof, not inconsistent with the provisions of the indenture. *(Section 2.03)*

The bonds may be issued in registered form, a form registered as to principal only, or any combination thereof. In addition, all or a portion of the bonds may be issued in temporary or definitive global form.

Unless stated otherwise in any supplemental indenture, CFC may also re-open a previous series of bonds of any series without the consent of the holders of the bonds of any series and issue additional bonds of the same series, which additional bonds will have the same terms as the original series except for the issue price and the issue date. CFC will not issue any additional bonds of the same series unless the additional bonds will be fungible with all bonds of the same series for United States Federal income tax purposes.

Security

The bonds will be secured equally with outstanding bonds issued under the indenture, by the pledge with the trustee of eligible collateral having an "allowable amount" at least equal to the aggregate principal amount of bonds outstanding. The indenture provides that eligible collateral will consist of cash, eligible mortgage notes of distribution system members and permitted investments. The allowable amount of cash is 100% thereof, the allowable amount of eligible mortgage notes is the amount advanced and not repaid and the allowable amount of permitted investments is their cost to CFC (exclusive of accrued interest and brokerage commissions). However, the allowable amount of permitted investments traded on a national securities exchange or in any over-the-counter market is their fair market value as determined by CFC. For purposes of the indenture and as used in describing the bonds herein, a "member" is any person which is a member of CFC, and a "distribution system member" is a member 50% or more of whose gross operating revenues are derived from sales of electricity to end users, as determined as of the end of the last completed calendar year. *(Sections 1.01 and 3.01)*

CFC has previously issued collateral trust bonds, including under an indenture dated as of February 15, 1994, between CFC and U.S. Bank National Association, as successor trustee. The collateral under the indenture dated as of February 15, 1994 secures only those bonds issued thereunder, and will not secure bonds issued hereby. As of May 31, 2016, $800,000,000 aggregate principal amount of bonds issued under the indenture dated February 15, 1994 are outstanding.

As a condition to the authentication and delivery of bonds or to the withdrawal of collateral, and in any event at least once a year, CFC must certify to the trustee that:

- the allowable amount of eligible collateral pledged under the indenture is at least equal to the aggregate principal amount of bonds to be outstanding immediately after the authentication and delivery of such bonds;

- the allowable amount of eligible collateral pledged under the indenture after any withdrawal of collateral is at least equal to the aggregate principal amount of bonds to be outstanding immediately after such withdrawal;

- each eligible mortgage note included in the eligible collateral so certified is an eligible mortgage note of a member having an Equity Ratio (defined below) of at least 20% and an Average Coverage Ratio (defined below) of at least 1.35; and

- the aggregate allowable amount of all eligible mortgage notes of any one member so certified does not exceed 10% of the aggregate allowable amount of all eligible collateral so certified. *(Sections 3.01, 6.01 and*

7.13)

CFC is also entitled to the authentication and delivery of bonds on the basis of the retirement of outstanding bonds at their final maturity or by redemption at the option of CFC. *(Section 3.02)*

The indenture provides that bonds may be issued without limitation as to aggregate principal amount so long as the allowable amount of eligible collateral pledged under the indenture at least equals the aggregate principal amount of bonds to be outstanding and meets the other requirements set forth herein. *(Sections 2.03 and 13.01)*

"Eligible mortgage note" means a mortgage note of a distribution system member which is secured by a validly existing mortgage under which no "event of default" as defined in the mortgage shall have occurred and shall have resulted in the exercise of any right or remedy described in the mortgage. *(Section 1.01)*

"Equity Ratio" of any member means the ratio determined by dividing such member's equities and margins at the end of the last completed calendar year by such member's total assets and other debits at such date, in each case computed in accordance with the Uniform System of Accounts prescribed by RUS, or if such member does not prepare its financial statements in accordance with the Uniform System of Accounts prescribed by RUS, then in accordance with Generally Accepted Accounting Principles ("GAAP"). *(Section 1.01)*

"Coverage Ratio" of any member for any completed calendar year of such member means the ratio determined by adding such member's patronage capital and operating margins, non-operating margins—interest, interest expense with respect to long-term debt and depreciation and amortization expense for such year, and dividing the sum so obtained by the sum of all payments of principal and interest required to be made during such year on account of such member's long-term debt (but in the event any portion of such member's long-term debt was refinanced during such year, the payments of principal and interest required to be made during such year in respect thereof shall be based (in lieu of actual payments thereon) upon the larger of (x) an annualization of such payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding and (y) the payments of principal and interest required to be made during the following year on account of such refinancing debt); patronage capital and operating margins, interest expense with respect to long-term debt, depreciation and amortization expense, non-operating margins—interest and long-term debt being determined in accordance with the Uniform System of Accounts prescribed at the time by RUS or, if such member does not maintain its accounts in accordance with said Uniform System of Accounts, otherwise determined in accordance with GAAP, except that (i) in computing interest expense with respect to long-term debt, and payments of interest required to be made on account of long-term debt, for the purpose of the foregoing definition, there shall be added, to the extent not otherwise included, an amount equal to 33 1/3% of the excess of the restricted rentals paid by such member for such year over 2% of such member's equities and margins for such year as defined in the Uniform System of Accounts prescribed by RUS or, if such member does not maintain its accounts in accordance with said Uniform System of Accounts, otherwise determined in accordance with GAAP, and (ii) in computing such member's patronage capital and operating margins for the purpose of the foregoing definition, all cash received in respect of generation and transmission and other capital credits shall be included. The "Average Coverage Ratio" of any member means the average of the two higher coverage ratios of a member for each of the last three completed calendar years. *(Section 1.01)* The effect of these provisions is to exclude from the computation of the coverage ratio capital credits, except to the extent received by the member in the form of cash.

The indenture requires that each mortgage securing an eligible mortgage note be consistent with CFC's standard lending practices from time to time. *(Section 1.01)* There are no requirements in the indenture as to the value of the property subject to the lien of a mortgage.

The indenture provides that, unless an event of default under the indenture exists, and other than certain limited duties specified in the indenture, the trustee shall have no duties or responsibilities with regard to any mortgage, and no responsibilities with regard to the value of any property subject thereto. *(Section 4.03)*

"Permitted investments" are defined to include:

- obligations of or guaranteed by the United States or any agency thereof for which the full faith and credit of the obligor shall be pledged and which shall mature, except in the case of obligations guaranteed by RUS, not

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more than two years after purchase;

- obligations of any state or municipality, or subdivision or agency of either thereof, which shall mature not more than two years after the purchase thereof and are rated AA (or equivalent) or better by at least two nationally recognized statistical rating organizations or having a comparable rating in the event of any future change in the rating system of such agencies;

- certificates of deposit or time deposits of any bank or trust company organized under the laws of the United States or any state thereof, having at least $500,000,000 of capital and surplus and maturing not more than two years after purchase; and

- commercial paper of bank holding companies or other issuers, other than CFC, generally rated in the highest category by at least two nationally recognized statistical rating agencies and maturing not more than one year after purchase. *(Section 5.03)*

Exercise of Rights under Pledged Mortgage Notes; Receipt of Payments

Until the occurrence of an event of default under the indenture, CFC retains the right to control the exercise of rights and powers under mortgage notes pledged under the indenture. *(Section 15.01)* Unless an event of default under the indenture occurs, CFC will be entitled to receive and retain all payments on account of principal, premium and interest on the eligible mortgage notes and permitted investments on deposit with the trustee. *(Section 4.02)*

Modification of the Indenture

Modifications of the provisions of the indenture may be made with the consent of the holders of not less than a majority in aggregate principal amount of the then outstanding bonds, but, without the consent of the holder of each bond affected thereby, no such modification may:

- effect a reduction, or a change of the stated time of payment, of the principal of or interest on any bond or of any premium payable on redemption, change the coin or currency in which the bond is payable, or impair the right to take legal action for the enforcement of any such payment;

- permit the creation of any prior or equal lien on pledged property under the indenture, terminate the lien under the indenture, or deprive the holder of any bond of the lien created by the indenture;

- reduce the above-stated percentage of holders of bonds whose consent is required to modify the indenture or the percentage of holders of bonds whose consent is required for any waiver under the indenture; or
- modify any of the provisions of certain sections of the indenture, except to increase any percentage of holders or to provide that certain provisions of the indenture cannot be modified or waived without the consent of the holder of each bond affected. *(Section 13.02)*

The indenture provides that CFC and the trustee may, without the consent of any holders of bonds, enter into supplemental indentures for the purposes of:

- evidencing the succession of another company to the indenture and the assumption of all covenants of the indenture by such company;
- adding to CFC's covenants or events of default;
- changing or eliminating any restriction on the payment of principal of bonds, provided any such action does not adversely affect the interests of the holders of bonds in any material respect;
- conveying, transferring and assigning to the trustee, and subjecting to the lien of the indenture, additional properties of CFC, and correcting or amplifying the description of any property at any time;

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- establishing the form or terms of bonds of any series;
- providing for the issuance of uncertificated bonds, original issue discount bonds and bonds payable in foreign currencies of one or more series;
- modifying, eliminating or adding to the indenture for purposes of maintaining qualification under the Trust Indenture Act;
- curing ambiguities or inconsistencies in the indenture or, provided the action does not adversely affect the interests of the holders of any series of bonds in any material respect, making other provisions with respect to matters arising under the indenture; or
- providing for mortgage notes, mortgages and/or loan agreements to be deposited with a depositary or an agency and/or permitting the addition to and withdrawal from the pledged property of such instruments, to be evidenced by a "book-entry" or other notation not requiring physical delivery of such instruments. *(Section 13.01)*

Waiver of Certain Covenants

Under the indenture, CFC will not be required to comply with certain covenants and conditions if the holders of at least a majority in principal amount of the then outstanding bonds waive compliance with such covenant or condition in such instance or generally, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived. *(Section 7.16)*

Events of Default

Each of the following will constitute an event of default under the indenture:

- failure to pay interest on any bonds for 30 days after the interest becomes due;
- failure to pay principal or any premium on any bonds at their maturity or upon redemption;
- default in the making of any sinking fund payment;

- default in the performance or breach of specified covenants in the indenture for 60 days after such default is known to any officer of CFC, including the covenant to maintain eligible collateral outlined above;

- failure to perform any other covenant or warranty in the indenture for 60 days after notice from the trustee to CFC or from holders of at least 25% in principal amount of the then outstanding bonds to CFC and the trustee; and

- specified events of bankruptcy, reorganization or insolvency. *(Section 9.01)*

CFC is required to file annually with the trustee a written statement as to CFC compliance with the conditions and covenants under the indenture. *(Section 7.15)* In case an event of default should occur and be continuing, the trustee or the holders of at least 25% in principal amount of the bonds then outstanding may declare the principal of the bonds to be immediately due and payable. Each declaration may, under certain circumstances, be rescinded by the holders of a majority in principal amount of the bonds at the time outstanding. *(Section 9.02)*

Further, if an event of default shall have occurred and be continuing for 30 days following notice and demand for remedy of such event of default from the trustee, the trustee may sell any or all of the mortgage notes or other property pledged as collateral under the indenture. (*Section 9.03*)

Additionally, if an event of default shall have occurred and be continuing for 30 days following notice and demand for remedy of such event of default from the trustee, the trustee shall, upon the written request of the holders of a majority in aggregate principal amount of the bonds then outstanding and the offering of indemnity as discussed below, proceed by suit or other action to enforce payment of the bonds or the underlying mortgage notes or other property pledged as collateral. (*Sections 9.03 and 9.08*)

Subject to the provisions of the indenture relating to the duties of the trustee in case an event of default shall occur and be continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of the bonds, unless the holders have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by compliance. Subject to the provisions for indemnification and certain limitations contained in the indenture, the holders of a majority in principal amount of the bonds then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee. The trustee is not required to expend or risk its own funds or incur financial liability if it has reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured. *(Sections 9.08, 10.01 and 10.03)*

The indenture provides that on receipt by the trustee of notice of an event of default, declaring an acceleration or directing the time, method or place of conducting a proceeding at law if an event of default has occurred and is continuing, the trustee shall, with respect to any series of bonds represented by a global bond or bonds, and may, with respect to any other series of bonds, establish a record date for the purpose of determining holders of outstanding bonds of the series entitled to join in the notice. *(Sections 9.01, 9.02 and 9.08)*

Satisfaction and Discharge; Defeasance

At the request of CFC, the indenture will cease to be in effect as to CFC, except for certain obligations to register the transfer or exchange of bonds and hold moneys for payment in trust with respect to the bonds, when the principal of and interest on bonds have been paid and/or CFC has deposited with the trustee, in trust, money or U.S. government obligations which, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient to pay all the principal of, and interest on, the bonds in accordance with the terms of the bonds, or such bonds are deemed paid and discharged in the manner described in the next paragraph. *(Section 14.01)*

Unless the prospectus supplement relating to the bonds provides otherwise, CFC at its option will be discharged from any and all obligations in respect of the bonds, except for certain obligations to register the transfer or exchange of bonds, replace stolen, lost or mutilated bonds, maintain paying agencies and hold moneys for payment in trust, or need not comply with certain restrictive covenants of the indenture, in each case on the 91st day after CFC deposits with the trustee, in trust, money and U.S. government obligations, or, in the case of bonds denominated in a foreign currency, foreign government securities, which, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient to pay in the currency, currencies or currency unit or units in which the bonds are payable all the principal of, and interest on, the bonds on the dates on which payments are due in accordance with the terms of the bonds. Among the conditions to CFC's exercising this option, CFC is required to deliver to the trustee an opinion of counsel to the effect that the deposit and related defeasance would not cause the holders of the bonds to recognize income, gain or loss for United States Federal income tax purposes and that such holders will be subject to United States Federal income tax in the same amounts, in the same manner and at the same times as would have been the case if such deposit and related defeasance had not occurred. *(Section 14.02)*

At the request of CFC, the trustee will deliver or pay to CFC any U.S. government obligations, foreign government securities or money deposited with the trustee by CFC for the purposes described in the preceding two paragraphs and which, in the opinion of an independent accountant, are in excess of the amount which would then have been required to be deposited for such purposes. In addition, the trustee, in exchange for other U.S. government obligations, foreign government securities or money, will deliver or pay to CFC, at CFC's request, U.S. government obligations, foreign government securities or money deposited with the trustee for the purposes described in the preceding two paragraphs, so long as the exchange occurs simultaneously, CFC has delivered to the trustee an officers' certificate and opinion of counsel stating that all related conditions precedent have been complied with, and in the opinion of an independent accountant, immediately after the exchange, the obligations, securities or money then held by the trustee will be in the amount as would then have been required to be deposited with the trustee for these purposes. *(Section 14.02)*

Governing Law

The indenture is, and the bonds will be, governed by and construed in accordance with the laws of the State of New York.

The Trustee

U.S. Bank National Association is the trustee with respect to all bonds issued under the indenture.

PLAN OF DISTRIBUTION

Bonds of any series may be sold to the public through dealers, agents, an underwriter or an underwriting syndicate. The dealers, agents or underwriters with respect to an offering of bonds will be named in the prospectus supplement relating to the offering. If a dealer is utilized in the sale of any bonds, CFC will sell such bonds to the dealer, as principal. The dealer may then resell the bonds to the public at varying prices to be determined by the dealer at the time of resale. The initial public offering price and any discounts or concessions allowed or reallowed or paid to any dealers set forth in the prospectus supplement may change from time to time.

If an agent is utilized in the sale, unless otherwise indicated in the prospectus supplement, any such agent will be acting on a reasonable best-efforts basis for the period of its appointment.

If underwriters are utilized in the sale, CFC will enter into an underwriting agreement with those underwriters and the underwriters will use the prospectus supplement to make resales of the bonds. Unless otherwise set forth in the prospectus supplement, the obligations of any underwriters to purchase bonds will be subject to conditions precedent and the underwriters will be obligated to purchase all of the bonds if any are purchased.

Any dealers, agents and underwriters may be deemed to be underwriters and any discounts, commissions or concessions received by them from CFC or any profit on the resale of the bonds by them may be deemed to be underwriting discounts and commissions under the Securities Act. Any such person who may be deemed to be an underwriter and any such compensation received from CFC will be described in the prospectus supplement.

Under agreements entered into with CFC, dealers, agents and underwriters who participate in the distribution of the bonds may be entitled to indemnification by CFC against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof.

The place and time of delivery for the bonds in respect of which this prospectus is delivered will be set forth in the prospectus supplement.

Certain of the underwriters, dealers or agents and their associates may engage in transactions with and perform services for CFC in the ordinary course of business.

In connection with offerings made hereby, the underwriters or agents may purchase and sell the bonds in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the underwriters or agents in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the bonds, and short positions created by the underwriters or agents involve the sale by the underwriters or agents of a greater aggregate principal amount of bonds than they are required to purchase from CFC. The underwriters or agents also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the bonds sold in an offering may be reclaimed by the underwriters or agents if such bonds are repurchased in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the bonds, which may be higher than the price that might otherwise prevail in the open market. These activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

LEGAL OPINIONS

The validity of the bonds offered hereby and certain other matters in connection with an offering of bonds will be passed upon for CFC by Hogan Lovells US LLP, Washington, D.C. The dealers, agents or underwriters, if any, will be represented by counsel that will be named in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of National Rural Utilities Cooperative Finance Corporation as of May 31, 2016 and 2015, and for each of the years in the three-year period ended May 31, 2016, have been incorporated by reference herein in reliance upon the report of KPMG LLP, an independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

PART II

Item 14. Other Expenses of Issuance and Distribution

An indeterminate amount of the bonds is being registered pursuant to this prospectus. Accordingly, the amount of expenses payable by CFC for the issuance and distribution of the bonds is not known at this time. Such expenses include underwriter compensation, SEC registration fees, printing expenses, legal and accounting fees and expenses, fees and expenses of the Trustee and counsel, rating agency fees and other expenses. In accordance with Rule 456(b) and Rule 457(r) under the Securities Act of 1933, CFC is deferring payment of the SEC registration fee. Based on CFC's experience with its previous public offerings of securities, CFC does not expect the amount of such total expenses (other than underwriting compensation) to exceed 0.1% of the gross proceeds from the sale of the bonds. At this level, the total expenses (other than underwriting compensation) for each bond issuance is not expected to exceed $300,000.

Item 15. Indemnification of Directors and Officers

The bylaws of CFC provide for indemnification of all CFC directors, officers and employees to the fullest extent authorized by law, as the law exists or may change (to the extent such changes broaden the indemnification rights of indemnitees).

Section 29-306.51 of the District o0pt; FONT-FAMILY: times new roman"> 1,089   2,200   2,084

Amortization of intangible assets
28   58   56   129
Nonrecurring expense
1,732   —   3,713   —
Operating (loss) income
(4,539) (972) (13,833) 536
Interest expense, net
2,303   1,023   3,572   1,975
Other income, net
(384) (924) (77) (916)
Loss before income taxes
(6,458) (1,071) (17,328) (523)
Income tax expense (benefit)
320   (136) 795   27
Net loss

	$(6,778)	$(935)	$(18,123)	$(550)
Loss per common share:				
Basic	$(0.37)	$(0.05)	$(0.98)	$(0.03)
Diluted	(0.37)	(0.05)	(0.98)	(0.03)
Dividends declared per common share	$—	$0.03	$—	$0.06
Weighted average shares outstanding:				
Basic	18,478	18,351	18,456	18,347
Diluted	18,478	18,351	18,456	18,347

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

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Sypris Solutions, Inc.

Consolidated Balance Sheets

(in thousands, except for share data)

	July 5, 2009 (Unaudited)	December 31, 2008 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 10,125	$ 13,717
Restricted cash	263	464
Accounts receivable, net	45,394	44,695
Inventory, net	35,838	48,394
Other current assets	10,151	12,009
Total current assets	101,771	119,279
Investment in marketable securities	5,239	2,769
Property, plant and equipment, net	98,051	105,219
Goodwill	13,837	13,837
Other assets	11,312	12,101
Total assets	$ 230,210	$ 253,205
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 39,955	$ 44,645
Accrued liabilities	24,169	28,433
Notes payable	75,500	—
Total current liabilities	139,624	73,078
Long-term debt	—	73,000
Other liabilities	45,110	47,142
Total liabilities	184,734	193,220
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; 20,019,347 shares issued and 19,501,708 shares outstanding in 2009 and 19,496,620 shares issued and 19,296,003 shares outstanding in 2008	200	195
Additional paid-in capital	147,042	146,741
Retained deficit	(85,251)	(67,205)
Accumulated other comprehensive loss	(16,510)	(19,744)
Treasury stock, 517,639 and 200,617 shares in 2009 and 2008, respectively	(5)	(2)
Total stockholders' equity	45,476	59,985

Total liabilities and stockholders’ equity	$ 230,210	$ 253,205

Note: The balance sheet at December 31, 2008 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.

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Sypris Solutions, Inc.

Consolidated Cash Flow Statements

(in thousands)

	Six Months Ended July 5, 2009	Six Months Ended June 29, 2008
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (18,123)	$ (550)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,700	13,511
Noncash compensation expense	398	736
Other noncash items	510	(4,969)
Change in operating assets and liabilities:		
Accounts receivable	(684)	(2,502)
Inventory	11,209	1,275
Other current assets	1,819	4,623
Accounts payable	(4,597)	8,641
Accrued liabilities	(2,146)	(11,523)
Net cash (used in) provided by operating activities	(1,914)	9,242
Cash flows from investing activities:		
Capital expenditures, net	(3,418)	(7,040)
Proceeds from sale of assets	82	181
Changes in nonoperating assets and liabilities	196	(162)
Net cash used in investing activities	(3,140)	(7,021)
Cash flows from financing activities:		
Net change in debt under revolving credit agreements	2,500	(2,000)
Debt modification costs	(652)	—
Cash dividends paid	(386)	(1,153)
Net cash provided by (used in) financing activities	1,462	(3,153)
Net decrease in cash and cash equivalents	(3,592)	(932)
Cash and cash equivalents at beginning of period	13,717	14,622
Cash and cash equivalents at end of period	$ 10,125	$ 13,690

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

Sypris Solutions, Inc.

Notes to 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, testing, and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for truck components & assemblies, aerospace & defense electronics, and test & measurement equipment.

(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 and six months ended July 5, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2008 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.

(3) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). The objective of SFAS No. 157 is to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 was effective for the Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Company's consolidated financial statements. The adoption of SFAS No. 157 for non-financial assets and liabilities, effective January 1, 2009, did not have a significant impact on the Company's consolidated financial statements.

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 applies to all derivative instruments and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of Statement 133, and related hedged items accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. This statement is effective for fiscal years beginning on or after November 15, 2008. The adoption of this statement did not have a significant impact on the Company's disclosures included in its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position SFAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement did not have a significant impact on the Company's consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is not expected to change existing practices but rather reduce the complexity of financial reporting. This statement will go into effect 60 days after the SEC approves related auditing rules.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). This FSP addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share (EPS) pursuant to the two-class method described in paragraphs 60 and 61 of SFAS No. 128, Earnings Per Share. A share-based payment award that contains a non-forfeitable right to receive cash when dividends are paid to common shareholders irrespective of whether that award ultimately vests or remains unvested shall be considered a participating security as these rights to dividends provide a non-contingent transfer of value to the holder of the share-based payment award. Accordingly, these awards should be included in the computation of basic EPS pursuant to the two-class method. The guidance in this FSP is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. Under the terms of the Company's restricted stock awards, grantees are entitled to receive dividends on the unvested portions of their awards. There is no requirement to return these dividends in the event the unvested awards are forfeited in the future. Accordingly, the Company evaluated the impact of FSP EITF 03-6-1 and determined that the impact was not material and determined the basic and diluted earnings per share amounts, as reported, are equivalent to the basic and diluted earnings per share amounts calculated under FSP EITF 03-6-1.

In April 2009, the FASB staff issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, Interim Financial Reporting, to require these disclosures in all interim financial statements. The adoption of this staff position as of July 5, 2009 did not have a material impact on disclosures in the Company's consolidated financial statements.

In April 2009, the FASB staff issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This FSP provides additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly (i.e., a forced liquidation or distressed sale). The adoption of this staff position as of July 5, 2009 did not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, (SFAS No. 165) which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. SFAS No. 165 provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted SFAS No. 165 during the second quarter of 2009, and its application had no impact on the Company's consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was August 18, 2009.

(4) 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 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' 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 $89,900,000 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' internal valuation methodology.

Sypris recorded the Claim at the estimated fair value on August 7, 2007 in accordance with 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’ Claim for $89,900,000. 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 $2,556,800,000 and the Eligible Claims at $3,000,000,000. The ratio of Dana Residual Value to Total Claims of 85% ($2,556,800,000 divided by $3,000,000,000) represented the expected recovery rate for the Eligible Claims. Sypris applied the estimated 85% recovery rate to its Claim of $89,900,000, resulting in an estimated fair value of $76,483,000 for the Claim.

Sypris allocated the estimated fair value of $76,483,000 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 Staff Accounting Bulletin 104, “Revenue Recognition” (SAB 104). In accordance with Topic 13 A.1 of SAB 104, 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, the right to participate in additional distributions of reserved shares of common stock of Dana 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 Dana Holding Corporation 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 $6,891,000. On April 21, 2008, July 30, 2008 and October 10, 2008, the Company received 114,536, 152,506 and 384,931 of Dana common shares, respectively.

The aforementioned cash distribution of $6,891,000 was recorded as a reduction in the Company’s $76,483,000 recorded fair value basis in the Claim. The remaining balance of the $69,592,000 was equivalent to approximately $18.17 per share of Dana common stock, based on the number of Dana 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 Dana common stock and the stock to be received as consideration for the Claim. For the first quarter of 2008, the $69,592,000 was allocated on a pro rata basis as follows: $56,162,000 was attributed to an initial distribution of 3,090,408 shares received by the Company on February 11, 2008, and the remaining $13,430,000 was attributed to the expected subsequent distribution of approximately 739,000 shares. For the second quarter of 2008, the remaining $13,430,000 in recorded fair value was further allocated on a pro rata basis as follows: $2,081,000 was attributed to 114,536 additional shares actually received on April 21, 2008 and the remaining $11,349,000 was attributed to the expected subsequent distribution of approximately 624,000 shares. For the third quarter of 2008, the remaining $11,349,000 in recorded fair value was further allocated on a pro rata basis as follows: $2,771,000 was attributed to 152,506 additional shares actually received on July 30, 2008 and the remaining $8,578,000 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 July 5, 2009, the Company has received approximately 98% of the total common shares it expects to receive. If the Company ultimately receives fewer additional shares than expected, the recorded costs of shares held would be adjusted on a pro rata basis.

At the end of each of the first three quarters of 2008, the Company analyzed whether declines in the quoted market prices of Dana common stock were temporary or “other-than-temporary,” in accordance with the factors outlined in SFAS No. 157 and SAB Topic 5M. Based on those factors, the Company determined these declines to be temporary during the first three quarters of 2008, and accordingly, the Company reported the differences between Dana’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 SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115).

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 Dana 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 Dana stock on October 10, 2008, $6,995,000 of the remaining $8,578,000 in recorded value was attributed to those shares, while the final $1,583,000 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 Dana 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 Dana's stock price had 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 Dana stock and the financial condition and near-term prospects of Dana, the Company determined that its investment in Dana 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. The non-cash impairment was based on Dana's closing stock price of $0.74 per share on December 31, 2008.

The Company has not sold any of its common stock in Dana, and at July 5, 2009, the cost basis and fair value of the Company's holdings of Dana common stock amounted to $2,769,000 and $5,239,000, respectively. In accordance with SFAS No. 115, the $2,470,000 increase in value was recorded as an unrealized holding gain in other comprehensive loss for the first six months of 2009.

At July 5, 2009, the Company's right to participate in additional distributions of Dana common stock, presently estimated to be 87,000 additional shares, is carried at $64,000 in other assets. Had these shares been received at July 5, 2009, the Company would have recorded an additional $57,000 unrealized holding gain to other comprehensive loss.

(5) 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 and Marion, Ohio facilities and the integration of its Aerospace & Defense 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 $25.0 million in annual savings. The activities generating the expected savings are from the following: i) annual savings of $12.5 million from facility closings, ii) annual savings of $7.5 million from operational efficiencies expected to begin during the third quarter of 2009, iii) annual savings of $3.0 million from product costing changes implemented during the first quarter of 2009, and iv) annual savings of $2.0 million from various quality improvement initiatives expected to be implemented by the fourth quarter of 2009. The Company expects to substantially complete its program by early 2010. As a result of these initiatives, in 2008, the Company recorded a restructuring charge of $45,086,000, or $2.45 per share. For the three and six months ended July 5, 2009, the Company recorded a restructuring charge of $1,732,000, or $0.09 per share and $3,713,000, or $0.20 per share, respectively. Of the $1,732,000 recorded in the second quarter, $1,460,000 was recorded within the Industrial Group and $272,000 was recorded within the Aerospace & Defense segment. Of these costs, $162,000 was for severance and benefit-related costs, $377,000 related to equipment relocation costs, $751,000 represented non-cash impairment costs and $442,000 represented other costs, primarily related to IT and process reengineering consultants. Of the $3,713,000 recorded in the first half of 2009, $2,701,000 was recorded within the Industrial Group and $1,012,000 was recorded within the Aerospace & Defense segment. Of these costs, $872,000 was for severance and benefit-related costs, $1,089,000 related to equipment relocation costs, $872,000 represented non-cash impairment costs and $880,000 represented other costs, primarily related to IT and process reengineering consultants. Of the aggregate $50,807,000 of pre-tax costs for the total program, the Company expects $13,451,000 will be cash expenditures, the majority of which has been spent at July 5, 2009.

The total pre-tax costs of $50,807,000 expected to be incurred includes $22,284,000 within the Industrial Group and $28,523,000 within the Aerospace & Defense segment. The Company expects to incur additional pre-tax costs of $2,008,000 as outlined in the table below, including approximately $1,654,000 within the Industrial Group and $354,000 within the Aerospace & Defense segment.

A summary of the pre-tax restructuring charges is as follows (in thousands):

	Total Program	Recognized as of July 5, 2009	Remaining Costs to be Recognized
Severance and benefit-related costs	$ 3,818	$ 3,595	$ 223
Asset impairments	13,053	13,053	—
Deferred contract costs write-offs	16,102	16,102	—
Inventory related charges	7,895	7,895	—
Equipment relocation costs	1,918	1,328	590
Asset retirement obligations	1,500	1,500	—
Contract termination costs	3,209	3,209	—
Other	3,312	2,117	1,195
	$ 50,807	$ 48,799	$ 2,008

A summary of restructuring activity and related reserves at July 5, 2009 is as follows (in thousands):

	Accrued Balance at December 31, 2008	2009 Charge	Cash Payments or Asset Write-Offs	Accrued Balance at July 5, 2009
Severance and benefit related costs	$ 2,045	$ 872	$ (1,984)	$ 933
Asset impairments	—	872	(872)	—
Asset retirement obligations	1,500	—	(13)	1,487
Contract termination costs	3,141	—	(2,210)	931
Other	—	1,969	(1,969)	—
	$ 6,686	$ 3,713	$ (7,048)	$ 3,351

A summary of total charges by reportable segment is as follows (in thousands):

	Industrial Group	Aerospace & Defense	Total
Severance and benefit-related costs	$ 2,617	$ 978	$ 3,595
Asset impairments	13,053	—	13,053
Deferred contract costs write-offs	—	16,102	16,102
Inventory related charges	—	7,895	7,895
Equipment relocation costs	1,328	—	1,328
Asset retirement obligations	1,500	—	1,500
Contract termination costs	1,868	1,341	3,209
Other	264	1,853	2,117
	$ 20,630	$ 28,169	$ 48,799

Severance and benefit-related costs tied to workforce reductions were recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146) and SFAS No. 112, Employers'

Accounting for Postemployment Benefits (SFAS No. 112). Under SFAS No. 146, one-time termination benefits that are conditioned on employment through a certain transition period are recognized ratably between the date employees are communicated the details of the one-time termination benefit and their final date of service. Accordingly, the Company recorded $2,723,000 in 2008, $872,000 in the first six months of 2009 and expects to record an additional $223,000 during the remainder of 2009.

The Company evaluates its long-lived assets for impairment when events or circumstances indicate that the carrying value may not be recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). The Company's strategic decision to close certain facilities and transfer production among other facilities led to a $12,181,000 non-cash impairment charge in 2008 and an $872,000 non-cash charge in the first six months of 2009. The charges were based on the excess of carrying value of certain assets not expected to be redeployed over their respective fair value. Fair values for these assets were determined based on appraisals and discounted cash flow analyses. The additional charges in 2009 were for assets originally expected to be redeployed to other locations but later determined to not be economically feasible to move. For assets to be redeployed to other Company locations, the Company incurred $239,000 in relocation costs in 2008, $1,089,000 in the first six months of 2009 and expects to incur $590,000 in additional costs during the remainder of 2009 and early 2010. The Company had originally estimated that total relocation costs would approximate $4,179,000. However, the Company determined that it would not be economically feasible to relocate certain equipment, and these assets were later impaired.

Forecasted volumes for one of the Company's link encryption products was significantly reduced during the fourth quarter of 2008 due to revised demand estimates from the National Security Agency. The Company had incurred and deferred over $20,000,000 in pre-contract costs since 2005. Based on this revision in demand, the Company recorded a non-cash charge of $16,102,000 in 2008 to write off a portion of these deferred contract costs in accordance with American Institute of Certified Public Accountants Statement of Position No. 81-1, Accounting for Performance of Construction-Type Contracts (SOP 81-1). Additionally, as a result of integration efforts within the Aerospace & Defense segment and the exit from certain other non-core product lines, the Company recorded non-cash inventory charges totaling $7,895,000 for inventory determined to be excess or obsolete as of December 31, 2008.

Asset retirement obligations recorded during 2008 relate to the expected closure of two Industrial Group facilities. Although the Company is indemnified for major environmental conditions that existed prior to the acquisition of these facilities, certain other matters, including emptying residual chemicals from remaining storage tanks, purging operating pipelines within the facilities, and filling pits following the relocation of strategic operating equipment to other facilities, remain the responsibility of the Company. Such costs are estimated to be $1,500,000, of which $13,000 was expended during the first six months of 2009.

In connection with the Company's restructuring, certain property under operating leases ceased being used during the fourth quarter of 2008. Aggregate discounted lease payments and a $915,000 lease termination payment made in the second quarter of 2009 were accrued in 2008 in accordance with SFAS No. 146. Total lease contract termination costs amounted to $3,209,000 for 2008.

(6) Loss Per Common Share

On January 1, 2009, the Company adopted FSP EITF 03-6-1. This FSP addresses determinations as to whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, Earnings Per Share. Restricted stock awards granted to employees contain nonforfeitable dividend rights and, therefore, are now considered participating securities in accordance with FSP EITF 03-6-1. Accordingly, the Company evaluated the impact of FSP EITF 03-6-1 and determined that the impact was not material and determined the basic and diluted earnings per share amounts, as reported, are equivalent to the basic and diluted earnings per share amounts calculated under FSP EITF 03-6-1.

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

	Three Months Ended	Six Months Ended

	July 5, 2009	June 29, 2008	July 5, 2009	June 29, 2008
	(Unaudited)		(Unaudited)	
Shares used to compute basic loss per common share	18,478	18,351	18,456	18,347
Dilutive effect of equity awards	—	—	—	—
Shares used to compute diluted loss per common share	18,478	18,351	18,456	18,347

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(7) Investment in Marketable Securities

The Company's investment in marketable securities consists exclusively of shares in Dana common stock. The Company's investment in Dana common stock is classified as an available-for-sale security in accordance with SFAS No. 115 and measured at fair value as determined by a quoted market price (a level 1 valuation under SFAS No. 157). The related unrealized holding gains are excluded from operations and recorded in accumulated other comprehensive loss on the consolidated balance sheets. At July 5, 2009 and December 31, 2008, the Company owned 3,742,381 common shares of Dana with a market value of $1.40 per share and $0.74 per share, respectively. At July 5, 2009, the gross unrealized gain was approximately $2,769,000. There were no unrealized gains or losses at December 31, 2008. Realized gains and losses and declines in value judged to be other-than-temporary will be included in other expense, if and when recorded. In accordance with SFAS No. 157, the fair value of the shares was valued based on quoted market prices in active markets for identical shares at July 5, 2009 and December 31, 2008.

The following table summarizes marketable securities as of July 5, 2009 and December 31, 2008 (in thousands):

	Basis	Gross Unrealized Gain/(Loss)	Gross Realized Gain/(Loss)	Fair Value At Quoted Prices in Active Markets (Level 1)
Marketable securities, July 5, 2009	$ 2,769	$ 2,470	$ —	$ 5,239
Marketable securities, December 31, 2008	$ 2,769	$ —	$ —	$ 2,769

(8) Inventory

Inventory consisted of the following (in thousands):

	July 5, 2009 (Unaudited)	December 31, 2008
Raw materials, including perishable tooling of $334 and $737 in 2009 and 2008, respectively	$ 14,332	$ 16,423
Work in process	8,085	9,804
Finished goods	4,063	8,337
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	19,027	24,230
Progress payments related to long-term contracts and programs	—	(781)
Reserve for excess and obsolete inventory	(9,669)	(9,619)
	$ 35,838	$ 48,394

(9) Debt

Debt consisted of the following (in thousands):

	July 5, 2009 (Unaudited)	December 31, 2008
Revolving credit facility	$ 45,500	$ 43,000

Senior notes		30,000		30,000
	$	75,500	$	73,000
Classified as notes payable	$	75,500	$	—
Classified as long-term debt	$	—	$	73,000

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In March 2009, the Company's Revolving Credit Agreement and Senior Notes were amended to, among other things, i) waive the defaults as of December 31, 2008, ii) limit total borrowings, iii) revise the maturity date for the Credit Agreement and Senior Notes to January 15, 2010, iv) revise certain financial covenants, v) restrict the payment of dividends, vi) require mandatory prepayment to the extent that marketable securities or other collateral is sold, and vii) increase the interest rate structure. Maximum borrowings on the Revolving Credit Agreement are $50,000,000, and standby letters of credit up to a maximum of $15,000,000 may be issued under the Revolving Credit Agreement of which $1,851,000 were issued at July 5, 2009.

As a result of the aforementioned modifications, the Company deferred $652,000 of loan costs, which are being amortized from other assets in the consolidated balance sheets.

(10) Segment Data

The Company is organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group is one reportable business segment, while the Electronics Group includes two reportable business segments, Aerospace & Defense and Test & Measurement. 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		Six Months Ended	
	July 5, 2009	June 29, 2008	July 5, 2009	June 29, 2008
	(Unaudited)		(Unaudited)	
Net revenue from unaffiliated customers:				
Industrial Group	$ 36,941	$ 69,100	$ 74,439	$ 138,915
Aerospace & Defense	32,437	27,011	62,648	50,435
Test & Measurement	12,718	14,239	26,700	27,262
Electronics Group	45,155	41,250	89,348	77,697
	$ 82,096	$ 110,350	$ 163,787	$ 216,612
Gross profit (loss):				
Industrial Group	$ (1,630)	$ 5,333	$ (4,332)	$ 12,162
Aerospace & Defense	6,073	2,354	9,329	5,253
Test & Measurement	3,172	3,767	6,973	7,105
Electronics Group	9,245	6,121	16,302	12,358
	$ 7,615	$ 11,454	$ 11,970	$ 24,520
Operating (loss) income:				
Industrial Group	$ (5,377)	$ 2,458	$ (12,061)	$ 6,612
Aerospace & Defense	1,964	(1,993)	739	(2,746)
Test & Measurement	616	838	1,482	1,349
Electronics Group	2,580	(1,155)	2,221	(1,397)
General, corporate and other	(1,742)	(2,275)	(3,993)	(4,679)
	$ (4,539)	$ (972)	$ (13,833)	$ 536

	July 5, 2009 (Unaudited)	December 31, 2008
Total assets:		
Industrial Group	$ 135,160	$ 146,964
Aerospace & Defense	58,560	65,077

Test & Measurement	27,826	29,892
Electronics Group	86,386	94,969
General, corporate and other	8,664	11,272
	$ 230,210	$ 253,205

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(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 July 5, 2009 and December 31, 2008 was $442,000 and $466,000, respectively. The Company's warranty expense for the six months ended July 5, 2009 and June 29, 2008 was $122,000 and $276,000, 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 July 5, 2009 and December 31, 2008, the Company had deferred $962,000 and $476,000, 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 July 5, 2009, the Company had outstanding purchase commitments of approximately $28,486,000, primarily for the acquisition of inventory and manufacturing equipment. As of July 5, 2009, the Company also had outstanding letters of credit of $1,851,000 primarily under a 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 28%. The Company's foreign operations are also subject to minimum income taxes in periods where positive cash flows exceed taxable income. In the second quarter of 2009, 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 SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). 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. SFAS No. 109 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

$2,780,000 and $6,986,000 was recorded through earnings for the three and six months ended July 5, 2009, respectively; 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. For the three and six months ended June 29, 2008, the Company recorded a valuation allowance of $937,000 through earnings.

(13) Employee Benefit Plans

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

	Three Months Ended July 5, 2009	Three Months Ended June 29, 2008	Six Months Ended July 5, 2009	Six Months Ended June 29, 2008
	(Unaudited)		(Unaudited)	
Service cost	$ 18	$ 25	$ 36	$ 50
Interest cost on projected benefit obligation	595	580	1,190	1,160
Net amortizations, deferrals and other costs	252	27	504	54
Expected return on plan assets	(587)	(813)	(1,174)	(1,626)
	$ 278	$ (181)	$ 556	$ (362)

(14) Other Comprehensive Loss

The Company's accumulated other comprehensive loss consists of the accumulated net unrealized gains (losses) on available-for-sale securities, 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 July 5, 2009	Three Months Ended June 29, 2008	Six Months Ended July 5, 2009	Six Months Ended June 29, 2008
	(Unaudited)		(Unaudited)	
Net loss	$ (6,778)	$ (935)	$ (18,123)	$ (550)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale securities, net of tax of $61 and $3,902 for the three and six months ended June 29, 2008	2,769	(15,643)	2,470	(36,874)
Foreign currency translation adjustments	1,266	1,836	764	2,370
Total comprehensive loss	$ (2,743)	$ (14,742)	$ (14,889)	$ (35,054)

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

	July 5, 2009	December 31, 2008
	(Unaudited)	
Foreign currency translation adjustments	$ (5,173)	$ (5,937)
Unrealized gain on available-for-sale securities, net of tax	2,470	—
Employee benefit related adjustments, net of tax	(13,807)	(13,807)
Accumulated other comprehensive loss	$ (16,510)	$ (19,744)

(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 amount of debt outstanding at July 5, 2009 approximates fair value because borrowings are for terms of less than one year 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

Results of Operations

The tables presented below, which compare our results of operations for the three and six month periods from 2009 to 2008, present the results for each period, the change in those results from 2009 to 2008 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 July 5, 2009 Compared to Three Months Ended June 29, 2008

	Three Months Ended July 5, 2009	Three Months Ended June 29, 2008	Year Over Year Change Favorable (Unfavorable)	Year Over Year Percentage Change Favorable (Unfavorable)	Results as Percentage of Net Revenue for the Three Months Ended July 5, 2009	Results as Percentage of Net Revenue for the Three Months Ended June 29, 2008
	(in thousands, except percentage data)					
Net revenue:						
Industrial Group	$ 36,941	$ 69,100	$ (32,159)	(46.5)%	45.0%	62.6%
Aerospace & Defense	32,437	27,011	5,426	20.1	39.5	24.5
Test & Measurement	12,718	14,239	(1,521)	(10.7)	15.5	12.9
Electronics Group	45,155	41,250	3,905	9.5	55.0	37.4
Total	82,096	110,350	(28,254)	(25.6)	100.0	100.0
Cost of sales:						
Industrial Group	38,571	63,767	25,196	39.5	104.4	92.3
Aerospace & Defense	26,364	24,657	(1,707)	(6.9)	81.3	91.3
Test & Measurement	9,546	10,472	926	8.8	75.1	73.5
Electronics Group	35,910	35,129	(781)	(2.2)	79.5	85.2
Total	74,481	98,896	24,415	24.7	90.7	89.6
Gross profit:						
Industrial Group	(1,630)	5,333	(6,963)	(130.6)	(4.4)	7.7
Aerospace & Defense	6,073	2,354	3,719	158.0	18.7	8.7
Test & Measurement	3,172	3,767	(595)	(15.8)	24.9	26.5
Electronics Group	9,245	6,121	3,124	51.0	20.5	14.8
Total	7,615	11,454	(3,839)	(33.5)	9.3	10.4
Selling, general and administrative	9,362	11,279	1,917	17.0	11.4	10.2
Research and development	1,032	1,089	57	5.2	1.3	1.0
Amortization of intangible assets	28	58	30	51.7	—	—
Nonrecurring expense	1,732	—	(1,732)	NM	2.1	—
Operating loss	(4,539)	(972)	(3,567)	(367.0)	(5.5)	(0.8)
Interest expense, net	2,303	1,023	(1,280)	(125.1)	2.8	0.9
Other income, net	(384)	(924)	(540)	(58.4)	(0.5)	(0.8)
Loss before income taxes	(6,458)	(1,071)	(5,387)	(503.0)	(7.9)	(0.9)
Income tax expense (benefit)	320	(136)	(456)	NM	0.4	(0.1)
Net loss	$ (6,778)	$ (935)	$ (5,843)	(624.9)%	(8.3)%	(0.8)%

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Six Months Ended July 5, 2009 Compared to Six Months Ended June 29, 2008

	Six Months Ended July 5, 2009	Six Months Ended June 29, 2008	Year Over Year Change Favorable (Unfavorable)	Year Over Year Percentage Change Favorable (Unfavorable)	Results as Percentage of Net Revenue for the Six Months Ended July 5, 2009	Results as Percentage of Net Revenue for the Six Months Ended June 29, 2008
	(in thousands, except percentage data)					
Net revenue:						
Industrial Group	$ 74,439	$ 138,915	$ (64,476)	(46.4)%	45.4%	64.1%
Aerospace & Defense	62,648	50,435	12,213	24.2	38.2	23.3
Test & Measurement	26,700	27,262	(562)	(2.1)	16.3	12.6
Electronics Group	89,348	77,697	11,651	15.0	54.6	35.9
Total	163,787	216,612	(52,825)	(24.4)	100.0	100.0
Cost of sales:						
Industrial Group	78,771	126,753	47,982	37.9	105.8	91.2
Aerospace & Defense	53,319	45,182	(8,137)	(18.0)	85.1	89.6
Test & Measurement	19,727	20,157	430	2.1	73.9	73.9
Electronics Group	73,046	65,339	(7,707)	(11.8)	81.8	84.1
Total	151,817	192,092	40,275	21.0	92.7	88.7
Gross profit:						
Industrial Group	(4,332)	12,162	(16,494)	(135.6)	(5.8)	8.8
Aerospace & Defense	9,329	5,253	4,076	77.6	14.9	10.4
Test & Measurement	6,973	7,105	(132)	(1.9)	26.1	26.1
Electronics Group	16,302	12,358	3,944	31.9	18.2	15.9
Total	11,970	24,520	(12,550)	(51.2)	7.3	11.3
Selling, general and administrative	19,834	21,771	1,937	8.9	12.1	10.0
Research and development	2,200	2,084	(116)	(5.6)	1.3	1.0
Amortization of intangible assets	56	129	73	56.6	—	—
Nonrecurring expense	3,713	—	(3,713)	NM	2.3	—
Operating (loss) income	(13,833)	536	(14,369)	NM	(8.4)	0.3
Interest expense, net	3,572	1,975	(1,597)	(80.9)	2.2	0.9
Other income, net	(77)	(916)	(839)	(91.6)	—	(0.4)
Loss before income taxes	(17,328)	(523)	(16,805)	NM	(10.6)	(0.2)
Income tax expense	795	27	(768)	NM	0.5	—
Net loss	$ (18,123)	$ (550)	$ (17,573)	NM	(11.1)%	(0.2)%

Backlog. At July 5, 2009, backlog for our Aerospace & Defense segment decreased $24.5 million to $73.4 million from $97.9 million at June 29, 2008, on a 37% decrease in net orders to $31.0 million in the six months ended July 5, 2009 compared to $49.3 million in net orders in the first six months of 2008. Backlog for our Test & Measurement segment decreased $3.9 million to $5.0 million at July 5, 2009, on $24.8 million in net orders compared to $28.4 million in net orders for the first six months of 2008. We expect to convert approximately 91% of the Aerospace & Defense backlog and 100% of the Test & Measurement backlog at July 5, 2009 to revenue during the next twelve months.

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group decreased $32.2 million and $64.5 million from the prior year second quarter and six month periods, respectively. Depressed market conditions for medium and heavy duty commercial vehicles and light trucks have contributed to volume related reductions in net revenue of approximately $23.1 million and $41.0 million for the second quarter and six month periods, respectively. Volume declines for trailer axles also resulted in a $6.9 million and $12.7 million net revenue reduction from the prior year second quarter and six month periods, respectively. Revenue also declined $4.9 million and $12.8 million for the second quarter and six month periods, respectively, due to the discontinued sale of axle shafts to a light truck customer. Further, amortization of contractual settlements and price reductions resulted in a $0.2 million and $4.5 million decrease in net revenue for the second quarter and six month periods, respectively. Partially offsetting the volume change was an increase in steel prices, which is passed through to customers under certain contracts, resulting in an increase in net revenue of $2.9 million and $6.5 million for the second quarter and six month periods, respectively.

The Aerospace & Defense segment derives its revenue from product sales and technical outsourced services. Net revenue in the Aerospace & Defense segment increased $5.4 million and $12.2 million from the prior year second quarter and six month periods, respectively, primarily as a result of shipments of new electronic circuit card assemblies for the Bradley Combat System.

The Test & Measurement segment derives its revenue from technical services and product sales. Technical services revenue accounted for approximately 85% and 88% of total Test & Measurement revenue in the first six months of 2009 and 2008, respectively. Test & Measurement segment net revenue decreased $1.5 million and $0.6 million for the second quarter and six months ended July 5, 2009, respectively, primarily as a result of a decline in component screening sales related to softness within the commercial aviation business.

Gross Profit. The Industrial Group's gross profit decreased to a loss of $1.6 million and $4.3 million in the second quarter and six month periods of 2009, respectively from profit of $5.3 million and $12.2 million in the second quarter and six month periods of 2008, respectively. The significant decrease in sales volume and related loss of fixed overhead absorption resulted in a reduction in gross profit of approximately $5.9 million and $11.1 million for the second quarter and six month periods, respectively. Higher defined benefit expenses resulted in a reduction in gross profit of approximately $0.5 million and $0.9 million for the second quarter and six month periods. The Industrial Group also realized a decline in gross profit of $2.6 million and $7.0 million for the second quarter and six month periods, respectively, as a result of lower revenue from contractual settlements and pricing as compared to the prior year periods. The decreases in gross profit were partially offset by productivity improvements attributable to restructuring activities of approximately $2.0 million and $3.1 million for the second quarter and six month periods, respectively.

The Aerospace & Defense segment's gross profit increased $3.7 million and $4.1 million in the second quarter and six month periods of 2009, respectively. The increase in gross profit is primarily due to the redesign of a secured communication product and increased volumes. Gross profit as a percentage of revenue also increased to 18.7% and 14.9% for the second quarter and six month periods of 2009, respectively, from 8.7% and 10.4% for the second quarter and six month periods of 2008, respectively.

The Test & Measurement segment's gross profit decreased $0.6 million and $0.1 million for the second quarter and six month periods of 2009, respectively. The decrease in gross profit is primarily a result of lower volumes within the component screening business partially offset by cost containment activities. Gross profit as a percentage of revenue in the second quarter decreased to 24.9% from 26.5%. Gross profit as a percentage of revenue remained constant at 26.1% for the six months ended July 5, 2009.

Selling, General and Administrative. Selling, general and administrative expense decreased $1.9 million for both the second quarter and six month periods of 2009, respectively, primarily due to reductions in compensation and employee benefit costs.

Research and Development. Research and development costs decreased slightly in the second quarter of 2009 but increased 5.6% for the six months ended July 5, 2009. The increase is primarily due to new product development efforts within our Aerospace & Defense segment.

Nonrecurring Expense. In December 2008, we announced a restructuring program, which included the closure of the Industrial Group's Kenton and Marion, Ohio facilities and the consolidation of Sypris Electronics and Sypris Data Systems into a single operation within the Aerospace & Defense segment. Additionally, we have exited several programs within the Aerospace & Defense segment. The purpose of the restructuring program is to reduce fixed costs, accelerate integration efficiencies, and significantly improve operating earnings on a sustained basis. The restructuring activities are expected to result in $25.0 million in annual savings. The activities generating the expected savings are from the following: i) annual savings of $12.5 million from facility closings, ii) annual savings of $7.5 million from operational efficiencies expected to begin during the third quarter of 2009, iii) annual savings of $3.0 million from product costing changes implemented during the first quarter of 2009, and iv) annual savings of $2.0 million from various quality improvement initiatives expected to be implemented by the fourth quarter of 2009. As a result of these initiatives, we recorded, or expect to record in future periods, aggregate pre-tax expenses of approximately $50.8 million, consisting of the following: $3.8 million in severance and benefit costs, $13.1 million in non-cash asset impairments, $16.1 million in non-cash deferred contract costs write-offs, $7.9 million in inventory related charges, $1.9 million in equipment relocation costs, $1.5 million in asset retirement obligations, $3.2 million in contract termination costs and $3.3 million in other restructuring charges. Of the aggregate $50.8 million in pre-tax costs, we expect $13.5 million will be cash expenditures, the majority of which has been spent at July 5, 2009. The cash outflows related to these programs are expected to be funded from continuing operations and the existing revolving credit agreement and are not expected to have a material adverse impact on our liquidity. Of the total program, we recorded $1.7 million, or $0.11 per share, and $3.7 million or $0.20 per share related to these initiatives during the second quarter and six months ended July 5, 2009, respectively, which is included in nonrecurring expense on the consolidated statement of operations. The charge for the six months ended July 5, 2009 consisted of $0.9 million for employee severance and benefit costs, $1.0 million in equipment relocation costs, $0.9 million in non-cash asset impairments, and $0.9 million in other various charges. The additional non-cash asset impairments incurred during the first six months of 2009 were for assets originally expected to be redeployed to other locations but later determined to not be economically feasible to move. Additionally, we revised our estimate for equipment relocation costs to $1.9 million from the original estimate of $4.2 million, as we determined it would not be economically feasible to relocate certain equipment. We expect to incur approximately $0.2 million in additional employee severance and benefit costs, approximately $0.6 million in additional equipment relocation costs, and approximately $1.2 million in other exit costs. See Note 5 to the consolidated financial statements included in this Form 10-Q.

Interest Expense. Interest expense for the second quarter and six months ended July 5, 2009 increased primarily due to an increase in the weighted average debt outstanding and an increase in interest rates resulting from the March 2009 modification of our Credit Agreement and Senior Notes. Our weighted average debt outstanding increased to $76.7 million and $74.6 million for the second quarter and six month periods of 2009, respectively, from $56.2 million and $54.7 million during the second quarter and six month periods of 2008, respectively. The weighted average interest rate was 8.0% and 6.9% for the second quarter and six month periods of 2009, respectively, compared to 6.5% and 6.9% for the second quarter and six month periods of 2008, respectively.

Income Taxes. The provision for income taxes in the second quarter and six month periods of 2009 is associated exclusively with our foreign subsidiaries and includes minimum taxes required to be paid in Mexico.

Liquidity, Capital Resources and Financial Condition

Net cash used by operating activities was $1.9 million in the first six months of 2009 as compared to net cash provided of $9.2 million in 2008, primarily due to significantly lower revenues and operating income in 2009. Accounts receivable increased and used $0.7 million as a result of the timing of shipments and collections. Inventory decreased and provided $11.2 million, primarily as a result of a focus on bringing inventory levels down to meet current demand within the Industrial Group and a focus on improving inventory turns within the

Electronics Group. Other current assets decreased and provided $1.8 million primarily as a result of a $2.9 million tax refund for our Mexico operations partially offset by a $0.9 million increase in unbilled receivables within the Aerospace & Defense Group. Accounts payable decreased and used $4.6 million primarily due to the timing of payments to and from our suppliers and reduced purchases by our Industrial Group. Accrued liabilities decreased and used $2.1 million, primarily as a result of the payout of various restructuring accruals including the payment of $0.9 million to terminate a lease for Sypris Data Systems and payments of $1.6 million in severance related to the shutdown of the Kenton and Marion, Ohio facilities.

Net cash used in investing activities decreased $3.9 million to $3.1 million for the first six months of 2009, primarily due to lower capital expenditures.

Net cash provided by financing activities was $1.5 million in the first six months of 2009, as compared to net cash used of $3.2 million in the first six months of 2008. We borrowed an additional $2.5 million on the Revolving Credit Agreement during the six months ended July 5, 2009, as compared to a reduction in debt of $2.0 million during the first six months of 2008. Additionally, we paid $0.7 million in financing fees in conjunction with the modification of our debt in 2009.

We had total borrowings under our Revolving Credit Agreement of $45.5 million at July 5, 2009 and an unrestricted cash balance of $10.1 million. Approximately $3.8 million of the unrestricted cash balance relates to our Mexican subsidiaries. In March 2009, our Revolving Credit Agreement and Senior Notes were amended to, among other things, i) waive the defaults as of December 31, 2008, ii) limit total borrowings, iii) revise the maturity date for the Credit Agreement and Senior Notes to January 15, 2010, iv) revise certain financial covenants, v) restrict the payment of dividends, vi) require mandatory prepayment to the extent that marketable securities or other collateral is sold outside of the ordinary course of business, and vii) increase our interest rate structure. As of July 5, 2009, we were in compliance with all covenants. Maximum borrowings under the Revolving Credit Agreement are $50.0 million, and standby letters of credit up to a maximum of $15.0 million may be issued under the Revolving Credit Agreement, of which $1.9 million were issued at July 5, 2009.

We also had purchase commitments totaling approximately $28.5 million at July 5, 2009, primarily for inventory and manufacturing equipment.

Assuming we are able to renegotiate our current Revolving Credit Agreement and Senior Notes, we believe that sufficient resources will be available to satisfy our cash requirements for at least the next twelve months. Our assessment of the availability of funds for the next twelve months is based in part on our intent to renegotiate our current Revolving Credit Agreement and Senior Notes or to retire both of these obligations in connection with the execution of new debt financing agreements. 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, 2008. There have been no significant changes in our critical accounting policies during the six month period ended July 5, 2009.

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 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: 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; our ability to liquidate our equity interests in Dana Holding Corporation at satisfactory valuation levels; potential impairments, non-recoverability or write-offs of goodwill, assets or deferred costs, including deferred tax assets in the U.S. or Mexico; fees, costs or other dilutive effects of refinancing, compliance with covenants in, or acceleration of, our loan and other debt agreements; unexpected or increased costs, time delays and inefficiencies of restructuring our manufacturing capacity; breakdowns, relocations or major repairs of machinery and equipment; our inability to successfully launch new or next generation programs; 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 (including the possibility that our common stock could cease to qualify for listing on the NASDAQ Stock Market due to a sustained decline in prices per share, or other regulatory compliance including, shareholder approval requirements, or 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" transactions); 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, 2008.

In this quarterly report, we may rely on and refer to information and statistics regarding the markets in which we compete. We obtained this information and these statistics from various third party sources and publications that are not produced for the purposes of securities offerings or reporting or economic analysis. We have not independently verified the data and cannot assure the accuracy of the data we have included.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined in Item 10 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

None.

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, 2008.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

The Company's Annual Meeting of Stockholders was held on May 12, 2009 in Louisville, Kentucky. At the meeting, stockholders elected three Class I directors for a term of three years pursuant to the following votes:

Class I Director	Votes in Favor	Votes Withheld
John F. Brinkley	17,010,562	1,165,884
Robert E. Gill	16,928,235	1,248,211
William L. Healey	16,989,734	1,186,712

The total number of shares of common stock outstanding as of March 16, 2009, the record date of the Annual Meeting of Stockholders, was 19,613,907. The terms of office of each R. Scott Gill, Robert Sroka, William G. Ferko, Jeffrey T. Gill and Sidney R. Petersen continued after the Annual Meeting.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1	Form of 2009 Sypris Three-Year Bonus Agreement, effective as of May 12, 2009.
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:	August 18, 2009	By:	/s/ Brian A. Lutes (Brian A. Lutes) Vice President & Chief Financial Officer
Date:	August 18, 2009	By:	/s/ Rebecca R. Eckert (Rebecca R. Eckert) Controller (Principal Accounting Officer)

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