



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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934  
For the quarterly period ended October 2, 2016

OR

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

Commission file number: 0-24020

**SYPRIS SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

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

**101 Bullitt Lane, Suite 450**  
**Louisville, Kentucky 40222**  
(Address of principal executive  
offices) (Zip code)

**(502) 329-2000**  
(Registrant's telephone number,  
including area code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No  
As of November 7, 2016 the Registrant had 21,242,190 shares of common stock outstanding.

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**Part I. Financial Information****Item 1. Financial Statements****Sypris Solutions, Inc.  
Consolidated Statements of Operations****(in thousands, except for per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2016</b>	<b>October 4, 2015</b>	<b>October 2, 2016</b>	<b>October 4, 2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net revenue:				
Outsourced services	\$ 16,908	\$ 29,089	\$ 54,252	\$ 93,903
Products	4,476	9,348	17,574	22,299
Total net revenue	21,384	38,437	71,826	116,202
Cost of sales:				
Outsourced services	18,160	29,278	57,330	100,390
Products	3,945	6,691	13,768	16,535
Total cost of sales	22,105	35,969	71,098	116,925
Gross profit (loss)	(721)	2,468	728	(723)
Selling, general and administrative	5,208	5,969	16,952	22,414
Research and development	104	119	318	647
Severance	0	457	522	1,023
Operating loss	(6,033)	(4,077)	(17,064)	(24,807)
Interest expense, net	2,828	1,783	4,668	3,271
Loss on extinguishment of debt	1,521	0	1,521	0
Other (income), net	(31,595)	(7,841)	(34,166)	(8,595)
Income (loss) before taxes	21,213	1,981	10,913	(19,483)
Income tax expense, net	220	2,255	222	2,240
Net income (loss)	\$ 20,993	\$ (274)	\$ 10,691	\$ (21,723)
Income (loss) per share:				
Basic	\$ 1.02	\$ (0.01)	\$ 0.52	\$ (1.10)
Diluted	\$ 1.02	\$ (0.01)	\$ 0.52	\$ (1.10)
Weighted average shares outstanding:				
Basic	19,834	19,654	19,761	19,684
Diluted	19,834	19,654	19,761	19,684
Dividends declared per common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

**Sypris Solutions, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**

(in thousands)

	Three Months Ended		Nine Months Ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
	(Unaudited)		(Unaudited)	
Net income (loss)	\$ 20,993	\$ (274)	\$ 10,691	\$ (21,723)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(444)	(995)	(1,143)	(2,048)
Total comprehensive income (loss)	\$ 20,549	\$ (1,269)	\$ 9,548	\$ (23,771)

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

Sypris Solutions, Inc.

Consolidated Balance Sheets

(in thousands, except for share data)

	October 2, 2016	December 31, 2015
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,100	\$ 1,349
Restricted cash	1,500	0
Accounts receivable, net	8,791	12,394
Inventory, net	15,166	20,192
Other current assets	3,178	4,459
Assets held for sale	0	3,230
Total current assets	49,735	41,624
Property, plant and equipment, net	20,924	22,178
Other assets	2,019	3,090
Total assets	\$ 72,678	\$ 66,892
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 9,471	\$ 11,311
Accrued liabilities	12,875	11,661
Revolving credit facility	0	2,132
Current portion of long-term debt and capital lease obligations	203	1,714
Total current liabilities	22,549	26,818
Note payable – related party	6,360	5,315
Long-term debt and capital lease obligations	3,008	8,965
Other liabilities	10,523	6,082
Total liabilities	42,440	47,180
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	0	0
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	0	0
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	0	0
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 21,330,882 shares issued and 21,278,190 outstanding in 2016 and 20,826,236 shares issued and 20,776,544 outstanding in 2015	213	208
Additional paid-in capital	153,050	152,077
Retained deficit	(96,121)	(106,812)
Accumulated other comprehensive loss	(26,903)	(25,760)
Treasury stock, 52,692 and 49,692 shares in 2016 and 2015, respectively	(1)	(1)
Total stockholders' equity	30,238	19,712
Total liabilities and stockholders' equity	\$ 72,678	\$ 66,892

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

**Sypris Solutions, Inc.**  
**Consolidated Cash Flow Statements**  
(in thousands)

	Nine Months Ended	
	October 2, 2016	October 4, 2015
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 10,691	\$ (21,723)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	5,086	7,022
Deferred income taxes	0	2,436
Stock-based compensation expense	1,027	717
Deferred revenue recognized	0	(4,200)
Deferred loan costs recognized	1,810	1,929
Loss on extinguishment of debt	1,521	0
Gain on sale of assets	(33,630)	(7,423)
Provision for excess and obsolete inventory	132	1,305
Other noncash items	(178)	(1,478)
Contributions to pension plans	0	(315)
Changes in operating assets and liabilities:		
Accounts receivable	3,635	23,384
Inventory	(1,637)	2,154
Other current assets	(554)	(4,332)
Accounts payable	(1,833)	(12,051)
Accrued and other liabilities	966	860
Net cash used in operating activities	(12,964)	(11,715)
Cash flows from investing activities:		
Capital expenditures, net	(1,404)	(1,155)
Proceeds from sale of assets	50,414	15,700
Change in restricted cash	(1,500)	0
Net cash provided by investing activities	47,510	14,545
Cash flows from financing activities:		
Repayment of term loan	(11,714)	0
Repayment of revolving credit agreement	(2,132)	0
Penalty paid on early extinguishment of debt	(1,521)	0
Net change in debt under revolving credit agreements	0	(10,738)
Proceeds from note payable – related party	1,000	5,500
Debt issuance and modification costs	(379)	(2,335)
Indirect repurchase of shares for minimum statutory tax withholdings	(49)	(77)
Cash dividends paid	0	(410)
Net cash used in financing activities	(14,795)	(8,060)
Net increase (decrease) in cash and cash equivalents	19,751	(5,230)
Cash and cash equivalents at beginning of period	1,349	7,003
Cash and cash equivalents at end of period	<u>\$ 21,100</u>	<u>\$ 1,773</u>

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

## Sypris Solutions, Inc.

### Notes to Consolidated Financial Statements

#### (1) Nature of Business

All references to “Sypris,” the “Company,” “we” or “our” include Sypris Solutions, Inc. and its wholly-owned subsidiaries. Sypris is a diversified provider of manufacturing services and products. The Company performs a wide range of manufacturing, engineering, design, and other technical services, often under multi-year, sole-source contracts with corporations and government agencies, primarily in the markets for truck components, oil and gas pipeline components and aerospace and defense electronics. The Company provides such services through its two segments, Sypris Technologies, Inc. (Sypris Technologies) and Sypris Electronics, LLC (Sypris Electronics). See Note 13, “Segment Data,” to the consolidated financial statements.

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other assets of Sypris Electronics (the “CSS Sale”) comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines (see Note 5 “CSS Sale” to the consolidated financial statements). The retained portion of the Sypris Electronics segment will continue to provide electronic manufacturing and design support services to customers in the aerospace, defense, medical and severe environment markets, among others.

#### (2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries, and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The Company’s operations are domiciled in the United States (U.S.) and Mexico and serve a wide variety of domestic and international customers. All 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 nine months ended October 2, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2015 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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. This new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. This ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year to January 1, 2018. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations and includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. In April of 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing, which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients, which amends the guidance on transition, collectability, non-cash consideration, and the presentation of sales and other similar taxes. ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria. The standard allows for both retrospective and modified retrospective methods of adoption. The Company is in the process of determining the method of adoption it will elect and is currently assessing the impact of this ASU on its consolidated financial statements and footnote disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern. The new guidance requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern for each annual and interim period. If conditions or events give rise to substantial doubt, disclosures are required. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. The Company is currently assessing the impact of adopting this ASU on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU 2015-03. In August 2015 the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. ASU 2015-15 was issued to address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements that were not found in ASU 2015-03. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the ASU provides that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These standards are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and should be applied retrospectively. Early adoption is permitted. The Company adopted this guidance January 1, 2016. As a result of adoption, debt issuance costs of \$1,220,000 were reclassified from assets to reduce long-term-debt as of December 31, 2015.

In July 2015, the FASB issued ASU No. 2015-11, which simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with a lower of cost or net realizable value test. The standard is effective for public entities for annual reporting periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The new guidance must be applied prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard affects any entity that enters into a lease, with some specified scope exemptions. The guidance in this update supersedes FASB ASC 840, Leases. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this ASU on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09) requiring an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. ASU 2016-09 becomes effective for the Company during the first quarter 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. This ASU provides guidance to clarify how certain cash receipts and payments should be presented in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted in any annual or interim period. The updated guidance requires a modified retrospective adoption. The Company is evaluating the impact of adoption on the Company's financial position, results of operations and cash flow.



#### **(4) Management's Plans**

In light of the recent strength of the U.S. dollar, tightening margins and unfavorable growth trends and softness in certain sectors of commercial vehicle manufacturing, the Company has surrendered a portion of its traditional market share in the commercial vehicle manufacturing, due to its nonrenewal of certain supply agreements with Dana Holding Corporation ("Dana") in early 2015, and with Meritor, Inc. ("Meritor") for certain of its domestic, forged axle shafts, effective January 1, 2017. In response to these changes, management is developing various profit recovery and protection plans and evaluating strategic alternatives to optimize asset values in each of the Company's segments.

The Company has completed a number of its profit recovery and protection actions during 2015 and the first nine months of 2016, including: (i) the CSS sale (defined below), (ii) the Toluca Sale-Leaseback (defined below), (iii) the sale of the Company's manufacturing facility in Morganton, North Carolina (see Note 7), (iv) reductions in workforce at all locations, and (v) other reductions in employment costs through reduced work schedules, senior management pay reductions, deferral of merit increases and certain benefit payments. Using a portion of the proceeds generated from asset sales noted above, the Company paid off all senior debt and has received the benefit of cash infusions from Gill Family Capital Management, Inc. ("GFCM") in the form of subordinated promissory note obligations totaling \$6,500,000 in principal through the first nine months of 2016.

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other related assets of Sypris Electronics (the "CSS Sale") comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines (see Note 5 "CSS Sale"). The sale generated gross proceeds of \$42,000,000. The retained portion of the Sypris Electronics segment will continue to provide electronic manufacturing and design support services to customers in the aerospace, defense, medical and severe environment markets, among others.

One of the additional actions implemented by management during 2016 was to consummate the sale and partial lease back of its facility located in Toluca Mexico, which generated gross proceeds of approximately \$12,182,000. Management will continue to operate in Toluca, but given the reduction in Sypris Technologies' revenues in 2015 and the overall downturn in the commercial vehicle markets beginning in the fourth quarter of 2015, management determined that the underutilized Toluca real estate value could be better optimized with a sale and lease back arrangement where some but not all of the facility would continue to be occupied and managed by Sypris Technologies.

Demand in the U.S. commercial vehicle industry has softened beginning in the fourth quarter of 2015 along with other durable and non-durable goods sectors in the North America economy. In response to the reduced demand, management implemented reductions in selling, general and administrative expense and labor expense during the first nine months of 2016. The expected benefits of the cost reductions were partially offset by the impact of minor investments and severance required to enable the cost reductions. Additionally, the Company is in the process of developing a comprehensive restructuring plan, which is expected to be implemented starting in the fourth quarter of 2016. The restructuring plan may involve the streamlining of operations within Sypris Technologies in an effort to return to profitability in a timely basis.

The oil and gas industry has experienced significant price volatility, and as a result the Company's customers are delaying capital expenditures that support their growth and maintenance projects. The Company has identified some capacity reallocation opportunities between plants in the United States and Mexico. The Company has initiated the process of qualifying production for certain components in Mexico that are currently produced in the United States and completed the qualification for the first group of these components. The Company expects this capacity reallocation may accelerate during the remainder of 2016 as the capital necessary to fund the reallocation becomes available and the qualification process for the production is complete.

Management implemented certain cost reductions at the corporate headquarters that are expected to improve profitability and cash flow throughout 2016 and 2017. Salary reductions and other selling, general and administrative cost reductions were implemented during the first nine months of 2016 that management believes will continue to benefit the Company throughout future periods.

**(5) CSS Sale**

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other assets of Sypris Electronics (the “CSS Sale”) comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines. The assets were sold for \$42,000,000 in cash consideration, \$1,500,000 of which is to be held in escrow for up to 12 months in connection with certain customary representations, warranties, covenants and indemnifications of the Company. The total book value of the related business assets included in the sale was \$8,086,000, and consisted of \$6,562,000 in inventories, \$1,050,000 in fixed assets, \$624,000 in other current assets and \$150,000 in accrued liabilities. The Company incurred transaction related expenses of \$2,674,000, and the Company recognized a net gain of \$31,240,000 on the sale, which is included in other income, net in the consolidated statement of operations for the three and nine months ended October 2, 2016.

A portion of the proceeds from the CSS Sale was used to pay off the Term Loan and pay down the outstanding balances under the Revolving Credit Facility. The retained portion of the Sypris Electronics segment will continue to provide electronic manufacturing and design support services to customers in the aerospace, defense, medical and severe environment markets, among others.

Revenue from the CSS product lines for the three and nine months ended October 2, 2016 was \$1,769,000 and \$11,061,000, respectively. Revenue from the CSS product lines for the three and nine months ended October 4, 2015 was \$6,822,000 and \$10,786,000, respectively. While the Company is able to distinguish revenue and contribution margin information related to the CSS business, the Company is not able to present meaningful information about the results of operations and cash flows of the CSS business. Therefore, the sale was not classified as a discontinued operation.

**(6) Toluca Sale-Leaseback**

On October 30, 2015, the Company entered into a non-binding letter of intent to sell and lease-back its property and buildings in Toluca, Mexico, which is part of the Sypris Technologies Group. As such, the Company concluded that the assets qualified for Assets Held for Sale accounting in accordance with Accounting Standards Codification (ASC) 205 as of December 31, 2015. The assets had a net book value of \$3,230,000 as of December 31, 2015.

On March 9, 2016, Sypris Technologies Mexico, S. de R.L. de C.V. (“Seller”), a subsidiary of the Company, concluded its sale of the 24-acre Toluca property pursuant to an agreement with Promotora y Desarrolladora Pulso Inmobiliario, S.C. (together with its affiliates and assignees, “Buyer”) for 215,000,000 Mexican Pesos, or approximately \$12,182,000 in U.S. currency. Simultaneously, the Seller and the Buyer entered a long-term lease of the 9 acres and buildings currently occupied by Seller and needed for its ongoing business in Toluca (collectively, the “Toluca Sale-Leaseback”). The Company incurred transaction related expenses of \$1,116,000.

As a result of the Toluca Sale-Leaseback, the Company initially recorded a capital lease of \$3,315,000, which is included in property plant and equipment. The Company recorded an initial gain on the sale of \$2,370,000 during the nine months ended October 2, 2016, which is included in other income, net in the consolidated statement of operations, and recorded a deferred gain of \$4,779,000 as of October 2, 2016, which will be recognized over the ten year lease term. The Company’s base rent, which is denominated in U.S. currency, is \$936,000 annually, adjusted based on U.S. CPI with certain cap conditions.

The following assets have been segregated and included in assets held for sale in the consolidated balance sheet as of December 31, 2015 (in thousands):

	<b>December 31, 2015</b>
Land and land improvements	\$ 1,568
Buildings and building improvements	3,658
Accumulated depreciation	(1,996)
Property, plant and equipment, net	<u>\$ 3,230</u>

(7) **Morganton Sale**

On July 9, 2015, the Company entered into an asset purchase agreement (the “Agreement”) to sell certain assets used in the Company’s manufacturing facility in Morganton, North Carolina, to its largest customer, Meritor, Inc. (“Meritor”). The Company retained the Morganton plant’s axle shaft manufacturing lines and certain related assets, intellectual property and inventories, which were transitioned to the Company’s Louisville, Kentucky plant in October 2015. All other Morganton equipment, related assets and intellectual property were sold to Meritor (the “Morganton Sale”) for \$10,500,000 in cash paid at the closing and other consideration. Meritor purchased related inventories and accounts receivable and assumed or released certain accounts payable and other accrued liabilities, for \$2,000,000 (subject to customary post-closing adjustments to actual). Meritor also purchased the Morganton building and real estate for \$3,200,000. The total proceeds received of \$15,700,000, primarily in consideration for the Morganton sale, were used to pay down the Company’s prior senior secured debt. As a result of the Morganton sale, the Company recognized a gain of \$7,744,000.

At closing, the parties also entered into an amendment to a secured promissory note with Meritor in an original principal amount of \$3,047,000 (the “Meritor Note”) to increase the principal balance by \$412,000, effective July 9, 2015. The parties also agreed to increase the Meritor Note by an additional \$321,000 in September 2015 to reflect certain roof repairs required at the Morganton facility. The Company repaid the Meritor Note on October 30, 2015.

(8) **Income (loss) Per Common Share**

The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Restricted stock granted by the Company is considered a participating security since it contains a non-forfeitable right to dividends.

Our potentially dilutive securities include potential common shares related to our stock options and restricted stock. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. Diluted earnings per share excludes the impact of common shares related to our stock options in periods in which the option exercise price is greater than the average market price of our common stock for the period. There were 2,304,250 potential common shares excluded from diluted earnings per share for the three and nine months ended October 2, 2016. For the three and nine months ended October 4, 2015, diluted weighted average common shares do not include the impact of any outstanding stock options and unvested compensation-related shares because the effect of these items on diluted net loss would be anti-dilutive.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2016</b>	<b>October 4, 2015</b>	<b>October 2, 2016</b>	<b>October 4, 2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Income (loss) attributable to stockholders:</b>				
Net income (loss) as reported	\$ 20,993	\$ (274)	\$ 10,691	\$ (21,723)
Less distributed and undistributed earnings allocable to restricted award holders	(737)	0	(331)	0
Net income (loss) allocable to common stockholders	<u>\$ 20,256</u>	<u>\$ (274)</u>	<u>\$ 10,360</u>	<u>\$ (21,723)</u>
<b>Income (loss) per common share attributable to stockholders:</b>				
Basic	\$ 1.02	\$ (0.01)	\$ 0.52	\$ (1.10)
Diluted	\$ 1.02	\$ (0.01)	\$ 0.52	\$ (1.10)
Weighted average shares outstanding – basic	19,834	19,654	19,761	19,684
Weighted average additional shares assuming conversion of potential common shares	0	0	0	0
Weighted average shares outstanding – diluted	<u>19,834</u>	<u>19,654</u>	<u>19,761</u>	<u>19,684</u>

(9) **Inventory**

Inventory consists of the following (in thousands):

	<b>October 2, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
Raw materials	\$ 8,441	\$ 12,388
Work in process	9,039	10,366
Finished goods	2,451	3,167
Reserve for excess and obsolete inventory	(4,765)	(5,729)
	<u>\$ 15,166</u>	<u>\$ 20,192</u>

(10) **Property, Plant and Equipment**

Property, plant and equipment consists of the following (in thousands):

	<b>October 2, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
Land and land improvements	\$ 219	\$ 219
Buildings and building improvements	17,566	18,305
Machinery, equipment, furniture and fixtures	120,531	123,935
Construction in progress	1,899	759
	<u>140,215</u>	<u>143,218</u>
Accumulated depreciation	(119,291)	(121,040)
	<u>\$ 20,924</u>	<u>\$ 22,178</u>

(11) **Debt**

Long-term debt and capital lease obligations consists of the following:

	<b>October 2, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>Current:</b>		
Revolving Credit facility	\$ 0	\$ 2,132
Current portion of long term debt	0	1,714
Current portion of capital lease obligation	203	0
Current debt and capital lease obligation	<u>\$ 203</u>	<u>\$ 3,846</u>
<b>Long Term:</b>		
Term loan	\$ 0	\$ 10,000
Note payable – related party	6,500	5,500
Capital lease obligation	3,008	0
Less unamortized debt issuance and modification costs	(140)	(1,220)
Long term debt and capital lease obligations, net of unamortized debt costs	<u>\$ 9,368</u>	<u>\$ 14,280</u>

*Note Payable – Related Party*

During 2015, the Company received the proceeds of subordinated indebtedness from GFCM in an amount of \$5,500,000. On February 26, 2016, the Company further amended the GFCM note to increase the amount by \$1,000,000 to \$6,500,000. GFCM is an entity controlled by the Company's chairman, president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. The promissory note bears interest at a rate of 8.00% per year and the principal is due on January 30, 2019. On September 30, 2016, the Note was amended to begin paying interest on a quarterly basis.

### *Revolving Credit Facility and Term Loan*

On October 30, 2015, the Company secured debt financing consisting of a \$12,000,000 term loan (“Term Loan”) and a \$15,000,000 revolving credit facility (“Revolving Credit Facility”). Proceeds from the two new financing arrangements (collectively the “Loan Agreements”) were used in part to repay the senior secured debt with a prior lender and the Meritor Note.

On February 25, 2016, the Company entered into an amendment (the “Term Loan Amendment”) to the Term Loan and an amendment (the “Revolving Credit Amendment”) to the Revolving Credit Facility (together, the “Amendments”). The Amendments increased the Company’s borrowing capability under its Revolving Credit Facility and provided for an agreement on the use of proceeds from the sale of its Toluca, Mexico property and buildings, as described below.

As a result of the Term Loan Amendment, the Company deposited \$6,000,000 of the proceeds of the sale-leaseback of its Toluca, Mexico property and buildings (the “Toluca Sale-Leaseback”) into a Cash Collateral Account, to be held as additional collateral for the Term Loan. The Term Loan Amendment also permitted the Company to retain the remaining balance of the proceeds from Toluca Sale-Leaseback, and increased the interest rate of the Term Loan by 1.0%.

On August 16, 2016, the Company repaid the Term Loan in full and paid down the Revolving Credit Facility with proceeds generated from the CSS Sale (see Note 5 “CSS Sale”). In connection with the repayment of the Term Loan, the \$6,000,000 balance of the Cash Collateral Account was released. Additionally, on September 2, 2016, the Company terminated and paid all remaining obligations due under the Company’s Revolving Credit Facility. As a result of the early extinguishment of debt, the Company was required to pay \$1,521,000 in penalties, which is included in loss on extinguishment of debt in the accompanying statements of operations, and wrote off the remaining amount of deferred loan costs associated with the Term Loan and Revolving Credit Facility, which is included in interest expense, net in the accompanying statements of operations.

The classification of debt as of December 31, 2015 considers debt outstanding under the Loan Agreements on a long-term basis. However, the Revolving Credit Facility allows the lender to establish certain reserves against the borrowing base which could, under certain circumstances, cause a potential event of default. Because such an event is not objectively measurable in advance and because the Company was required to maintain a lock-box arrangement, ASC 470-10-45 requires the otherwise long-term revolving advances to be classified as a current liability. As a result, all borrowings under the Revolving Credit Facility have been classified in the accompanying consolidated balance sheets as a current liability.

### *Capital Lease Obligation*

On March 9, 2016, the Company completed the sale of its 24-acre Toluca property pursuant to an agreement with Promotora y Desarrolladora Pulso Inmobiliario, S.C. (together with its affiliates and assignees, “Buyer”) for 215,000,000 Mexican Pesos, or approximately \$12,182,000 in U.S. currency. Simultaneously, the Company entered into a long-term lease of the 9 acres and buildings currently occupied by the Company and needed for its ongoing business in Toluca (see Note 6 “Toluca Sale-Leaseback”). The Company incurred transaction related expenses of \$1,116,000.

The Company recorded an initial gain on the sale of \$2,370,000 during the nine months ended October 2, 2016, which is included in other income, net in the consolidated income statement, and recorded a deferred gain of \$4,779,000 as of October 2, 2016, which will be recognized over the ten year lease term. The Company’s base rent, which is denominated in U.S. currency, is \$936,000 annually, adjusted based on U.S. CPI with certain cap conditions. As a result of the Toluca Sale-Leaseback, the Company has a capital lease obligation of \$3,211,000 for the building.

The future minimum payments for the capital lease as of October 2, 2016 are as follows (in thousands):

2016 (remaining 3 months)	\$	137
2017		503
2018		549
2019		549
2020		503
Thereafter		2,834
Total future payments		<u>5,075</u>
Less: Amount representing interest		<u>(1,864)</u>
Present value of future minimum payments		3,211
Less: Current portion		<u>(203)</u>
Long term portion	\$	<u><u>3,008</u></u>

### (13) Segment Data

The Company is organized into two business groups, Sypris Technologies and Sypris Electronics. These segments are each managed separately because of the distinctions between the products, services, markets, customers, technologies and workforce skills of the segments. Sypris Technologies provides manufacturing services for a variety of customers that outsource forged and finished steel components and subassemblies. Sypris Technologies also manufactures high-pressure closures and other fabricated products. Sypris Electronics provides manufacturing and technical services as an outsourced service provider and manufactures complex data storage systems. Additionally, prior to August 16, 2016, Sypris Electronics also provided trusted solutions for identity management, cryptographic key distribution and cyber analytics (see Note 5 "CSS Sale"). 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):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 2, 2016</b>	<b>October 4, 2015</b>	<b>October 2, 2016</b>	<b>October 4, 2015</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
<b>Net revenue from unaffiliated customers:</b>				
Sypris Technologies	\$ 14,796	\$ 27,824	\$ 47,392	\$ 87,904
Sypris Electronics	6,588	10,613	24,434	28,298
	<u>\$ 21,384</u>	<u>\$ 38,437</u>	<u>\$ 71,826</u>	<u>\$ 116,202</u>
<b>Gross profit (loss):</b>				
Sypris Technologies	\$ (363)	\$ 1,973	\$ (1,279)	\$ (1,550)
Sypris Electronics	(358)	495	2,007	827
	<u>\$ (721)</u>	<u>\$ 2,468</u>	<u>\$ 728</u>	<u>\$ (723)</u>
<b>Operating (loss) income:</b>				
Sypris Technologies	\$ (2,099)	\$ (609)	\$ (7,123)	\$ (12,347)
Sypris Electronics	(1,996)	(1,515)	(3,965)	(6,216)
General, corporate and other	(1,938)	(1,953)	(5,976)	(6,244)
	<u>\$ (6,033)</u>	<u>\$ (4,077)</u>	<u>\$ (17,064)</u>	<u>\$ (24,807)</u>

	<u>October 2, 2016</u>	<u>December 31, 2015</u>
	(Unaudited)	
Total assets:		
Sypris Technologies	\$ 34,073	\$ 38,968
Sypris Electronics	14,316	23,845
General, corporate and other	24,289	4,079
	<u>\$ 72,678</u>	<u>\$ 66,892</u>

#### (14) 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 October 2, 2016 and December 31, 2015, was \$851,000 and \$830,000, respectively. The Company's warranty expense for the nine months ended October 2, 2016 and October 4, 2015 was \$64,000 and \$112,000, respectively.

Additionally, prior to the CSS sale, the Company sold 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 October 2, 2016 and December 31, 2015, the Company had deferred \$245,000 and \$495,000, respectively, related to extended warranties.

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.

As of October 2, 2016, the Company had outstanding purchase commitments of approximately \$9,346,000, primarily for the acquisition of inventory and manufacturing equipment. As of October 2, 2016, the Company also had outstanding letters of credit approximating \$66,000 for certain foreign customers.

The Company is involved in certain litigation and contract issues arising in the normal course of business. As a result, contingencies may arise resulting from an existing condition, situation, or set of circumstances involving an uncertainty as to the realization of a possible loss.

The Company accounts for loss contingencies in accordance with GAAP. Estimated loss contingencies are accrued only if the loss is probable and the amount of the loss can be reasonably estimated. With respect to a particular loss contingency, it may be probable that a loss has occurred but the estimate of the loss is within a wide range or undeterminable. If the Company deems an amount within the range to be a better estimate than any other amount within the range, that amount will be accrued. However, if no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued.

During the fourth quarter of 2015, the Company gave notification regarding its intention to not renew the lease for its Tampa, FL facility, which will expire on December 31, 2016. During the first quarter of 2016, the Company entered into lease negotiations to extend the current lease for a smaller portion of the facility, but was unable to reach an agreement on the economics of a lease renewal with its current landlord. On May 3, 2016, the Company entered a lease for an alternative facility, which it expects to occupy upon the expiration of the current lease. The Company, Sypris Electronics and the landlord of the Tampa facility are currently involved in litigation over certain terms of the lease (see Item 1, "Legal Proceedings"). As such, it is reasonably possible that the Company may be required to make certain repairs to the current facility in connection with the expiration of the Lease. The current estimate of the Company's reasonably possible loss contingency is from no liability to \$4,000,000. While the Company intends to vigorously dispute these claims, the Company accrued \$500,000 during the nine months ended October 2, 2016 related to its estimated potential obligation under the lease. This accrual is included in accrued liabilities in the Company's consolidated balance sheet as of October 2, 2016.

## (15) Income Taxes

The provision for income taxes includes federal, state, local and foreign taxes. The Company's effective tax rate varies from period to period due to the proportion of foreign and domestic pre-tax income expected to be generated by the Company. The Company provides for income taxes for its domestic operations at a statutory rate of 35% and for its foreign operations at a statutory rate of 30% in 2016 and 2015. Reconciling items between the federal statutory rate and the effective tax rate also include the expected usage of federal net operating loss carryforwards, state income taxes, valuation allowances and certain other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with ASC 740, *Income Taxes*. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of assets or liabilities are recovered or settled. ASC 740 requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company evaluates its deferred tax position on a quarterly basis and valuation allowances are provided as necessary. During this evaluation, the Company reviews its forecast of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is needed. Based on its current forecast, the Company has established a valuation allowance against the domestic net deferred tax asset.

As a result of the increased uncertainty surrounding the Company's forecast of taxable income in Mexico, it was determined that the Company no longer met the "more likely than not" threshold required under ASC 740-10 in order to maintain the Mexico deferred tax asset. Accordingly, the Company recorded a valuation allowance on its net deferred tax asset related to certain non-U.S. tax benefits, resulting in deferred tax expense of \$2,436,000 during the third quarter ended October 4, 2015. Until an appropriate level and characterization of profitability is attained, the Company expects to continue to maintain a valuation allowance on its net deferred tax assets related to future U.S. and non-U.S. tax benefits.

The Company expects to repatriate available non-U.S. cash holdings in 2016 to support management's strategic objectives and fund ongoing U.S. operational cash flow requirements; therefore current earnings from non-U.S. operations are not treated as permanently reinvested. The U.S. income tax expense recorded in 2015 on these non-U.S. earnings was offset by the benefit of a partial release of a valuation allowance on U.S. net operating loss carryforwards. Should the U.S. valuation allowance be released at some future date, the U.S. tax expense on foreign earnings not permanently reinvested might have a material effect on our effective tax rate. For the year ending December 31, 2016, the Company expects any additional tax expense from non-U.S. withholding and other taxes expected to be incurred on repatriation of current earnings would not be material.

## (16) Employee Benefit Plans

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

	Three Months Ended		Nine Months Ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
	(Unaudited)		(Unaudited)	
Service cost	\$ 1	\$ 3	\$ 4	\$ 10
Interest cost on projected benefit obligation	419	423	1,256	1,268
Net amortizations, deferrals and other costs	166	173	498	520
Expected return on plan assets	(493)	(561)	(1,478)	(1,683)
	<u>\$ 93</u>	<u>\$ 38</u>	<u>\$ 280</u>	<u>\$ 115</u>



**(17) Accumulated Other Comprehensive Loss**

The Company's accumulated other comprehensive loss consists of employee benefit-related adjustments and foreign currency translation adjustments.

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

	<u>October 2, 2016</u>	<u>December 31, 2015</u>
	(Unaudited)	
Foreign currency translation adjustments	\$ (10,697)	\$ (9,554)
Employee benefit related adjustments – U.S.	(16,177)	(16,177)
Employee benefit related adjustments – Mexico	(29)	(29)
Accumulated other comprehensive loss	<u>\$ (26,903)</u>	<u>\$ (25,760)</u>

**(18) 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 October 2, 2016 approximates fair value and is based upon a market approach (Level 2).

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

### Overview

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

We are organized into two business groups, Sypris Technologies and Sypris Electronics. Sypris Technologies, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of manufacturing services to customers in the market for truck components and assemblies and from the sale of products to the energy and chemical markets. Sypris Electronics, which is comprised of Sypris Electronics, LLC, generates revenue primarily from the sale of manufacturing and technical services as an outsourced service provider to customers in the market for aerospace and defense electronics. Additionally, prior to August 16, 2016, Sypris Electronics also provided trusted solutions for identity management, cryptographic key distribution and cyber analytics and manufactured complex data storage systems.

We focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry leaders that embrace technological innovation and flexibility, coupled with multi-year contractual relationships, where possible, as a strategic component of their supply chain management. Our leading-edge processes and technologies help our customers remain competitive and the resulting productivity and flexibility offer an important opportunity for differentiating ourselves from our competitors when it comes to cost, quality, reliability and customer service.

#### *Sypris Technologies Outlook*

In North America, production levels for light, medium and heavy duty trucks steadily increased from a low in the depressed economic environment of 2008 and 2009 through 2015, but are anticipated to decrease from 2015 through 2016 and 2017. Production levels for the remainder of 2016 are expected to remain relatively consistent with the lower levels experienced in the first nine months of 2016 and increase slightly in 2017. The continued strength of the U.S. dollar, the tightening of margins in certain sectors of the commercial vehicle markets and the generally softening markets have led the Company to reevaluate the strategic importance of each of its customers to the Company's long-term success. In connection with this reevaluation process, the Company and Meritor have determined not to renew their current supply agreement for certain of Meritor's domestic, forged axle shafts, beginning in 2017. For the nine months ended October 2, 2016, this portion of the Meritor business represented approximately 17% of our consolidated net revenue. However, the Company will continue to supply significant volumes of component parts to Sistemas Automotrices de Mexico, S.A de C.V. ("Sisamex"), Meritor's joint venture in Mexico, and will continue to supply axle shafts to Meritor's Brazilian subsidiary going forward.

The oil and gas markets, served by our engineered products line of Tube Turns® products, have been impacted, as some of our customers' revenues and near term capital expenditures have declined along with oil prices generally. However, the oil and gas outlook appears to be stabilizing as oil prices show signs of recovery and domestic pipeline projects continue to be active.

#### *Sypris Electronics Outlook*

We have faced challenges within Sypris Electronics, such as the uncertainty in the worldwide macroeconomic climate and its impact on aerospace and defense spending patterns globally, the emergence of new competitors to our product and service offerings, as well as federal government spending uncertainties in the U.S. and the allocation of funds by the U.S. Department of Defense.

Sypris Electronics' revenue had declined from 2009 through 2014 primarily due to our inability to replace the declining demand for certain legacy products and services with competitive new offerings. However, revenues increased in 2015 and in the first nine months of 2016, as we have begun to generate revenue from the ramp-up of new electronic manufacturing services and other technical service programs.

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other assets of Sypris Electronics (the “CSS Sale”) comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines. The assets were sold for \$42.0 million in cash consideration, \$1.5 million of which is to be held in escrow for up to 12 months in connection with certain customary representations, warranties, covenants and indemnifications of the Company. The retained portion of the Sypris Electronics segment will continue to provide electronic manufacturing and design support services to customers in the aerospace, defense, medical and severe environment markets, among others.

#### *Management’s Plan*

In light of the recent strength of the U.S. dollar, tightening margins and unfavorable growth trends and softness in certain sectors of commercial vehicle manufacturing, the Company has surrendered a portion of its traditional market share in commercial vehicle manufacturing due to its nonrenewal of certain supply agreements with Dana Holding Corporation (“Dana”) in early 2015, and with Meritor, Inc. for certain of its domestic, forged axle shafts, effective January 1, 2017. However, the Company will continue to supply significant volumes of component parts to Sisamex and will continue to supply axle shafts to Meritor’s Brazilian subsidiary going forward.

The Company has completed a number of profit recovery and protection actions in 2015 and the first nine months of 2016, including: (i) the CSS sale (defined below), (ii) the Toluca Sale-Leaseback (defined below), (iii) the sale of the Company’s manufacturing facility in Morganton, North Carolina, (iv) reductions in workforce at all locations, and (v) other reductions in employment costs through reduced work schedules, senior management pay reductions, deferral of merit increases and certain benefit payments. Using a portion of the proceeds generated from the asset sales noted above, the Company paid off all senior debt in 2016 and has received the benefit of cash infusions from Gill Family Capital Management, Inc. (“GFCM”) in the form of subordinated promissory note obligations totaling \$6.5 million in principal through the first nine months of 2016. Gill Family Capital Management, Inc. (“GFCM”) is an entity controlled by the Company’s chairman, president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill.

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other related assets of Sypris Electronics (the “CSS Sale”) comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines (see Note 5 “CSS Sale”). The sale generated gross proceeds of \$42.0 million. The retained portion of the Sypris Electronics segment will continue to provide electronic manufacturing and design support services to customers in the aerospace, defense, medical and severe environment markets, among others.

In connection with the CSS Sale, management has initiated the process of preparing a long-term business plan for the business units retained by Sypris Electronics after the divestiture. Management intends to include in its plan a continuing effort to grow and diversify its electronic manufacturing service business and the identification of opportunities for cost reductions and cash flow enhancements for the retained portion of the business.

One of the additional actions implemented by management during 2016 was to consummate the sale and partial lease back of its facility located in Toluca, Mexico, which generated gross proceeds of approximately \$12.2 million (the “Toluca Sale-Leaseback”) (see Note 6 “Toluca Sale-Leaseback” to the consolidated financial statements in this Form 10-Q). Management will continue to operate in Toluca, but given the reduction in Sypris Technologies’ revenues in 2015 and the overall downturn in the commercial vehicle markets beginning in the fourth quarter of 2015, management determined that the underutilized Toluca real estate value could be better optimized with a sale and lease back arrangement where some but not all of the facility would continue to be occupied and managed by Sypris Technologies.

Demand in the U.S. commercial vehicle industry has softened beginning in the fourth quarter of 2015 along with other durable and non-durable goods sectors in the North America economy. In response to the reduced demand, management implemented reductions in selling, general and administrative expense and labor expense during the first nine months of 2016. The expected benefits of the cost reductions were partially offset by the impact of minor investments and severance required to enable the cost reductions. Additionally, the Company is in the process of developing a comprehensive restructuring plan, which is expected to be implemented starting in the fourth quarter of 2016. The restructuring plan may involve the streamlining of operations within Sypris Technologies in an effort to return to profitability in a timely basis.

The oil and gas industry has experienced significant price volatility, and as a result, the Company's customers are delaying capital expenditures that support their growth and maintenance projects. The Company has identified some capacity reallocation opportunities between plants in the United States and Mexico. The Company has initiated the process of qualifying production for certain components in Mexico that are currently produced in the United States and completed the qualification for the first group of these components. The Company expects this capacity reallocation may accelerate during the remainder of 2016 as the capital necessary to fund the reallocation becomes available and the qualification process for the production is complete.

Management has identified certain cost reductions at the corporate headquarters that are expected to improve profitability and cash flow throughout 2016. Salary reductions and other selling, general and administrative cost reductions were implemented during the first nine months of 2016 that management believes will continue to benefit the company throughout future periods. Additional cost reductions have been identified in the area of professional services, administration and lease expense.

Sypris Technologies has also developed and begun to implement new marketing plans, especially as we seek to migrate from a small number of traditional Tier 1 customers in the commercial vehicle markets, including Dana and Meritor, to a more diversified base of customers who are able to place higher strategic value on our innovation, flexibility and lean manufacturing capabilities. For the commercial vehicle markets, these new plans include a focused effort by the Company's senior management to engage directly with a select number of current and potential customers, especially those OEM's who have expressed an interest in our approach, to explore the new capabilities, additional product innovations and reduced cost structures that we are working, and investing, to offer beginning in 2017. For the energy markets, the Company's marketing plans include a new strategic focus on the North American natural gas markets and on the oil and gas markets in the Middle East. We continue to believe that our long-term commitment to high quality pipeline components will position us to grow with certain targeted customers who are experiencing increased demand, especially for our patented closure products.

## Results of Operations

The tables below compare our segment and consolidated results for the three and nine month periods of operations of 2016 to the three and nine month periods of operations of 2015. The tables present the results for each period, the change in those results from 2015 to 2016 in both dollars and percentage change and the results for each period as a percentage of net revenue.

- The first two columns in each 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 each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of that segment’s net revenue. These amounts are shown in italics.

In addition, as used in the table, “NM” means “not meaningful.”

### Three Months Ended October 2, 2016 Compared to Three Months Ended October 4, 2015

	Three Months Ended,		Year Over	Year Over	Results as Percentage of Net	
	Oct. 2, 2016	Oct 4, 2015	Year Change Favorable (Unfavorable)	Year Percentage Change Favorable (Unfavorable)	Oct. 2, 2016	Oct 4, 2015
(in thousands, except percentage data)						
Net revenue:						
Sypris Technologies	\$ 14,796	\$ 27,824	\$ (13,028)	(46.8)%	69.2%	72.4%
Sypris Electronics	6,588	10,613	(4,025)	(37.9)	30.8	27.6
Total	21,384	38,437	(17,053)	(44.4)	100.0	100.0
Cost of sales:						
Sypris Technologies	15,159	25,851	10,692	41.4	<i>102.5</i>	<i>92.9</i>
Sypris Electronics	6,946	10,118	3,172	31.4	<i>105.4</i>	<i>95.3</i>
Total	22,105	35,969	13,864	38.5	103.4	93.6
Gross profit (loss):						
Sypris Technologies	(363)	1,973	(2,336)	(118.4)	<i>(2.5)</i>	<i>7.1</i>
Sypris Electronics	(358)	495	(853)	(172.3)	<i>(5.4)</i>	<i>4.7</i>
Total	(721)	2,468	(3,189)	(129.2)	<i>(3.4)</i>	<i>6.4</i>
Selling, general and administrative	5,208	5,969	761	12.7	24.3	15.5
Research and development	104	119	15	12.6	0.5	0.3
Severance	—	457	457	100.0	—	1.2
Operating loss	(6,033)	(4,077)	(1,956)	(48.0)	(28.2)	(10.6)
Interest expense, net	2,828	1,783	(1,045)	(58.6)	13.2	4.6
Loss on extinguishment of debt	1,521	—	(1,521)	NM	7.1	—
Other income, net	(31,595)	(7,841)	23,754	302.9	(147.7)	(20.4)
Income before taxes	21,213	1,981	19,232	970.8	99.2	5.2
Income tax expense, net	220	2,255	2,035	90.2	1.0	5.9
Net income (loss)	<u>\$ 20,993</u>	<u>\$ (274)</u>	<u>\$ 21,267</u>	NM	<u>98.2%</u>	<u>(0.7)%</u>

Nine Months Ended October 2, 2016 Compared to Nine Months Ended October 4, 2015.

	Nine Months Ended,		Year Over	Year Over	Results as Percentage of	
	Oct. 2, 2016	Oct 4, 2015	Year Change Favorable (Unfavorable)	Percentage Change Favorable (Unfavorable)	Net Revenue for the Nine Months Ended	
					Oct. 2, 2016	Oct 4, 2015
(in thousands, except percentage data)						
Net revenue:						
Sypris Technologies	\$ 47,392	\$ 87,904	\$ (40,512)	(46.1)%	66.0%	75.6%
Sypris Electronics	24,434	28,298	(3,864)	(13.7)	34.0	24.4
Total	71,826	116,202	(44,376)	(38.2)	100.0	100.0
Cost of sales:						
Sypris Technologies	48,671	89,454	40,783	45.6	102.7	101.8
Sypris Electronics	22,427	27,471	5,044	18.4	91.8	97.1
Total	71,098	116,925	45,827	39.2	99.0	100.6
Gross profit (loss):						
Sypris Technologies	(1,279)	(1,550)	271	17.5	(2.7)	(1.8)
Sypris Electronics	2,007	827	1,180	142.7	8.2	2.9
Total	728	(723)	1,451	200.7	1.0	(0.6)
Selling, general and administrative	16,952	22,414	5,462	24.4	23.6	19.3
Research and development	318	647	329	50.9	0.4	0.6
Severance	522	1,023	501	49.0	0.8	0.9
Operating loss	(17,064)	(24,807)	7,743	31.2	(23.8)	(21.4)
Interest expense, net	4,668	3,271	(1,397)	(42.7)	6.5	2.8
Loss on extinguishment of debt	1,521	—	(1,521)	NM	2.1	—
Other income, net	(34,166)	(8,595)	25,571	297.5	(47.6)	(7.4)
Income (loss) before taxes	10,913	(19,483)	30,396	NM	15.2	(16.8)
Income tax expense, net	222	2,240	2,018	90.1	0.3	1.9
Net income (loss)	\$ 10,691	\$ (21,723)	\$ 32,414	149.2	14.9%	(18.7)%

*Net Revenue.* Sypris Technologies derives its revenue from manufacturing services and product sales. Net revenue for Sypris Technologies for the three and nine month periods ended October 2, 2016 decreased \$13.0 million and \$40.5 million from the prior year comparable periods, respectively. The loss of the trailer axle revenue with the sale of assets in Morganton accounted for \$0.9 million and \$13.2 million of the decline for the three and nine month periods, respectively. Additionally, the Company experienced a decrease in revenue of \$9.9 million and \$21.8 million in the three and nine months ended October 2, 2016 resulting primarily from lower demand from customer in the commercial vehicle and oil and gas industries. Furthermore, a decline in steel prices, which is passed through to customers under certain contracts, resulted in a decrease in revenue of \$2.8 million and \$4.8 million, respectively, for the three and nine months ended October 2, 2016.

Sypris Electronics derives its revenue from product sales and technical outsourced services. Net revenue for Sypris Electronics for the three and nine month periods ended October 2, 2016 decreased \$4.0 million and \$3.9 million from the prior year comparable periods, primarily from the sale of certain product lines (See Note 5 "CSS Sale" to the consolidated financial statements in this Form 10-Q).

*Gross Profit.* Sypris Technologies' gross profit decreased to a loss of \$0.4 million for the three months ended October 2, 2016, and increased \$0.3 million to a loss of \$1.3 million for the nine months ended October 2, 2016. Sypris Technologies has continued to adjust its fixed overhead structure in order to better align with current volumes. These adjustments, combined with lower depreciation expense resulted in an increase in gross profit of \$0.1 million and \$5.6 million for the three and nine months ended October 2, 2016. However, the decrease in volume attributable to lower demand from customers in the commercial vehicle and oil and gas industries has resulted in a decrease in gross profit of \$2.4 million and \$5.3 million for the three and nine months ended October 2, 2016, respectively.

Sypris Electronics' gross profit decreased to a loss of \$0.4 million in the three month period ended October 2, 2016, as compared to profit of \$0.5 million in the prior year comparable periods. Gross profit in the prior year comparable period reflected the commissioning of a Cyber Range, which carried a high margin. Gross profit for the nine months ended October 2, 2016 increased \$1.2 million to \$2.0 million as a result of a favorable mix in sales of higher margin products and services in addition to a reduction in the overhead structure from the prior year comparable period.

*Selling, General and Administrative.* Selling, general and administrative expense decreased by \$0.8 million and \$5.5 million for the three and nine month periods ended October 2, 2016, respectively, as compared to the same periods in 2015, primarily as a result of a decrease in legal expenses regarding contract negotiations and the related dispute with Dana, as the litigation is substantially complete. Additionally, the Company initiated various cost reduction activities in 2015 in response to the loss of Dana and other market developments, including employee compensation and headcount reductions and the sale of the Company's Morganton facility (See Note 7, "Morganton Sale" to the consolidated financial statements in this Form 10-Q). Partially offsetting this was a \$0.5 million accrual for a contingent liability related to the exit of one of our leased facilities recorded during the first nine months of 2016 (see Note 14 "Commitments and Contingencies" to the consolidated financial statements in this Form 10-Q).

*Research and Development.* Research and development costs were \$0.1 million and \$0.3 million for the three and nine months ended October 2, 2016 as compared to \$0.1 million and \$0.6 million for the three and nine month comparable 2015 periods in support of Sypris Electronics' self-funded product and technology development activities. With the sale of the CSS businesses, research and development activities are expected to be immaterial going forward.

*Severance.* Severance costs were \$0.5 million for the nine months ended October 2, 2016 and were comprised of headcount reductions within Sypris Technologies. See Note 4 "Management's Plans" to the consolidated financial statements in this Quarterly Report on Form 10-Q. Additional severance costs may be incurred as part of the Company's ongoing efforts to streamline its operations and reduce its costs.

*Interest Expense.* Interest expense for the three and nine months ended October 2, 2016 increased due to an increase in interest rates as a result of the Revolving Credit Facility and Term Loan entered into in the fourth quarter of 2015, which increased the Company's interest rate structure. Additionally, the Revolving Credit Facility and Term Loan were repaid during the third quarter of 2016 and the Company wrote off the remaining unamortized debt issuance and modification costs (see Note 11 "Debt" to the consolidated financial statements in this Quarterly Report on Form 10-Q). The Company expects annual interest expense to decrease going forward as a result of the debt repayments in the third quarter of 2016.

*Loss on Extinguishment of Debt.* During the third quarter of 2016, the Company used proceeds from the CSS Sale to payoff of the Revolving Credit Facility and Term Loan. For the three and nine months ended October 2, 2016, we recognized a loss of \$1.5 million on the early extinguishment of debt for prepayment penalties.

*Other Income, Net.* The Company recognized other income of \$31.6 million and \$34.2 million for the three and nine months ended October 2, 2016, respectively. Other income, net for the first nine months of 2016 includes a net gain of \$31.2 million from the CSS Sale (see Note 5 "CSS Sale" to the consolidated financial statements in this Form 10-Q). Additionally, other income for the first nine months of 2016 includes \$2.4 million related to the gain recognized on the Toluca Sale-Leaseback completed during the first quarter of 2016 (See Note 6 "Toluca Sale-Leaseback" to the consolidated financial statements in this Form 10-Q).

The Company recognized other income of \$7.8 million and \$8.6 million for the three and nine months ended October 4, 2015, respectively, which consisted primarily of a gain of \$7.7 million related to the Morganton Sale (see Note 7 "Morganton Sale" to the consolidated financial statement in this Form 10-Q). Additionally, during the nine months ended October 4, 2015, the Company recognized \$0.5 million related to an arbitration settlement in the Dana dispute received in the second quarter of 2015.

*Income Taxes.* Income tax expense for the three and nine months ended October 2, 2016 was \$0.2 million as compared to \$2.3 million for the three and nine months ended October 4, 2015. During the third quarter of 2015, it was determined that the Company no longer met the "more likely than not" threshold required under ASC 740-10 in order to maintain the Mexico deferred tax asset. Accordingly, the Company recorded a valuation allowance on its net deferred tax asset related to certain non-U.S. tax benefits, resulting in deferred tax expense of \$2.4 million during the third quarter ended October 4, 2015.

In the U.S., our recent history of operating losses does not allow us to satisfy the “more likely than not” criterion for recognition of deferred tax assets. Therefore, there is generally no federal income tax recognized on the pre-tax income or losses in the U.S., as valuation allowance adjustments offset the associated tax effect. However, the Company has provided for certain state taxes expected to be paid in the U.S.

### **Liquidity, Capital Resources**

As described in more detail elsewhere in this report, as a result of the loss of Dana as a key customer, the Company experienced substantially reduced levels of revenue and cash flows beginning in 2015. Additionally, softness in the commercial vehicle market, which began in the fourth quarter of 2015, has continued through the first nine months of 2016 and is expected to continue through the remainder of the year. In addition, our negotiations to renew the current supply agreement with Meritor have concluded with the nonrenewal of our obligation to manufacture certain domestic forged axle shafts for Meritor. However, the Company will continue to supply significant volumes of component parts to Sisamex, and will continue to supply axle shafts to Meritor’s Brazilian subsidiary going forward. These developments also prompted us to reexamine our strategies, develop recovery plans and cut our costs significantly. Reductions in our available liquidity have also required closer monitoring of the timing of our capital expenditures and cash flows in order to manage our business operations.

In response, we took significant actions during 2015 to identify alternative uses for the related assets and other contingency plans, including the sale of certain assets used in the Company’s manufacturing facility in Morganton, North Carolina within the Sypris Technologies segment. In 2015, we received approximately \$15.7 million in total consideration for the Morganton Sale and related transactions, all of which were applied to pay down our senior secured debt (See Note 7 “Morganton Sale” to the consolidated financial statements in this Form 10-Q). On October 30, 2015, the Company’s prior senior secured debt was replaced by the Loan Agreements and paid in full. In addition, the Company has received three cash infusions from GFCM, in the form of subordinated promissory note obligations totaling \$6.5 million in principal through the first nine months of 2016.

Additionally, during 2016 the Company entered into the Toluca Sale-Leaseback transaction whereby we sold the entire facility and leased back the portion of the facility currently occupied by the Company in Toluca, Mexico, for our continued use as a manufacturing facility for ten years commencing upon the execution of the lease and terminating on March 9, 2026. The Company’s base rent, which is denominated in U.S. currency, is \$0.9 million annually, adjusted based on U.S. CPI with certain cap conditions. The transaction generated gross proceeds of 215.0 million Mexican Pesos, or approximately \$12.2 million dollars in U.S. currency.

On August 16, 2016, the Company completed the sale of certain assets, intellectual property, contracts and other assets of Sypris Electronics (the “CSS Sale”) comprised principally of its SioMetrics, Cyber Range, Information Security Solutions and Data Systems product lines. See Note 5 “CSS Sale” to the consolidated financial statements. The assets were sold for \$42.0 million in cash consideration, \$1.5 million of which is to be held in escrow for up to 12 months in connection with certain customary representations, warranties, covenants and indemnifications of the Company. A portion of the proceeds from the CSS Sale was used to pay off the Term Loan and pay down the outstanding balances under the Revolving Credit Facility.

*Revolving Credit Facility and Term Loan.* On October 30, 2015, the Company entered into Loan Agreements providing for a \$12.0 million Term Loan and a \$15.0 million Revolving Credit Facility. Proceeds from the Loan Agreements were used to repay the prior senior secured debt and the Meritor Note.

On February 25, 2016, the Company entered into an amendment (the “Term Loan Amendment”) to the Term Loan and an amendment (the “Revolving Credit Facility Amendment”) to the Revolving Credit Facility (together, the “Amendments”). The Amendments had the effect, among other things, of increasing the Company’s borrowing capability under its Revolving Credit Agreement and providing for an agreement on the use of proceeds from the Toluca Sale-Leaseback, as described below. As part of the Amendments, the Company also received an additional \$1.0 million subordinated loan from GFCM, as described below.

As a result of the Term Loan Amendment, the Company deposited \$6.0 million of the proceeds of the Toluca Sale-Leaseback into a Cash Collateral Account, to be held as additional collateral for the Term Loan. The Term Loan Amendment further provided that the Company would be permitted to retain the remaining balance of the proceeds from Toluca Sale-Leaseback, and increased the interest rate of the Term Loan by 1.0%.



On August 16, 2016, approximately \$15.5 million of the proceeds from the CSS Sale were used to pay off the Term Loan and pay down the Revolving Credit Facility. In connection with the repayment of the Term Loan, the \$6.0 million balance of the Cash Collateral Account was released. See Note 5 “CSS Sale” to the consolidated financial statements.

*Gill Family Capital Management Note.* In connection with the amendments to the prior senior secured debt, the Company received the proceeds of new subordinated indebtedness from GFCM in an amount of \$5.5 million (“GFCM Note”). On February 26, 2016, the Company amended the GFCM Note to increase the amount to \$6.5 million in connection with the amendments to the Revolving Credit Facility and Term Loan. GFCM is an entity controlled by the Company’s chairman, president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. GFCM, Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders of the Company. The promissory note bears interest at a rate of 8.0% per year and has a maturity date of January 30, 2019.

*Purchase Commitments.* We also had purchase commitments totaling approximately \$9.3 million at October 2, 2016, primarily for inventory.

#### **Cash Flows from Operating, Investing and Financing Activities**

*Operating Activities.* Net cash used by operating activities was \$13.0 million in the first nine months of 2016 as compared to net cash used of \$11.7 million in the same period of 2015. The aggregate decrease in accounts receivable in 2016 provided cash of \$3.6 million. Similarly, decreases in accounts payable resulted in a usage of cash of \$1.8 million. Increases in inventory primarily within our Sypris Electronics business used cash of \$1.6 million during the first nine months of 2016. Cash of \$0.6 million was used to finance changes within other current assets primarily consisting of prepayment for inventory items.

*Investing Activities.* Net cash provided by investing activities was \$47.5 million for the first nine months of 2016 as compared to net cash provided of \$14.5 million for the first nine months of 2015. As a result of the Toluca Sale-Leaseback transaction completed in the first quarter of 2016, the Company received net cash proceeds of \$11.1 million (See Note 6 “Toluca Sale Leaseback” to the consolidated financials in this Form 10-Q). Additionally, the Company completed the sale of the CSS businesses during the nine months ended October 2, 2016, which resulted in net cash proceeds of \$39.3 million (see Note 5 “CSS Sale” to the consolidated financials in this Form 10-Q). As required as part of the CSS Sale, \$1.5 million of the proceeds is to be held in escrow for up to 12 months in connection with certain customary representations, warranties, covenants and indemnifications of the Company.

Net cash provided by investing activities for the first nine months of 2015 included proceeds of \$15.7 million from the Morganton sale (see Note 7, “Morganton Sale” to the consolidated financials in this Form 10-Q). Capital expenditures in both periods represented maintenance levels of investment.

*Financing Activities.* Net cash used in financing activities was \$14.8 million for the first nine months of 2016 as compared to \$8.1 million for the first nine months of 2015. Net cash used in financing activities in the first nine months of 2016 included the payoff of the Term Loan of \$11.7 million, the payoff of the Revolving Credit Facility of \$2.1 million, and prepayment penalties on the early extinguishment of debt of \$1.5 million. Additionally, the Company incurred financing fees of \$0.4 million during the first nine months of the year in conjunction with the amendments of our Revolving Credit Facility and Term Loan. Partially offsetting this was proceeds from the subordinated note from Gill Family Capital Management of \$1.0 million during the first nine months of 2016.

Net cash used in financing activities for the first nine months of 2015 included reductions under the prior credit facility of \$10.7 million, dividend payments of \$0.4 million and payments of \$0.1 million for minimum statutory tax withholding on stock-based compensation. Additionally, we paid \$2.3 million in financing fees in conjunction with the amendments of the prior credit facility, Meritor Note and GFCM Note in the first nine months of 2015. Partially offsetting this were proceeds from the subordinated note from GFCM of \$5.5 million.

#### **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 and Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no significant changes in our critical accounting policies during the nine months ended October 2, 2016.

## Forward-looking Statements

This Quarterly Report on Form 10-Q, and our other oral or written communications, contain “forward-looking” statements. These statements include our expectations or projections about the future of our industries, business strategies, business and recovery plans, financing sources, liquidity, potential investments, potential acquisitions and dispositions or our financial results or financial condition as well as our views about developments beyond our control, including domestic or global economic conditions, credit markets, trends and market developments. These statements are based on management’s views and assumptions at the time originally made, and, except as required by law, we undertake no obligation to update these statements, even if, for example, they remain available on our website after those views and assumptions have changed. There can be no assurance that our expectations, projections or views will come to pass, and undue reliance should not be placed on these forward-looking statements.

A number of significant factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: our failure to return to profitability on a timely basis, which would cause us to use existing cash resources or other assets to fund operating losses; our failure to develop and implement specific plans (a) to offset the impact of reduced revenues as we migrate our focus from a small number of traditional tier 1 customers in the commercial vehicle markets, including Dana and Meritor, or to a more diversified base of customers who are able to place higher strategic value on our innovation, flexibility and lean manufacturing capabilities, and (b) to implement specific restructuring and cost-savings initiatives and to consolidate and streamline operations in accordance with our plans; breakdowns, relocations or major repairs of machinery and equipment; dependence on, retention or recruitment of key employees especially in challenging markets; cost and availability of raw materials such as steel, component parts, natural gas or utilities; unexpected declines in our markets or market shares, especially as we attempt to transition from legacy products and services into new market segments, customers and technologies; volatility of our customers’ forecasts, scheduling demands and production levels which negatively impact our operational capacity and our effectiveness to integrate new customers or suppliers; our inability to successfully execute the planned move of our Sypris Electronics business from our current location by December 31, 2016, the end of our lease term; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; our ability to successfully develop, launch or sustain new products and programs; supplier, customer, employee, landlord, creditor, stockholder, product liability or environmental claims; labor relations; strikes; union negotiations; pension valuation, health care or other benefit costs; potential impairments, non-recoverability or write-offs of assets or deferred costs; the fees, costs and supply of, or access to, debt, equity capital, or other sources of liquidity; potential weaknesses in internal controls over financial reporting and enterprise risk management; the cost, quality, timeliness, 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; disputes or litigation involving lessor, inventory valuation risks including excessive or obsolescent valuations; our inability to successfully complete definitive agreements for our targeted acquisitions or divestitures due to negative due diligence findings or other factors; our inability to patent or otherwise protect our inventions or other intellectual property from potential competitors; the costs of compliance with our auditing, regulatory or contractual obligations; our reliance on third party vendors and sub-suppliers; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; regulatory actions or sanctions (including FCPA, OSHA and Federal Acquisition Regulations, among others); U.S. government spending on products and services that Sypris Electronics provides, including the timing of budgetary decisions; cyber security threats and disruptions; changes or delays in customer budgets, funding or programs; failure to adequately insure or to identify environmental or other insurable risks; revised contract prices or estimates of major contract costs; risks of foreign operations; currency exchange rates; 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, 2015.

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

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to provide the quantitative and qualitative disclosures about 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**

We are involved from time to time in litigation and other legal or environmental proceedings incidental to our business. On November 25, 2013, Sypris Technologies, Inc. initiated an arbitration proceeding against Dana Limited under the Non-Administered Arbitration Rules of the International Institute for Conflict Prevention & Resolution alleging that Dana Limited had entered and then repudiated a five year extension of the parties' long term supply agreement, to run through 2019 or in the alternative had acted in bad faith by refusing to formalize that agreement. On December 30, 2013, Sypris filed a Notice of Supplemental Claims in the same arbitration proceeding, seeking damages for Dana's alleged breach of the parties' original 2007 supply agreement; and Dana filed a counterclaim for certain unpaid price rebates. The arbitrator awarded \$0.5 million to Sypris Technologies and dismissed Dana's claims. On January 17, 2014, Dana initiated a declaratory judgment action in the Court of Common Pleas for Lucas County, Ohio challenging the arbitrability of the existence and enforceability of the extended supply agreement and seeking a ruling that the extended agreement was unenforceable. On February 28, 2015, the Lucas County Court granted Dana's motion, which was subsequently upheld by the Sixth District Court of Appeals for Ohio. Our remaining claims of bad faith and Dana's various potential claims for alleged nonperformance have been mutually released and dismissed effective as of May 2, 2016.

On January 15, 2016, Sypris Electronics initiated a declaratory judgment action in the Circuit Court of Hillsborough County, Florida seeking to resolve certain claims made by Sweetwell Industrial Associates, LLP ("Sweetwell"), in a notice of alleged default under our lease in Tampa, Florida. On February 16, 2016, Sweetwell, the landlord under that lease, filed its answer and counterclaim and its third party complaint against the Company, as a guarantor under the lease. The landlord claims that certain repairs must be made immediately and/or at the end of the current lease term. As such, it is reasonably possible that the Company may be required to make certain repairs to the current facility upon exit. The current estimate of the Company's reasonably possible loss contingency is from no liability to \$4.0 million. While the Company intends to vigorously dispute these claims, the Company accrued \$0.5 million during the nine months ended October 2, 2016 related to its estimated potential obligation under the lease. This accrual is included in accrued liabilities in the Company's consolidated balance sheet as of October 2, 2016. There are currently no other material pending legal proceedings to which we are a party.

### **Item 1A. Risk Factors**

Information regarding risk factors appears in Part I — Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Forward-Looking Statements," in this Quarterly Report on Form 10-Q, and in Part I — Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K.

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

The following table summarizes our shares of common stock repurchased during the third quarter ended October 2, 2016 (dollars in thousands except per share data):

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs</b>	<b>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (b)</b>
7/4/2016 – 7/31/2016	—	\$ —	—	\$ 3,877
8/1/2016 – 8/28/2016	56,096	\$ 0.87	—	\$ 3,877
8/29/2016 – 10/2/2016	138,258	\$ 1.03	—	\$ 3,877

- (a) The total number of shares purchased includes shares of stock withheld for the payment of withholding taxes upon the vesting of restricted stock. Common shares withheld to satisfy tax withholding obligations were immediately cancelled.
- (b) On December 20, 2011, our Board of Directors approved and we announced an authorization for the repurchase of up to \$5.0 million of our outstanding shares of common stock. The Board also authorized an Executive Equity Repurchase Agreement whereby management, including officers and directors, would grant the Company a first right to purchase shares at current market prices (calculated as the average of several days' closing prices) at any time such a party to the agreement departed the Company or intended to sell more than 1,500 shares of common stock. The agreement has a five-year term, subject to earlier termination by the Company, and participation by each individual is voluntary.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
10.1	Asset Purchase Agreement between Analog Devices, Inc. and Sypris Electronics, LLC dated as of August 16, 2016.
10.2	Amended Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as September 30, 2016.
10.3	Form of Executive Long-Term Incentive Award Agreement for Grants of Restricted Stock to Executive Officers.
10.4	Form of Executive Long-Term Incentive Award Agreement for Grants of Non-Qualified Stock Options to Executive Officers.
10.5	Form of Four Year Discretionary Director Restricted Stock Award Agreement.
10.6	Form of Four Year Restricted Stock Award Agreement.
31(i).1	CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
31(i).2	Principal Financial Officer certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
32	CEO and Principal Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**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: November 16, 2016

By: /s/ Anthony C. Allen  
(Anthony C. Allen)  
Vice President & Chief Financial Officer

Date: November 16, 2016

By: /s/ Rebecca R. Eckert  
(Rebecca R. Eckert)  
Controller (Principal Accounting Officer)

**ASSET PURCHASE AGREEMENT**

**THIS ASSET PURCHASE AGREEMENT** (the “Agreement”) is made as of the 16th day of August 2016, between and among **Analog Devices, Inc.**, a Massachusetts corporation (“Purchaser”), and **Sypris Electronics, LLC**, a Delaware limited liability company (“Seller”). Seller and Purchaser may be referred to herein individually as a “Party” and collectively as the “Parties”. Sypris Solutions, Inc., a Delaware corporation (“Parent”), joins this Agreement solely for purposes of being bound by Section 8.5 and Article 9.

**WHEREAS**, Seller desires to sell to Purchaser (or an Affiliate of Purchaser designated by Purchaser in any conveyance document executed and delivered pursuant to this Agreement) and Purchaser (or such Affiliate) desires to buy from Seller certain assets relating to the Business; as used in this Agreement, “Business” means the Seller’s CSS business, including the SioMetrics, Sypher, CyberRange and ISS/Secure Products groups and the data systems business, and including the research, development, design, testing, modification, making, having made, manufacture, reproduction, marketing, sale, distribution, commercialization, import, export, maintenance, support and performance, as applicable, of the products, products in development and services listed on Schedule A; and

**WHEREAS**, Seller desires to lease, license or provide as a service to Purchaser all of the other assets or services that are necessary to or used or useful in the operation of the Business.

**NOW, THEREFORE**, in consideration of the premises and of the mutual agreements, representations, warranties, provisions and covenants herein contained, and intending to be legally bound, the Parties hereby agree as follows:

**ARTICLE 1. TRANSFER OF ASSETS AND CERTAIN RELATED MATTERS.**

**1.1 Sale.** On the terms set forth in this Agreement, Seller shall sell, convey, transfer, assign and deliver to Purchaser (or an Affiliate of Purchaser designated by Purchaser in any conveyance document executed and delivered pursuant to this Agreement), and Purchaser (or such Affiliate) shall purchase from Seller all right, title, and interest in, to and under those assets, properties and rights of Seller set forth below (collectively, the “Assets”), free and clear of all mortgages, liens, pledges, charges or other encumbrances:

( a ) **Contracts.** Subject to the provisions of Article 3, all rights under those contracts described on Schedule 1.1(a) (other than in-licensed software owned by third parties and made available to Purchaser under the Transition Services Agreement) and including all Government Contracts (hereinafter defined) described thereon (individually, a “Contract” and, collectively, the “Contracts”); for the purposes of this Agreement, “Government Contract” shall mean any Contract that is active as of the Closing Date (i) between Seller and any governmental entity or (ii) between Seller and any contractor or subcontractor for supplies and/or services in furtherance of a prime contract with a governmental entity;

( b ) **Intellectual Property.** All patents, patent applications, trade secrets, engineering know-how, designs, ideas, strategies, plans, trademarks and service marks and related federal or state applications therefor, copyrights, copyright registrations and applications therefor, mask works, mask work registrations and applications therefor, trade names, trade dress, internet domain names, client lists, and confidential information and other intangible properties (“Intellectual Property”) owned by Seller, and all licensed rights to Intellectual Property owned by third parties (other than in-licensed software owned by third parties and made available to Purchaser under the Transition Services Agreement), which is used in, or is necessary for, the operation of the Business, including as described on Schedule 1.1(b), and including the right to sue for past infringement (the “Acquired Intellectual Property”);

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(c) **Tangible Personal Property.** Those items of tangible personal property which relate exclusively or primarily to the operation of the Business, including as described in Schedule 1.1(c) (the “Personal Property”);

(d) **Leases.** All rights under the Lease Agreement dated as of May 22, 2012, between Purdue Research Foundation and Seller, the Office Service Agreement dated November 5, 2015, by and between Sypris Electronics LLC and Business Center Havnegade ApS, the Lease dated September 13, 2007, by and between Sypris Data Systems, Inc. and Merritt-HR, LLC and those leases for tangible personal property described in Schedule 1.1(d) hereto (collectively, the “Leases”);

(e) **Permits.** As and to the extent transferable, those rights of Seller under the permits, licenses, authorizations, approvals, consents and franchises issued by any governmental entity which relate exclusively or primarily to the Business, including as described in Schedule 1.1(e) hereto (the “Permits”);

(f) **Inventory.** All inventories of raw materials, work in process, finished goods, supplies, packaging materials, spare parts and similar items, wherever located, including consignment inventory and inventory held on order or in transit (“Inventory”) described on Schedule 1.1(f) (“Acquired Inventory”);

(g) **Books and Records.** All papers, computerized databases, books and records of Seller, in all forms, which relate to the Business (the “Records”) (provided that Seller shall have the right to retain copies of any Records that do not relate exclusively to the Business and retain copies of all Records for tax and other government reporting purposes);

(h) **Sales Literature.** All supplies, sales literature, promotional literature, advertising materials, customer, supplier and distributor lists, art work, display units, telephone and fax numbers and purchasing records which relate exclusively or primarily to the Business;

(i) **Certain Registrations.** All “U/L,” “CSA,” “CE” and other similar registrations, approvals, listings and filings which relate exclusively or primarily to the Business, including as described on Schedule 1.1(i); and

(j) **Certain Claims.** All claims, causes of action, choses in action, rights of recovery and rights of set-off or recoupment of any kind, in each case, including any warranty claims or other rights to payment or to enforce payment in connection with Business products or services delivered or performed by or on behalf of Seller at or prior to the Closing, except in each case to the extent related to a Retained Liability for which Purchaser is fully indemnified hereunder.

**1.2 Retained Assets.** Notwithstanding any provision of Section 1.1 to the contrary, all assets of Seller which are not Assets or which are described on Schedule 1.2 are specifically excluded from the sale of the Assets to Purchaser (the “Retained Assets”), provided that those Retained Assets which are shared by the Business and the Retained Business (hereinafter defined) and which are necessary or useful to, or used in, the continued operation of the Business shall be shared with, provided as a service and/or licensed to Purchaser in accordance with the Supply Agreement, the Subcontract Agreement and the Transition Services Agreement. For the purposes of this Agreement, any business conducted by Seller other than the Business shall be the “Retained Business”. The Retained Assets include all Inventory other than the Acquired Inventory.

**1.3 Assumption of Certain Liabilities.** On the terms of this Agreement, Purchaser (or an Affiliate of Purchaser designated by Purchaser in any conveyance document executed and delivered pursuant to this Agreement) shall assume only the liabilities and obligations set forth below, in each case solely to the extent arising after the Closing (the “Assumed Liabilities”):

- (a) The obligations and liabilities of Seller under or related to:
  - (i) the Contracts (including with respect to any post-Closing breach or default under such contracts);
  - (ii) the Leases (including with respect to any post-Closing breach or default under such Leases); and
  - (iii) the Permits (including with respect to any post-Closing breach or default under such Permits),

provided, however, that, notwithstanding anything to the contrary in this Agreement, Purchaser is not assuming any obligations or liabilities for (x) any breach or default under any Contract, Lease or Permit to the extent outstanding as of Closing or resulting from any event occurring at or before the Closing which, with the giving of notice or the passage of time or both, would result in a breach or default or (y) any infringement related to any Intellectual Property to the extent occurring at or before the Closing; and

- (b) All debts, obligations, liabilities, costs, expenses, and account payables attributable to, arising from or incurred in connection with the Business or its operations after the Closing.

Purchaser is not assuming and shall not be deemed to have assumed any obligations or liabilities of Seller other than the Assumed Liabilities specifically described above. No assumption by Purchaser of any of the Assumed Liabilities shall relieve or be deemed to relieve Seller from any obligation or liability under this Agreement with respect to any representations, warranties or covenants by Seller to Purchaser.

**1.4 Retained Liabilities.** Except for the liabilities of Seller specifically assumed in accordance with Section 1.3, Seller and its Affiliates are retaining any and all other liabilities and obligations of Seller and its Affiliates (the “Retained Liabilities”). The Retained Liabilities shall include all liabilities and obligations of Seller or any of its Affiliates including the following:

(a) for any Taxes that are (i) Taxes of Seller, (ii) Taxes related to the Assets that were incurred in or are attributable to any taxable period (or portion thereof) ending on or before the Closing Date, (iii) Taxes of another person for which Seller is liable, including, but not limited to Taxes for which Seller is liable by reason of Treasury Regulations Section 1.1502-6 (or any comparable or similar provision of federal, state, local or foreign law), being a transferee or successor, any contractual obligation or otherwise, and (iv) for income, transfer, sales, use or other Taxes (as defined below) arising in connection with the consummation of the transactions contemplated by this Agreement (including any income Taxes arising as a result of the transfer by Seller to Purchaser of the Assets), except for any Taxes for which Purchaser is responsible pursuant to Section 9.5;

(b) for all accounts and notes payable outstanding as of or prior to the Closing;

(c) to employees, consultants and independent contractors of Seller or any of its Affiliates, including with respect to accrued and unpaid salaries, wages, fees, bonuses or commissions, accrued and unused personal, sick or vacation days, employee health and welfare and other benefit plans and change of control, retention, severance or similar benefits, in each case with respect to the period before the Employment Date (or, for benefits, due as a result of service with Seller or any of its Affiliates), together with all liabilities and obligations under the agreements described on Schedule 1.4(c);

(d) for repair, replacement or return of products manufactured or sold at or prior to the Closing; or

(e) arising out of or related to any Retained Asset.

## **ARTICLE 2. PURCHASE PRICE.**

**2.1 Payment of Purchase Price.** The Purchase Price for the Assets shall be Forty-Two Million Dollars (\$42,000,000) (the “Purchase Price”), payable in the following manner:

(a) At the Closing, Purchaser shall pay, in cash in immediately available funds by wire transfer to one or more accounts designated by Seller, the Purchase Price, *less* the Escrow Amount (as defined below).

(b) At the Closing, Purchaser shall pay an amount equal to One Million Five Hundred Thousand Dollars (\$1,500,000) of the Purchase Price (the “Escrow Amount”) to an account designated by JPMorgan Chase Bank, NA (“Escrow Agent”), as a source for the satisfaction of Seller’s indemnification obligations set forth in this Agreement, such amount to be held by the Escrow Agent in accordance with the Escrow Agreement (as defined below).

**2 . 2 Allocation.** Not later than one hundred twenty (120) days following the Closing Date, Purchaser shall provide to Seller a schedule allocating the Purchase Price among the Assets (the “Tax Allocation”) . Seller shall be permitted to review and comment on the Tax Allocation for a period of thirty (30) days following the date on which the Tax Allocation is delivered to Seller. If, within such 30-day review period, Seller has any comments to the Tax Allocation, it shall provide written notice to Purchaser that is reasonably detailed and sufficiently sets forth Seller’s basis for any such objection and comment prior to the expiration of such 30-day period. Purchaser and Seller shall use good faith efforts to resolve any dispute regarding the preparation of the Tax Allocation. The parties agree to allocate and report the Purchase Price (and all other costs capable of being capitalized) among the Assets for tax purposes (including federal and state tax purposes) in accordance with the allocation prepared by the Purchaser if Seller does not provide written notice within the 30-day review period noted above or as finally agreed to by Purchaser and Seller if such a notice is so provided. Neither Seller nor Purchaser shall take a position on any tax return, before any governmental agency charged with the collection of any tax, or in any tax proceeding that is inconsistent with such allocation, except to the extent otherwise required by law.

### ARTICLE 3. CLOSING.

**3.1 Time and Place.** The closing of the purchase and sale of the Assets by Seller to Purchaser (the “Closing”) shall take place concurrently with the execution and delivery of this Agreement on the date of this Agreement (the “Closing Date”), at the offices of Middleton Reutlinger, in Louisville, Kentucky (including by remote exchange of documents and signatures). All actions to be taken and all documents to be executed and delivered by the Parties at the Closing will be deemed to have been taken and executed simultaneously and no actions will be deemed taken or any documents executed and delivered until all have been taken, executed and delivered. Title to the Assets shall pass from Seller to Purchaser on the Closing Date. Simultaneously with the consummation of the transfer, Seller, through its officers, agents, and employees, shall put Purchaser in actual possession and operating control of the Business and Assets.

#### **3.2 Closing Items.**

- (a) At the Closing, Seller shall deliver, or cause to be delivered, the following items, duly executed by Seller where appropriate:
  - (i) member resolutions of Seller and resolutions of the board of directors of Parent authorizing the transactions contemplated by this Agreement;

(ii) such assignments, bills of sale, certificates of title, lien releases, and sufficient instruments of conveyance and transfer as shall be effective in the reasonable opinion of Purchaser's counsel to vest in Purchaser good and valid title to the Assets, free and clear of all liens, charges, security interests, options, claims and encumbrances, except those obligations being specifically assumed by Purchaser as set forth in Section 1.3 above;

(iii) the trademark assignment attached hereto as Exhibit A (the "Trademark Assignment");

(iv) the patent assignment attached hereto as Exhibit B (the "Patent Assignment");

(v) the subcontract pending novation and consent attached hereto as Exhibit C-1 (the "Subcontract Agreement") and the supply and subcontract agreement attached hereto as Exhibit C-2 (the "Supply Agreement");

(vi) the transition services agreement attached hereto as Exhibit D (the "Transition Services Agreement");

(vii) the escrow agreement attached hereto as Exhibit E (the "Escrow Agreement")

(viii) the assignment and assumption agreement attached hereto as Exhibit F (the "Assignment and Assumption");

(ix) a certification from Parent, the owner of Seller, that Parent is not a foreign person in accordance with the Treasury Regulations under Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code");

(x) executed consent documents for those agreements listed on Schedule 3.2(a)(x);

(xi) the opinion of Richards, Layton & Finger, PA, Delaware counsel to Parent, attached hereto as Exhibit G; and

(xii) those documents required to assign the Government Contracts to Purchaser as set forth below in this Article 3.

(b) At the Closing, Purchaser shall deliver, or cause to be delivered, the following items, duly executed by Purchaser or its applicable Affiliate where appropriate:

(i) the Purchase Price (less the Escrow Amount) in the manner provided in Section 2.1;

- (ii) the Escrow Amount to the Escrow Agent, in the manner provided in Section 2.1;
- (iii) the assignments, bills of sale, certificates of title referenced in Section 3.2(a)(ii) of this Agreement, if appropriate;
- (iv) the Trademark Assignment;
- (v) the Patent Assignment;
- (vi) the Supply Agreement and the Subcontract Agreement;
- (vii) the Transition Services Agreement;
- (viii) the Escrow Agreement;
- (ix) the Assignment and Assumption; and
- (x) those documents required to assign the Government Contracts to Purchaser as set forth below in this Article 3.

### **3.3 Assignment of Contracts at or prior to Closing.**

(a) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not operate to transfer to Purchaser any Contract or Government Contract unless and until all necessary consents and waivers under such Contract or Government Contract shall have been obtained. After the Closing Date, Seller shall use all commercially reasonable efforts, and Purchaser shall cooperate with Seller, to obtain any consents and waivers necessary to convey to Purchaser all Contracts.

(b) Subject to the terms of the Supply Agreement, the Subcontract Agreement and the Transition Services Agreement, if any such consents and waivers shall not have been obtained with respect to any Contract at or prior to the Closing, the assignment documents shall constitute an equitable assignment by Seller to Purchaser of all of Seller's rights, benefits, title and interest in and to such Contract, to the extent permitted by law, and Purchaser shall be deemed to be the Seller's agent for the purpose of completing, fulfilling and discharging all of Seller's rights and liabilities, and receiving all economic benefits, arising after the Closing under such Contract; provided that, subject to the terms of the Supply Agreement, the Subcontract Agreement and the Transition Services Agreement, Purchaser shall undertake to pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Purchaser would have been responsible therefor if such consent or approval had been obtained.

### **3.4 Novation or Assignment of Government Contracts.**

(a) With respect to each Government Contract, promptly after the Closing Date, Seller shall use all commercially reasonable efforts, and Purchaser shall cooperate with Seller, to obtain the written consent of the other parties to each such Government Contract for the assignment or novation thereof to Purchaser or written confirmation from such parties that such consent or novation is not required. With respect to any Government Contract under which Seller must obtain prior consent to Purchaser's performance thereunder, Seller shall use all commercially reasonable efforts, and Purchaser shall cooperate with Seller, to obtain such consent and, until such consent is obtained, shall cooperate in an arrangement consistent with Section 3.5.

(b) With respect to Government Contracts to which the United States Government is a party, as soon as practicable but in any event within thirty (30) days after the Closing Date, Seller shall, in accordance with FAR Subpart 42.12, and with the cooperation of Purchaser, submit in writing to each "responsible contracting officer" (as such term is defined in FAR 42.1202(a)), a request (the "Request") for the United States Government to recognize Purchaser as Seller's successor in interest to such Government Contracts, which are to be sold, assigned, transferred and conveyed to Purchaser in accordance with this Agreement. Purchaser shall promptly deliver to Seller such information as shall be required from Purchaser pursuant to FAR 42.1204(e)-(f) or otherwise reasonably requested by the responsible contracting officer for the purpose of enabling Seller to submit the Request and prepare, execute and deliver to the United States Government a novation agreement (the "Novation Agreement"), as required by FAR 42.12, to effectuate the novation of the Government Contracts from Seller to Purchaser.

(c) With respect to Government Contracts to which the United States Government is not a party, Seller shall, with the cooperation of Purchaser and as soon as practicable but in any event within thirty (30) days after the Closing Date, submit in writing to each "responsible contracting officer" any requests or notifications necessary for the applicable counterparty to recognize Purchaser as Seller's successor in interest to the Government Contracts that are to be sold, assigned, transferred and conveyed to Purchaser in accordance with this Agreement. Purchaser shall promptly deliver to Seller such information as shall be required from Purchaser or otherwise reasonably requested by the applicable counterparty for the purpose of enabling Seller to submit any request or notification, and to prepare, execute and deliver to the counterparty a Novation Agreement, assignment, or other document to effectuate the novation, consent, waiver or confirmation with respect to such Government Contracts.

(d) Seller and Purchaser shall each use commercially reasonable efforts to obtain all consents, approvals and waivers required for the purpose of processing, entering into and completing the consents, Novation Agreements, and assignments described in this Section 3.4, including responding to any requests for information by the applicable counterparty with regard to the consents, Novation Agreements or assignments, as applicable.

**3.5 Government Contracts Pending Novation.** Effective upon the Closing, the performance of the Government Contracts shall become subject to and governed by the Subcontract Agreement.

**3.6 Failure to Obtain Consent of a Government Contract.** Subject to Section 3.4 and Section 3.5, if any novation, consent, waiver or confirmation is not obtained with respect to any Government Contract, Purchaser and Seller shall cooperate in an arrangement reasonably satisfactory to Purchaser and Seller under which Purchaser would obtain, to the extent practicable and permitted, the claims, rights and benefits and assume the corresponding obligations thereunder in accordance with this Agreement (except to the extent such obligations constitute Retained Liabilities), including subcontracting, sub-licensing or sub-leasing to Purchaser, or under which Seller would enforce for the benefit of Purchaser, with Purchaser assuming Seller's obligations, any and all claims, rights and benefits of Seller against a third party thereto.

**3.7 Further Assurances.** Each Party shall execute such additional documents and take such other actions as the other Party may reasonably request to consummate the transactions contemplated hereby and otherwise as may be necessary to effectively carry out the terms and provisions of this Agreement.

#### **ARTICLE 4. REPRESENTATIONS AND WARRANTIES OF SELLER.**

The Seller represents and warrants to Purchaser that all of the following statements are true and correct:

**4.1 Due Organization.** Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly authorized, qualified and licensed under all applicable laws, regulations, ordinances and orders of public authorities to carry on its Business in the places and in the manner as now conducted. Seller has all power and authority necessary to carry on the Business and to own and use the properties owned and used by it in the Business.

**4.2 Authorization.** Seller has full legal right, requisite power and authority to enter into this Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto, and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto, the consummation of the sale of the Assets and the other transactions contemplated hereby and thereby by Seller have been duly and validly authorized by all necessary corporate or comparable action on the part of Seller. Except as described on Schedule 4.2, no consent, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or other governmental authority, domestic or foreign, is required by or with respect to Seller in connection with the execution and delivery of this Agreement or any agreement contemplated hereby or any of the attachments or schedules hereto or thereto, or the consummation of the transactions contemplated hereby or thereby. This Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto have been duly and validly executed and delivered by Seller and constitute a valid and binding obligation of Seller, enforceable against Seller in accordance with their terms. No vote of any holders of common stock or other securities of Parent is required in connection with the transactions contemplated by this Agreement.



#### 4.3 Permits.

(a) The Permits are valid, in good standing and in full force and effect and, except as set forth on Schedule 4.3, are adequate for the operation of the Business as presently conducted and as previously conducted by Seller. There are no claims or proceedings pending or to Seller's knowledge, threatened against Seller asserting the infringement by Seller of, any trademark, service mark, copyright or other proprietary right of any other person or entity.

(b) To Seller's knowledge, Seller holds all permits, licenses, variances, exemptions, orders and approvals of all governmental entities which are material to the operation of the Business, and are in material compliance with all requirements thereof.

**4.4 Title to Assets.** Seller has good, valid and marketable title to, or valid leasehold interests in, the Assets, free and clear of all mortgages, liens, pledges, charges or other encumbrances, except as disclosed on Schedule 4.4. Upon execution and delivery by Seller to Purchaser of the instruments of conveyance referred to in Section 3.2(a)(ii), Purchaser will receive good, valid and marketable title to the Assets, free and clear of all mortgages, liens, pledges, charges or other encumbrances.

#### 4.5 Contracts and Commitments.

(a) The Contracts constitute all material contracts which are necessary to the operation of the Business, as currently conducted, to which Seller or any Affiliate of Seller is a party. (Each reference to the word "Contract" or "Contracts" in this Section 4.5 shall be deemed to include the Leases.)

(b) Seller has delivered to Purchaser true and complete copies of all Contracts.

(c) Except to the extent set forth on Schedule 4.5(c), since August 1, 2013: (i) Seller has complied with all material commitments and obligations under the Contracts and (ii) Seller is not in material default or breach under any Contract and has not received or given notice of default or breach thereunder and, to Seller's knowledge, no other party to a Contract is in material default or breach thereunder.

(d) Each Contract is the legal, valid, binding and enforceable obligation of Seller and, to Seller's knowledge, the other parties thereto. Except as set forth on Schedule 4.5(d), each Contract is assignable by Seller to Purchaser in accordance with the terms of this Agreement without the consent or approval of any party and will continue to be legal, valid, binding and enforceable and in full force and effect immediately following the Closing in accordance with the terms thereof as in effect immediately prior to the Closing. Except as described on Schedule 4.5(d), no Contract (i) contains any "most favored nation" pricing or similar provisions for the benefit of any customer of the Business, (ii) requires the Business to purchase all of its requirements of any product or service from any party, (iii) would, after the Closing, restrict or purport to restrict Purchaser or any of its Affiliates from conducting any business in any territory or market, or (iv) would, after the Closing, grant or purport to grant to any third party any license to use any Intellectual Property of Purchaser or any of its Affiliates, including any Acquired Intellectual Property. Except as set forth on Schedule 4.5(d), no Affiliate of Seller is a party to or after the Closing will have any direct or indirect interest in any Contract, except as required to fulfill Seller's requirements in the Transition Services Agreement, the Subcontract Agreement and the Supply Agreement.

(e) Except as set forth on Schedule 4.5(e), with respect to each Government Contract to which Seller is a party, since August 1, 2013: (i) Seller has complied with all material terms and conditions thereof and all applicable laws which relate to the Business; (ii) Seller is on schedule to meet the contractually specified delivery dates for those items that relate to the Business; (iii) no written notice has been received by Seller (and, to Seller's knowledge, none has been threatened) alleging that Seller, or any director, officer or employee of the Business, is in material breach or material violation of any law or contractual requirement as the same relate to the Business; (iv) no written notice of termination or default has been received by Seller (and to Seller's knowledge, none has been threatened); (v) all cost or pricing data, commercial sales practice information, and country of origin information submitted or certified by Seller has been accurate, complete and up to date as of the time of such submission or certification; and (vi) Seller possesses all necessary security clearances and permits for the execution of its obligations. Seller has the proper procedures to conduct the Business of a classified nature up to the level of its current clearances. Neither Seller nor any of its Affiliates, nor any director, officer or employee thereof, has been, since August 1, 2013, and there is no threat, proposal, or valid basis (including consummation of the transactions contemplated by this Agreement) for Seller or any such person to become, subject to any condition or circumstance described in FAR 52.209-5, or determined to be nonresponsible with respect to any Government Contract. Since August 1, 2013, there has been no administrative, civil or criminal investigation, indictment or information, non-financial or non-standard financial audit following written notice, termination for convenience, termination for default, cure notice, stop work notice, show cause notice, or notice declining to exercise an option with respect to any Government Contract, and to the knowledge of Seller, none of the foregoing are threatened or reasonably expected. There are no outstanding protests, claims, disputes or other proceedings relating to any Government Contract, and, to the knowledge of Seller, no such protests, claims, disputes or other proceedings are threatened or reasonably expected. Except as described on Schedule 4.5(e), since August 1, 2013, with respect to any Government Contract, Seller has not: (A) made any mandatory or voluntary disclosure to any governmental entity with respect to a potential violation of a Government Contract or applicable law, or failed to make any mandatory disclosure; (B) disclosed or been required to mitigate any organizational conflict of interest; (C) received any information for which it has been required to obtain or maintain a security clearance with any governmental entity; or (D) asserted any small, minority, disadvantaged, woman-owned, veteran-owned, disabled-person-owned or any other size-based or socioeconomic status in connection with a proposal or award, or transacted with any third party that has, to the best of Seller's knowledge, relied upon or asserted Seller's eligibility for any such status.

(f) There are no parties other than Seller in possession of any portion of any real property that is subject to any Lease, and no Contract grants any person (other than Seller) the right of use or occupancy of any portion of any such real property.

**4.6 Insurance.** Schedule 4.6 sets forth an accurate description of all insurance policies (including property, casualty, liability and other insurance), held by Seller relating to the Business and the Assets, and of all claims against such policies received for the past three (3) policy years. The insurance held by Seller with respect to the Business and the Assets is with reputable insurers and is in amounts sufficient for the prudent protection of the Business and the Assets. Such insurance policies are currently in full force and effect and shall remain in full force and effect in accordance with their terms through the Closing Date, and Seller is not in breach or default in any way. No insurance policy held by Seller or applicable to the Business and Assets has been cancelled in the last three (3) years preceding the date of this Agreement.

**4.7 Employees.** Schedule 4.7 sets forth a complete and accurate list of the following information for all individuals exclusively or primarily engaged in the Business and, separately, those who provide shared services with respect to the Business (collectively, the "Business Employees"): employee name, job title, the rate of compensation (and the portions thereof attributable to salary, bonus and other compensation, respectively), accrued vacation, and severance pay. No delays under applicable immigration laws would be required with respect to the employment of any Business Employee on the Closing Date. No Business Employees are covered by unions nor have any union organizational efforts occurred with respect to the Business Employees in the three preceding years. Seller is in compliance in all material respects with all employment laws applicable to the Business Employees. Except as set forth on Schedule 4.7, since December 31, 2012, there have been no charges, suits, complaints, grievances, disciplinary matters or controversies pending or, to Seller's knowledge, threatened, between Seller and any Business Employees (or the predecessor employees who provided services to the Business) or any of Seller's consultants or independent contractors who provide services primarily with respect to the Business.

#### **4.8 Intellectual Property.**

(a) The Acquired Intellectual Property constitutes all of the Intellectual Property owned by Seller or any of its Affiliates used in, or necessary for, the operation of the Business. Schedule 4.8(a) sets forth all patents, patent applications, trademark, service marks, applications and registrations of trademarks and service marks, copyright applications and registrations and internet domain names included in the Acquired Intellectual Property.

(b) To the knowledge of Seller, all patents and registrations of trademarks, service marks and copyrights included in the Acquired Intellectual Property are valid and enforceable and all issuance, renewal, maintenance and other payments that are or have become due with respect thereto have been timely paid by or on behalf of Seller.

(c) Each item of Acquired Intellectual Property will be owned or available for use by the Purchaser immediately following the Closing on substantially identical terms and conditions as it was owned or available for use by Seller immediately prior to the Closing. Seller is the sole and exclusive owner of all Acquired Intellectual Property, free and clear of any mortgages, liens, pledges, charges or other encumbrances, and all joint owners of the Acquired Intellectual Property are listed in Schedule 4.8(c). To Seller's knowledge, the Acquired Intellectual Property constitutes all Intellectual Property necessary to operate the Business in the manner so done currently by Seller.

(d) To Seller's knowledge, Seller is not infringing on any third party's rights in any Intellectual Property in the conduct of the Business as currently conducted. There are no claims or proceedings pending or to Seller's knowledge, threatened against Seller asserting the infringement by Seller of, any patent, trademark, service mark, copyright or other proprietary right of any other person or entity which relates to the conduct of the Business as currently conducted.

(e) To the knowledge of Seller, no third party (including any current or former employee or consultant of Seller or any Affiliate) is infringing, violating or misappropriating any of the Acquired Intellectual Property.

**4.9 Employee Benefit Plans.** Schedule 4.9 sets forth an accurate list and description of the following contracts, plans or arrangements adopted or maintained by Seller or its ERISA Affiliates for any Business Employee: (a) all employee benefit plans, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and (b) any retirement or deferred compensation plan, incentive compensation plan, stock plan, unemployment compensation plan, vacation pay, severance pay, bonus or benefit arrangement, insurance or hospitalization program or any other fringe benefit arrangement which does not constitute an employee benefit plan (as defined in Section 3(3) of ERISA). All plans or arrangements listed on Schedule 4.9 are administered in material compliance with the terms thereof and with all applicable provisions of ERISA and the regulations issued thereunder, the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder, as well as with all other applicable federal, state and local statutes, ordinances and regulations. No liability will attach to Purchaser as a result of any noncompliance or otherwise with respect to any such plans or any other compensatory plans or arrangements maintained by Seller or any ERISA Affiliate. Neither Seller nor any ERISA Affiliate has within seven (7) years prior to the Closing Date maintained or contributed to (or been obligated to contribute to) any multiemployer plan (within the meaning of Section 3(37) of ERISA) or any defined benefit pension plan (as defined in Section 3(35) of ERISA). The entities with which Seller is or has, within the preceding six (6) years been, a single employer for purposes of Section 414(b) of the Code are the "ERISA Affiliates".

#### **4.10 Condition and Sufficiency of Assets.**

(a) Except as set forth on Schedule 4.10(a), each tangible Asset is in good operating condition and repair, ordinary wear and tear excepted, and is adequate for the uses to which it is being put and in the aggregate is not in need of maintenance or repairs except for ordinary routine maintenance and repairs that are not material in cost or nature.

(b) The Assets, together with the rights granted to Purchaser under the Transition Services Agreement, the Subcontract Agreement and the Supply Agreement, are sufficient for Purchaser to operate and conduct the Business after the Closing Date in substantially the same manner as the Business was conducted by Seller at any time during the twelve-month period immediately prior to the Closing Date. Except as described on Schedule 4.10, the Assets, together with the rights granted to Purchaser under the Transition Services Agreement, the Subcontract Agreement and the Supply Agreement, constitute all assets, rights and properties, tangible or intangible, held by Seller or any of its Affiliates that are used in, or necessary for, the conduct of the Business.

**4.11 Litigation; Conformity with Law.** Except to the extent set forth in Schedule 4.11, there are no claims, actions, suits or proceedings, pending or to Seller's knowledge, threatened, against or affecting the Business or the Assets, at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality having jurisdiction over it and no notice of any claim, action, suit or proceeding, whether pending or threatened, has been received. There are no judgments, orders or decrees outstanding against or affecting the Business or the Assets. Seller has conducted and is conducting the Business in substantial compliance with the requirements, standards, criteria and conditions set forth in applicable federal, state and local statutes, ordinances, permits, licenses, orders, approvals, variances, rules and regulations and is not in violation of any of the foregoing which might materially and adversely affect the operations, affairs, prospects, properties, assets, profits or condition (financial or otherwise) of the Business, taken as a whole.

**4.12 Export, Sanctions and Anti-Corruption.** Since August 1, 2013, Seller has complied in all material respects with all applicable laws and regulations relating to international transactions involving transfers of commodities, software, or technology, or the provision of services, including the Export Administration Regulations of the U.S. Department of Commerce, International Traffic in Arms Regulations of the U.S. Department of State, and foreign assets control regulations and Executive Orders administered by the U.S. Department of the Treasury. Except as expressly authorized by relevant governmental entities, since August 1, 2013, Seller has not engaged in any transaction in, or with any person or entity in, controlled by or organized under the laws of Cuba, Iran, North Korea, Sudan, Syria, or the Crimea region of Ukraine, or with any person or entity designated by a U.S. governmental entity as a target of sanctions or transaction restrictions under any of the foregoing laws or regulations. Since August 1, 2013, Seller has at all times operated in compliance with the U.S. Foreign Corrupt Practices Act of 1977, UK Bribery Act 2010, and other applicable anti-bribery and anti-corruption laws. Since August 1, 2013, to the Seller's knowledge no person has engaged in any activity prohibited by any of the foregoing laws or regulations on behalf of Seller or in connection with the Business.

**4.13 Data Privacy and Security.** Since August 1, 2013, Seller has at all times complied in all material respects with all applicable laws regulations, and corporate policy commitments governing the collection, use and disclosure of personal information in connection with the Business, and all applicable laws and regulations relating to security, notification and/or reporting of information security incidents or breaches of such information. Since August 1, 2013, to Seller's knowledge, there has been no material breach or security incident involving personal or any material proprietary information relating to the Business.

**4.14 Taxes.** Seller has timely filed all requisite federal and all other tax returns required to be filed by the United States of America or any state, local or foreign government, or any agency or political subdivision thereof and has paid all taxes or other similar assessments or liabilities, including any interest, fines, penalties, assessments, or additions to tax, imposed by the United States of America or any state, local or foreign government, or any agency or political subdivision thereof ("Taxes") due and payable by Seller and made adequate provision for the payment of any Taxes that have accrued but are not yet due and payable, related to the Business. Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any Business Employee, independent contractor, creditor, member or other third party. Seller is, and at all times since its formation has been, owned by a single owner and has never elected corporate tax treatment such that it has at all times in its existence been disregarded as an entity separate from its owner, the Parent, for U.S. federal income and applicable state income tax purposes.

**4.15 Completeness; Books and Records.** The copies of all leases, instruments, agreements, licenses, permits, certificates or other documents which are included on schedules attached hereto or have been delivered to Purchaser in connection with the transactions contemplated hereby are complete and correct in all material respects. The originals or copies of the Records of Seller have been delivered to Purchaser. At the Closing, all of those Records will be in the possession of Purchaser.

**4.16 Absence of Changes.** Since March 31, 2016, except as set forth on Schedule 4.16, (a) there has not been any material adverse change, or any event that would reasonably be expected to have a material adverse change, in the financial condition, assets, liabilities (contingent or otherwise), or income of the Business and (b) neither Seller nor any of its Affiliates has (i) sold or otherwise disposed of any asset, right or property related to the Business (other than sales of inventory to customers in the ordinary course of business), (ii) licensed to any third party the right to use any Intellectual Property related to the Business (other than non-exclusive licenses granted to customers in the ordinary course of business), (iii) terminated the employment or accepted a resignation of employment of any key employee engaged in the Business or (iv) terminated (or permitted the termination of) any material contract related to the Business.

**4.17 No Conflicts.** Except as set forth on Schedule 4.17, the execution, delivery and performance of this Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto, the consummation of any transactions herein or therein referred to or contemplated by and the fulfillment of the terms hereof and thereof will not:

(a) conflict with, or result in a breach or violation of, the Articles of Organization or Operating Agreement or comparable governing documents of Seller or any of its Affiliates;

(b) materially conflict with, or result in a material default (or would constitute a default but for any requirement of notice or lapse of time or both) under, any Contract, Lease or other agreement to which Seller is a party, or result in the creation or imposition of any lien, charge or encumbrance on the Assets or Business, or materially conflict with, or result in a material default (or would constitute a default but for any requirement of notice or lapse of time or both) under (i) any law or regulation to which Seller or its Assets or Business is subject, or (ii) any judgment, order or decree to which Seller is bound or any of its property is subject;

(c) with or without notice or the passage of time or both, result in termination or any impairment of, or require any notice, consent approval or authorization under or with respect to, or the imposition or acceleration of any obligation under, any material permit, license, franchise, contractual right or other authorization of Seller.

**4.18 Employee Agreements.** To Seller's knowledge, the Business Employees are not, as a result of the Business as conducted by Seller in violation of (i) any fiduciary or confidential relationship, (ii) any term of any contract or covenant (either with the Seller or another entity) relating to employment, patents, proprietary information disclosure, non-competition or non-solicitation or (iii) any other contract or agreement, or any judgment, decree or order of any court or administrative agency, in each case relating to or affecting the right of any of the Seller's employees to be employed by Purchaser.

**4.19 Brokers or Finders.** Seller has not incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payments in connection with the sale of the Business, other than those fees, commissions and similar payments that will be paid by Seller to Mesirov Financial, to Inex Advisors, LLC, and to employees of Seller or its Affiliates.

**4.20 Inventory.** The Acquired Inventory is of a quality and quantity usable and saleable in the ordinary course of business, consistent with past practice, and except as described on Schedule 4.20, contains no excess, obsolete, damaged or defective Inventory.

**4.21 Products; Warranties.** Schedule 4.21 sets forth a summary description of all products or services made commercially available to third parties by or on behalf of Seller or any of Affiliates in connection with the Business since August 1, 2013, and a description of any guaranty (of quality, non-infringement, service levels or otherwise), warranty, right of return, right of credit or other indemnity. Schedule 4.21 sets forth the aggregate expenses incurred by Seller or any of its Affiliates in fulfilling obligations under such guaranty, warranty, right of return and indemnity provisions in the twelve months preceding the date of this Agreement. To Seller's knowledge, there exists no fact, circumstance or condition that would reasonably be expected to result in such expenses significantly increasing in the twelve month period following the Closing other than the availability and cost of component parts and materials.

**4.2.2 Environmental Matters.** With respect to the Business, since August 1, 2013, Seller has complied with all applicable requirements relating to the protection of the environment, employee exposure to workplace chemicals and discharges or emissions to the environment (“Environmental Laws”). There is no pending or, to the knowledge of Seller, threatened civil or criminal litigation, written notice of violation, administrative proceeding, or investigation, inquiry or information request by any governmental entity, relating to any Environmental Law involving Seller and related to the Business. Seller does not have any material liabilities under any Environmental Law arising from the release or threatened release of any substance into the environment in connection with the Business. Seller is not a party to or bound by any court order, administrative order, consent order or other agreement between Seller and any governmental entity entered into in connection with any requirement of an Environmental Law and related to the Business. Set forth on Schedule 4.22 is a list of all documents (whether in hard copy or electronic form) since August 1, 2013 that contain all environmental reports, investigations and audits relating to premises currently or previously owned or operated by Seller in connection with the Business (whether conducted by or on behalf of Seller or any other person, and whether done at the initiative of Seller or directed by a governmental entity or other person) which Seller has possession of or access to. A complete and accurate copy of each such document has been provided to Purchaser. Seller has no knowledge of any pending or threatened cleanup or compliance obligation arising under any Environmental Law relating to any solid or hazardous waste transporter or treatment, storage or disposal facility that has been used by Seller in connection with the Business.

**4.2.3 Solvency.** Neither Parent nor Seller is entering into this Agreement with the intent to hinder, delay or defraud either present or future creditors of Seller or any of its Affiliates. Immediately following the Closing after giving effect to the transactions contemplated by this Agreement, Parent and its subsidiaries, taken as a whole, will be Solvent. As used herein, “Solvent” means with respect to any person on a particular date, that on such date (a) the fair value of the property of such person is greater than the total amount of liabilities, including, contingent liabilities, of such person, (b) the present fair salable value of the assets of such person is not less than the amount that will be required to pay the probable liability of such person on its debts as they become absolute and matured, (c) such person has not incurred, and does not intend to incur, debts or liabilities beyond such person’s ability to pay such debts and liabilities as they mature and (d) such person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such person’s property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed under this Section 4.23 as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that is probable to become an actual or matured liability.



**4.2.4 Seller's Representations and Warranties.** Except as expressly set forth in this Article 4, Seller offers no additional warranties or representations whatsoever.

#### ARTICLE 5. REPRESENTATIONS OF PURCHASER

Purchaser represents and warrants that all of the following statements are true and correct:

**5.1 Due Organization.** Purchaser is duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and is duly authorized, qualified and licensed under all applicable laws, regulations, and ordinances of public authorities to carry on its business in the places and in the manner as now conducted.

**5.2 Authorization.** Purchaser has all power and authority to execute and deliver this Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto, and to consummate the purchase of the Assets and assumption of the Assumed Liabilities and the other transactions contemplated hereby. The execution and delivery by Purchaser of this Agreement, the consummation of the purchase of the Assets and the assumption of the Assumed Liabilities and the consummation of the other transactions contemplated hereby by Purchaser have been duly and validly authorized by all necessary corporate action on the part of Purchaser. Except as described on Schedule 5.2, no consent, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or other governmental authority, domestic or foreign, is required by or with respect to Purchaser in connection with the execution and delivery of this Agreement or any agreement contemplated hereby or any of the attachments or schedules hereto or thereto, or the consummation of the transactions contemplated hereby or thereby, except in each case for any such item which if not obtained or made would not materially impair Purchaser's ability to perform its obligations hereunder or thereunder. This Agreement and each agreement contemplated hereby and the attachments and schedules hereto and thereto have been duly and validly executed and delivered by Purchaser and constitute a valid and binding obligation of Purchaser enforceable against Purchaser in accordance with their terms.

**5.3 No Conflicts.** The execution, delivery and performance of this Agreement and each agreement contemplated hereby and the Exhibits and Schedules attached hereto and thereto, the consummation of any transactions herein or therein referred to or contemplated by and the fulfillment of the terms hereof and thereof will not:

- (a) conflict with, or result in a breach or violation of the Articles of Incorporation or Bylaws of Purchaser;
- (b) materially conflict with, or result in a material default (or would constitute a default but for any requirement of notice or lapse of time or both) under any agreement to which Purchaser is a party; or

( c ) violate any statute, rule or regulation or judgment, order, writ, injunction or decree of any court, administrative agency or governmental body, in each case applicable to Purchaser or any of its assets.

No consent or approval by, or any notification or filing with, and no permit, or authorization of, any public body or authority is required in connection with the execution, delivery, and performance by Purchaser or the consummation by Purchaser of the transactions contemplated by this Agreement.

**5.4 Brokers or Finders.** Purchaser has not incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payments in connection with the purchase of the Business.

**5.5 ITAR.** Purchaser is properly registered pursuant to the requirements of ITAR, and the Purchaser's Affiliate designated to be the transferee of the Business will not be a "foreign person" within the meaning of ITAR §122.4(b).

**5.6 Purchaser's Representations and Warranties.** Except as expressly set forth in this Article 5, Purchaser offers no additional warranties or representations whatsoever.

#### **ARTICLE 6. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION.**

**6.1 Survival of Representations and Warranties.** All representations and warranties shall survive Closing and the consummation of the contemplated transactions for a period of twelve (12) months following the Closing, at which time such representations and warranties shall expire, provided, however, that, notwithstanding the foregoing, (a) the representations and warranties set forth in Sections 4.1, 4.2, 4.4, 4.9, 4.10(b), 4.14, 4.17(a) and 4.19 (the "Seller Fundamental Representations") shall survive for a period of six (6) years following the Closing, at which time such representations and warranties and the representations and warranties of Purchaser set forth in Sections 5.1, 5.2, 5.3(a), 5.4, and 5.5 (the "Purchaser Fundamental Representations") shall expire, and (b) the representations and warranties set forth in Section 4.8 shall survive for a period of three (3) years following the Closing. All covenants and other agreements shall survive the Closing. If an Indemnified Party delivers to an Indemnifying Party, before expiration of a representation or warranty, notice of a claim for indemnification based upon a breach of such representation or warranty, then such representation or warranty shall survive until, but only for purposes of, the resolution of the matter covered by such claim.

**6.2 Indemnification by Seller.** Seller shall indemnify, defend, hold harmless, and reimburse Purchaser for any and all claims, actions, suits, proceedings, losses, liabilities, damages (including fines, penalties, and criminal or civil judgments and settlements), costs (including court costs) and expenses (including reasonable attorneys' and accountants' fees) (hereinafter "Loss" or "Losses") suffered or incurred by Purchaser or any of its Affiliates or any successors or assigns thereto as a result of, or with respect to:

- (a) any breach or inaccuracy of any representation or warranty of Seller set forth in Article 4;
- (b) any breach of or noncompliance by Seller with any covenant or agreement of Seller contained in this Agreement;
- (c) notwithstanding anything to the contrary in any Novation Agreement, Retained Liabilities or the operation of the Business on or prior to the Closing Date or, with respect to the Business Employees, the applicable Employment Date;
- (d) any liability of Seller for Taxes, including any Taxes of Seller and any Taxes of another person for which Seller is liable; or
- (e) the matters described on Schedule 6.2(e).

**6.3 Indemnification by Purchaser.** Purchaser shall indemnify, defend, hold harmless, and reimburse Seller for any and all Losses suffered or incurred by Seller or any of its Affiliates or any successors or assigns thereto as a result of, or with respect to:

- (a) any breach or inaccuracy of any representation or warranty of Purchaser set forth in Article 5;
- (b) any breach of or noncompliance by Purchaser with any covenant or agreement of Purchaser contained in this Agreement; or
- (c) failure to pay or perform any Assumed Liabilities (notwithstanding anything to the contrary in any Novation Agreement).

**6.4 Exclusive Remedy; Other Matters.**

( a ) Except to the extent of fraud or knowing and intentional misrepresentation by Seller or any of its Affiliates or its or their representatives, except for specific performance and except for claims with respect to any agreement delivered pursuant to this Agreement (including the Transition Services Agreement, the Supply Agreement and the Subcontract Agreement), the remedies provided in Section 6.2 (subject to the limitations of this Article 6) will be the sole and exclusive remedies against Seller with respect to any of the breaches or claims described in such Section or otherwise arising against Seller under, out of or relating to this Agreement.

( b ) Except to the extent of fraud or knowing and intentional misrepresentation by Purchaser or any of its Affiliates or its or their representatives, except for specific performance and except for any remedies expressly provided in any agreement delivered pursuant to this Agreement, the remedies provided in Section 6.3 (subject to the limitations this Article 6) will be the sole and exclusive remedies against Purchaser with respect to any of the breaches or claims described in such Section or otherwise arising under, out of or relating to this Agreement.

(c) The rights to indemnification set forth in this Article 6 shall not be affected by any investigation conducted by or on behalf of either Party or any knowledge acquired (or capable of being acquired) by either Party, whether before or after the Closing, with respect to the inaccuracy of or noncompliance with any representation, warranty, covenant or obligation hereunder.

(d) Notwithstanding anything to the contrary in this Agreement, (i) Purchaser shall have no obligations under Section 6.3 with respect to any matter for which Purchaser is or would be entitled to indemnification under Section 6.2 (without giving effect to any limitations, including as to time, survival periods, deductibles, thresholds, caps, knowledge or materiality qualifiers) and (ii) if a Party is entitled to bring a claim under more than one provision of Section 6.2 or Section 6.3, as the case may be, such Party may choose in its sole and absolute discretion the provision or provisions under which it seeks indemnification.

(e) The Purchaser shall have the right to have any Losses for which it is entitled to indemnification under this Agreement disbursed to Purchaser from the Escrow Fund (as defined in the Escrow Agreement, the “Escrow Fund”). Any amounts disbursed to Purchaser from the Escrow Fund in accordance with the Escrow Agreement shall be conclusively deemed to be amounts paid to Purchaser in respect of Losses for which Purchaser is entitled to indemnification hereunder. If Purchaser seeks to recover Losses from the Escrow Fund, Seller and Purchaser shall deliver to the Escrow Agent, promptly following the resolution of the applicable indemnification claim (whether by mutual agreement, judicial decision or otherwise), a written notice executed by both Parties instructing the Escrow Agent as to what (if any) portion of the Escrow Fund shall be disbursed to Purchaser (which notice shall be consistent with the terms of the resolution of such claim).

(f) Notwithstanding anything to the contrary in this Agreement, for purposes of determining the amount of Losses for which any Party may be entitled to indemnification under this Article 6, each such representation or warranty shall be deemed to have been made without any qualifications or limitations as to materiality or similar concepts.

#### **6.5 Monetary Limitations on Seller Indemnification.**

(a) Seller shall have no liability with respect to claims under Section 6.2(a) (x) for any individual claim where the Losses relating thereto (including all related claims) is less than \$25,000 (the “Minimum Claim Threshold”) and (y) until the total of all Losses with respect to such matters exceeds an amount equal to \$200,000 (the “Deductible”) and then only for the amount by which such Losses exceed the Deductible; provided, however, that the Minimum Claim Threshold and the Deductible shall not apply to (A) any breach of any Seller Fundamental Representations or (B) any fraud or knowing and intentional misrepresentation of any representation or warranty of Seller set forth in this Agreement.

(b) Notwithstanding anything contained in this Agreement or otherwise to the contrary, the maximum aggregate liability of the Seller with respect to claims under Section 6.2(a) shall not exceed an amount equal to Three Million Dollars (\$3,000,000) (the “Cap”); provided, however, that the Cap shall not apply to (x) any breach of the representations and warranties set forth in Section 4.8, Seller’s aggregate liability for which shall be limited to Four Million Five Hundred Thousand Dollars (\$4,500,000), (y) any breach of any Seller Fundamental Representations or (z) any fraud or knowing and intentional misrepresentation of any representation or warranty of Seller set forth in this Agreement.

#### **6.6 Monetary Limitations on Purchaser Indemnification.**

(a) Purchaser shall have no liability with respect to claims under Section 6.3(a) (x) for any individual claim where the Losses relating thereto (including all related claims) is less than the Minimum Claim Threshold and (y) until the total of all Losses with respect to such matters exceeds an amount equal to the Deductible and then only for the amount by which such Losses exceed the Deductible; provided, however, that the Minimum Claim Threshold and the Deductible shall not apply to (A) any breach of any Purchaser Fundamental Representations, or (B) any fraud or knowing and intentional misrepresentation of any representation or warranty of Purchaser set forth in this Agreement.

(b) Notwithstanding anything contained in this Agreement or otherwise to the contrary, the maximum aggregate liability of Purchaser with respect to claims under Section 6.3(a) shall not exceed an amount equal to the Cap; provided, however, that the Cap shall not apply to (x) any breach of any Purchaser Fundamental Representations or (y) any fraud or knowing and intentional misrepresentation of any representation or warranty of Purchaser set forth in this Agreement.

#### **6.7 Third Party Claims.**

(a) Promptly after any Party hereto (hereinafter the “Indemnified Party”) has received notice of or has knowledge of any claim by a person that is not a Party or an Affiliate of a Party (“Third Party”) or the commencement of any action or proceeding by a Third Party (“Third Party Action”), the Indemnified Party shall, as a condition precedent to a claim with respect thereto being made against any Party obligated to provide indemnification pursuant to Sections 6.2 or 6.3 hereof (hereinafter the “Indemnifying Party”), give the Indemnifying Party written notice of such claim or the commencement of such action or proceeding, provided that the failure to give prompt notice thereof shall not relieve the Indemnifying Party of its indemnification obligations under this Agreement, except to the extent the Indemnifying Party is materially and adversely prejudiced thereby. Such notice shall, to the extent known, state the nature and the basis of such claim and a reasonable estimate of the amount thereof. Within 20 days after delivery of such claim notice, the Indemnifying Party may, upon written notice thereof to the Indemnified Party, assume control of the defense of such Third Party Action with counsel reasonably satisfactory to the Indemnified Party; provided, however, that (i) the Indemnifying Party may assume control of such defense only if and for so long as and to the extent that (A) it acknowledges in writing to the Indemnified Party that it is obligated to fully indemnify the Indemnified Party against such Third Party Action pursuant to this Agreement, (B) the Indemnifying Party (whether by use of the Escrow Fund or otherwise) can demonstrate to the reasonable satisfaction of the Indemnified Party its financial ability to defend and satisfy the Third Party Action, and (C) the Third Party Action does not involve criminal liability of the Indemnified Party or seek material equitable or injunctive relief against the Indemnified Party or otherwise involve a governmental entity as a party and (ii) the Indemnified Party is hereby authorized (but not obligated) prior to and during such notice period to file any motion, answer or other pleading and to take any other action which the Indemnified Party shall deem necessary or appropriate to protect the Indemnified Party’s interests except to the extent the Indemnifying Party is materially and adversely prejudiced thereby. Notwithstanding anything to the contrary herein, the Indemnified Party may (without waiving any of its rights hereunder) assume control of the defense of the relevant portions of any Third Party Action as applicable if (x) the Indemnifying Party does not elect to assume the control of the defense of such Third Party Action or any portion thereof in accordance with this Agreement or the terms of this Agreement do not permit the Indemnifying Party to control such portion of the defense, (y) at any time the Indemnifying Party fails to diligently defend such Third Party Action or any portion thereof, or (z) to the extent that the Indemnified Party concludes based on the advice of counsel that there are issues that raise actual conflicts of interest between the Indemnifying Party and the Indemnified Party or that the Indemnified Party has different or additional defenses available to it. The non-controlling party shall, at the expense of the Indemnifying Party, cooperate with the controlling party and its counsel in the defense of any such Third Party Action or in any settlement thereof. Such cooperation shall include, but shall not be limited to, furnishing the controlling party with any non-privileged books, records or information reasonably requested by the controlling party that are in the non-controlling party’s possession or control and relate to the Business and the period prior to the Closing. The non-controlling party shall have the right to participate in any matter through counsel of its own choosing at its own expense. For so long as the Indemnifying Party controls the defense of any Third Party Action in accordance with the terms of this Agreement, the Indemnifying Party shall not be liable for any additional legal expenses incurred by the Indemnified Party in connection with any defense or settlement of such asserted liability, except to the extent such participation is requested by the Indemnifying Party, in which event the Indemnified Party shall be reimbursed by the Indemnifying Party for reasonable additional legal expenses, out-of-pocket expenses and allocable share of employee compensation incurred in connection with such participation for any employee whose participation is so requested. If the Indemnified Party assumes control of any portion of the defense of any Third Party Action in accordance with this Agreement, the Indemnified Party may undertake such defense through counsel of its choice, at the reasonable cost and expense of the Indemnifying Party.

(b) Notwithstanding anything to the contrary in this Agreement, (i) neither Party may settle any matter (in whole or in part) unless such settlement (A) includes a complete and unconditional release of the other Party and its Affiliates in respect of the Third Party Action, (B) involves no admission of wrongdoing by such other Party or its Affiliates and (C) excludes any material injunctive or non-monetary relief applicable to such other Party or its Affiliates, and (ii) if a third party asserts (other than by means of a lawsuit) that an Indemnified Party is liable to such third party for a monetary or other obligation which may constitute or result in Losses for which such Indemnified Party may be entitled to indemnification pursuant to this Article 6, and such Indemnified Party reasonably determines that it has a valid business reason to fulfill such obligation, then (A) such Indemnified Party shall be entitled to satisfy such obligation, without prior notice to or consent from the Indemnifying Party, (B) such Indemnified Party may subsequently make a claim for indemnification in accordance with the provisions of this Article 6, and (C) such Indemnified Party shall be reimbursed, in accordance with the provisions of this Article 6, for any such Losses for which it is entitled to indemnification pursuant to this Article 6. Notwithstanding anything to the contrary in this Article 6, nothing in this Article 6 shall preclude the Indemnifying Party from disputing the Indemnified Party's entitlement to indemnification for any settlement entered into without the consent of the Indemnifying Party or the amount for which the Indemnified Party is entitled to indemnification in connection therewith.

**6.8 Recoveries.** If an Indemnified Party subsequently receives a payment from a Third Party (including proceeds of insurance) with respect to a matter for which it has been indemnified by the Indemnifying Party, the Indemnified Party will promptly pay the amount, if any, by which (a) the sum of the amounts paid to the Indemnified Party by the Indemnifying Party hereunder in respect of such matter and the amount of such Third Party payment (net of all costs of collection and increases in insurance premiums), exceeds (b) the amount Losses incurred by the Indemnified Party with respect to such matter.

## ARTICLE 7. EMPLOYEES

**7.1 Business Employees.** Purchaser shall have the right to, and shall, offer employment to those Business Employees identified on Schedule 7.1 (the "Specified Business Employees").

### **7.2 Employment of New Purchaser Employees by Purchaser.**

(a) Seller shall take all necessary action to (i) cause the employment of each of the Specified Business Employees to terminate effective as of a date selected by Purchaser that is reasonably acceptable to Seller (the "Employment Date"), and (ii) cause the active participation of such Specified Business Employee in any employee benefit plans to cease to be effective as of the Employment Date (or such later date as applies to former employees). On or before the Employment Date, Purchaser shall have the right to extend offers of employment (which may be accomplished through a general offer of employment) effective upon the Employment Date to each Specified Business Employee with Purchaser; provided, however, that any such offer made to a Specified Business Employee who is on a medical leave of absence or disability on the Closing Date shall be contingent upon such Specified Business Employee's return to active service upon the earlier of the expiration of his or her approved leave of absence or the date that is six (6) months after his or her last day of active employment with Seller and any such offer made to a Specified Business Employee who is on an authorized military leave on the Closing Date shall be contingent upon such Specified Business Employee's return to active service with Seller in accordance with the terms of his or her leave of absence, as previously approved by Seller, or subject to applicable law. On or before the Closing Date, Seller shall notify each Specified Business Employee of the transaction contemplated by this Agreement and that reporting to work at such Specified Business Employee's normal work location in accordance with such Specified Business Employee's normal work schedule after that individual's Employment Date shall be deemed acceptance of employment with Purchaser, as applicable, on the first date on which such Specified Business Employee so reports (each Specified Business Employee so reporting, a "New Purchaser Employee"). The offers and acceptances of employment described in this Section 7.2 shall occur without further action by Purchaser or its Affiliates but be subject to the terms of any offer letters or employment conditions of Purchaser. Subject to applicable law, Purchaser will have reasonable access before the Closing Date and through the applicable Employment Date to Business Employees for purposes of recruitment and enrollment in benefit plans. Access will be provided by Seller upon reasonable prior notice during normal business hours.

(b) Seller shall pay out accrued unused vacation as of the Employment Date, irrespective of its usual policies for payment of such amounts on employment termination. New Purchaser Employees will accrue vacation and/or paid time off under Purchaser's policies beginning as of the Employment Date. For purposes of eligibility and vesting (but not with respect to any defined benefit plans or post-employment arrangements) under Purchaser's employee benefit plans and arrangements, Purchaser will credit the service time of the New Purchaser Employees with Seller prior to the applicable Employment Date.

(c) It is understood and agreed that (i) Purchaser's expressed intention to extend offers of employment as set forth in this Section shall not constitute any commitment, contract or understanding (expressed or implied) of any obligation on the part of Purchaser to a post-Employment Date employment relationship of any fixed term or duration or upon any terms or conditions other than those that Purchaser have agreed to establish as set forth above or may establish pursuant to individual offers of employment, and (ii) employment offered by Purchaser is "at will" and may be terminated by Purchaser or by any New Purchaser Employee at any time for any reason (subject to (x) any written commitments to the contrary made by Purchaser and (y) applicable law, including the Family and Medical Leave Act), nor shall this Agreement be construed to confer upon any person not a party to it any rights or remedies of any nature whatsoever or to establish or constitute an amendment of any compensation or benefit plan maintained by the Purchaser or any of its affiliates (or an undertaking to amend any such plan). Without limiting the foregoing, no provision of this Article 9 shall create any third party beneficiary rights in any current or former employee, director or consultant of Seller.

(d) Seller shall be solely responsible for (i) the payment of all wages and other remuneration and benefits due to Business Employees (including any New Purchaser Employees) with respect to their services as employees of Seller through the close of business on the Employment Date, including any applicable pro rata bonus payments; (ii) with respect to employees of Seller, including any New Purchaser Employees, the payment of any termination or severance payments (even if triggered by future cessation of employment with Purchaser if due under the agreements described on Schedule 1.4(c)); (iii) any and all payments to employees required under the under the Worker Adjustment and Retraining Notification Act (the "WARN Act") due to any plant closing or mass layoff occurring on or before the final Employment Date; (iv) any and all workers' compensation claims (if any) incurred by any Business Employee (including any New Purchaser Employee) on or prior to the applicable Employment Date; and (v) the provision of continuation health coverage to Seller's M&A Qualified Beneficiaries (as defined in Treas. Reg. Section 54.4980B-9, A-4) other than those who become New Purchaser Employees. Notwithstanding the parenthetical in clause (ii) of this Section 7.2(d), Purchaser shall promptly reimburse Seller for any payments of severance Seller is contractually required to and does make under Section 2(a) of the agreements described on Schedule 1.4(c) with respect to a post-Closing Date termination of employment.

(e) Sellers and Purchaser shall give any notices required by applicable law and take whatever other actions with respect to the plans, programs and policies described in this Article 9 as may be reasonably necessary to carry out the arrangements described in this Article 9. If any of the arrangements described in this Article 9 are determined by the Internal Revenue Service or other governmental entity to be prohibited by law, Seller and Purchaser shall modify such arrangements to as closely as possible reflect their expressed intent and retain the allocation of economic benefits and burdens to the parties contemplated herein in a manner that is not prohibited by law.

#### ARTICLE 8. OTHER AGREEMENTS

**8.1 Solicitation and Hiring.** For a period of five (5) years after the Closing Date, Seller shall not (and it shall cause its Affiliates not to), either directly or indirectly, (a) solicit or attempt to induce any New Purchaser Employee to terminate his employment with Purchaser or any subsidiary of Purchaser or (b) hire or attempt to hire any New Purchaser Employee; provided, that this clause (b) shall not apply to any individual whose employment with Purchaser or a subsidiary of Purchaser has been terminated for a period of six (6) months or longer.

**8.2 Non-Competition.** For a period of five (5) years after the Closing Date, Seller shall not (and it shall cause its Affiliates not to), either directly or indirectly as a stockholder, investor, partner, consultant or otherwise, (a) design, develop, manufacture, market, sell or license any product or provide any service anywhere in the world which is competitive with any product designed, developed (or under development), manufactured, sold or licensed or any service provided by Seller exclusively or primarily in connection with the Business within the three-year period prior to the Closing Date or (b) engage anywhere in the world in any business competitive with the Business as conducted as of the Closing Date or during the three-year period prior to the Closing Date; provided, however, that Seller's performance of its obligations under the Supply Agreement, the Subcontract Agreement and the Transition Services Agreement and the Retained Business, as conducted on the Closing Date, shall not constitute a breach of this Section 8.2. The Parties agree that the duration and geographic scope of the non-competition provision set forth in this Section 8.2 are reasonable. In the event that any court determines that the duration or the geographic scope, or both, are unreasonable and that such provision is to that extent unenforceable, the Parties agree that the provision shall remain in full force and effect for the greatest time period and in the greatest area that would not render it unenforceable. The Parties intend that this non-competition provision shall be deemed to be a series of separate covenants, one for each and every county of each and every state of the United States of America and each and every political subdivision of each and every country outside the United States of America where this provision is intended to be effective.



**8.3 Proprietary Information.** From and after the Closing, Seller shall not disclose or make use of (except to pursue its rights, under this Agreement and shall cause all of its Affiliates not to disclose or make use of, any knowledge, information or documents of a confidential nature or not generally known to the public with respect to the Assets, the Business or Purchaser, except to the extent that such knowledge, information or documents shall have become generally known by the public other than through improper disclosure by Seller or an Affiliate.

**8.4 Sharing of Data.** Purchaser shall have the right for a period of seven (7) years following the Closing Date to have reasonable access to those books, records and accounts, including financial and accounting records (including the work papers of Seller's independent accountants), tax records, correspondence, production records, employment records and other records that are retained by Seller pursuant to the terms of this Agreement to the extent that any of the foregoing is needed by Purchaser for the purpose of conducting the Business after the Closing and complying with its obligations under applicable securities, tax, environmental, employment or other laws and regulations. Seller shall not destroy any such books, records or accounts retained by it without first providing Purchaser with the opportunity to obtain or copy such books, records, or accounts at Purchaser's expense. Promptly upon request by Purchaser made at any time following the Closing Date, Seller shall authorize the release to Purchaser of all files pertaining to Seller, the Assets or the Business or operations of Seller held by any federal, state, county or local authorities, agencies or instrumentalities.

**8.5 Parent Guaranty; Obligations of Parent.** Parent hereby unconditionally guarantees the due and punctual performance of Seller's obligations under this Agreement. This guaranty is an irrevocable guaranty of performance and payment (and not just of collection) and shall continue in effect notwithstanding any extension or modification of the terms of this Agreement or any other act or event which might otherwise operate as a legal or equitable discharge of Parent under this Section 8.5. Parent hereby waives all special suretyship defenses and notice requirements. Parent agrees to be bound by the provisions of Section 8.1 through Section 8.4 and Article 9 as if it were Seller, *mutatis mutandis*. As promptly as practicable after the Closing, Parent shall (and shall cause Seller to) use proceeds of the Purchase Price to satisfy and discharge all of their respective trade accounts payable with suppliers that are past due.

## ARTICLE 9. GENERAL.

**9.1 Cooperation.** The Seller and Purchaser shall each deliver or cause to be delivered to the other on the Closing Date, and at such other times and places as shall be reasonably agreed to, such additional instruments as the other may reasonably request for the purpose of carrying out this Agreement. The Seller will cooperate and use best efforts to have the present employees and contractors of Seller cooperate with Purchaser on and after the Closing Date in furnishing information, evidence, testimony and other assistance in connection with any actions, proceedings, arrangements or disputes of any nature with respect to matters pertaining to all periods prior to the Closing Date or, for the Business Employees, the applicable Employment Date.

**9.2 Successors and Assigns.** The rights of the Parties hereunder may not be assigned (except by operation of law or, in the case of Purchaser, to an Affiliate or an acquirer of all or any substantial portion of the Business or Assets) and shall be binding upon and shall inure to the benefit of the parties hereto, and their respective successors, heirs, legal representatives and permitted assigns. Notwithstanding any statement herein to the contrary, the assigning Party shall remain primarily liable for its obligations under this Agreement.

**9.3 Entire Agreement; Amendments and Waivers.** This Agreement (including the Schedules and Exhibits attached hereto) and the documents delivered pursuant hereto or contemplated hereby constitute the entire agreement and understanding between the Seller and Purchaser and supersede any prior agreement and understanding relating to the subject matter of this Agreement. This Agreement, upon execution, constitutes a valid and binding agreement on the parties thereto enforceable in accordance with its terms and may be modified or amended only by a written instrument executed by each of the Seller and Purchaser that specifically refers to this Agreement and expressly cites the provisions or provisions hereof that are modified or amended thereby. No waiver by either Party of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the Party giving such waiver. No waiver by either Party with respect to any default, misrepresentation, or breach of warranty or covenant hereunder shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

**9.4 Counterparts.** This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. This Agreement may be executed and delivered by facsimile or by an electronic scan delivered by electronic mail.

**9.5 Expenses.** Whether or not the transactions herein contemplated are consummated, Purchaser will pay the fees, expenses and disbursements of Purchaser and its agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement and any amendments thereto. Whether or not the transactions herein contemplated are consummated, the Seller will pay the fees, expenses and disbursements of Seller and its agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement and any amendments hereto and all other costs and expenses incurred in the performance and compliance with all conditions to be performed by the Seller under this Agreement. All registration, recording or transfer Taxes which may be payable in connection with the transactions contemplated by this Agreement will be payable one-half by Seller and one-half by Purchaser. Seller will file all necessary tax returns and other documentation with respect to all such Taxes and, if required by applicable law, Purchaser will, and will cause its Affiliates to, join in the execution of any such tax returns and other documentation.

**9.6 Knowledge.** An individual will be deemed to have knowledge of a particular fact or other matter if that individual is actually aware of that fact or matter. For purposes of this Agreement, the knowledge of Seller shall be limited to those matters of which John Walsh, Debra Delise, Brian Maguire, Larry Bemicky, Charlie Hagan, Jim Long and Doug Gardner, or any of them, has actual knowledge.

**9.7 Notices.** All notices of communication required or permitted hereunder shall be in writing and may be given by (i) depositing the same in United States mail, addressed to the Party to be notified, postage prepaid and registered or certified with return receipt requested, or (ii) by delivering the same in person to an officer or agent of such Party.

- (a) If to Purchaser: Analog Devices, Inc.  
Attn.: Office of the General Counsel  
One Technology Way  
Norwood, Massachusetts 02062  
(781) 461-3215 (fax)
- With a copy to: Wilmer Cutler Pickering Hale and Dorr LLP  
Attn.: Mark G. Borden, Esq.  
Jay E. Bothwick, Esq.  
Joseph B. Conahan, Esq.  
60 State Street  
Boston, Massachusetts 02109  
(617) 526-5000 (fax)
- (b) If to Seller or Parent: Sypris Electronics, LLC  
Attn.: Jeffrey T. Gill, Chairman  
101 Bullitt Lane, Suite 450  
Louisville, Kentucky 40222  
(502) 329-2036 (fax)

With copies to:

Sypris Solutions, Inc.  
Attn.: John R. McGeeney, General Counsel  
101 Bullitt Lane, Suite 450  
Louisville, Kentucky 40222  
(502) 329-2036 (fax)

Middleton Reutlinger  
Attn.: Thomas Ice, Esq.  
401 S. Fourth Street, Ste. 2600  
Louisville, Kentucky 40202  
(502) 588-1971 (fax)

**9.8 Governing Law and Venue.** This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to any choice of law principles that would cause the application of laws of any jurisdictions other than those of the State of Delaware. Any proceeding arising out of or relating to this Agreement shall be brought solely in the Court of Chancery of the State of Delaware, New Castle County, or, if that court does not have jurisdiction, a federal court sitting in Wilmington, Delaware. Each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such proceeding, waives any objection it may now or hereafter have to venue or to convenience of forum, agrees that all claims in respect of the proceeding shall be heard and determined only in any such court and agrees not to bring any proceeding arising out of or relating to this Agreement in any other court. The parties agree that any of them may file a copy of this paragraph with any court as written evidence of the knowing, voluntary and bargained agreement between the parties irrevocably to waive any objections to venue or to convenience of forum. Each Party waives any right it may have to a trial by jury with respect to any proceeding arising out of or relating to this Agreement.

**9.9 Reformation and Severability.** In case any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as to most nearly retain the intent of the parties, and if such modification is not possible, such provision shall be severed from this Agreement, and in either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

**9.10 Schedules and Exhibits.** The Schedules and Exhibits attached hereto constitute a part of this Agreement and are incorporated herein by reference as if set forth herein at the point where first mentioned.

**9.11 Publicity.** The parties agree that, except as otherwise required by law (in which case the disclosing Party shall use reasonable efforts to advise the other Party and provide it with a copy of the proposed disclosure prior to making the disclosure), the issuance of any public reports, statements or releases pertaining to the terms of this Agreement will require mutual written consent.

## 9.12 Remedies.

(a) Except as otherwise provided herein, any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy.

( b ) The Parties hereby agree that irreparable damage would occur in the event that any provision of this Agreement were not performed in accordance with its specific terms or were otherwise breached, and that money damages or other legal remedies would not be an adequate remedy for any such damages. Accordingly, each Party acknowledges and agrees that in the event of any breach or threatened breach of any of its covenants or obligations set forth in this Agreement, the other Party shall be entitled to an injunction or injunctions to prevent or restrain breaches or threatened breaches of this Agreement, by the other, and to specifically enforce the terms and provisions of this Agreement to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of the other under this Agreement, in each case without posting a bond or other security. Each Party hereby agrees not to raise any objections to the availability of the equitable remedy of specific performance to prevent or restrain breaches or threatened breaches of this Agreement, and to specifically enforce the terms and provisions of this Agreement to prevent breaches or threatened breaches of, or to enforce compliance with, the covenants and obligations of either Party under this Agreement. Time shall be of the essence for purposes of this Agreement.

**9.13 Interpretation.** Except where expressly stated otherwise in this Agreement, the following rules of interpretation apply to this Agreement: (a) “either” and “or” are not exclusive and “include”, “includes” and “including” are not limiting; (b) “hereof”, “hereto”, “hereby”, “herein” and “hereunder” and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement; (c) “date hereof” refers to the date set forth in the initial caption of this Agreement; (d) “extent” in the phrase “to the extent” means the degree to which a subject or other thing extends, and such phrase does not mean simply “if”; (e) descriptive headings are inserted for convenience only and do not affect in any way the meaning or interpretation of this Agreement; (f) definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms; (g) references to an “Article”, “Section”, “Exhibit” or “Schedule” refer to an Article or Section of, or an Exhibit or Schedule to, this Agreement; (h) references to “\$” or otherwise to dollar amounts refer to the lawful currency of the United States; (i) references to a federal, state, local or foreign statute or law include any rules, regulations and delegated legislation issued thereunder; (j) the word “person” shall be construed broadly to include any individual, corporation, partnership, limited liability company, joint venture, association, trust, governmental entity, unincorporated organization or other entity and to such person’s permitted successors and assigns; and (k) “governmental entity” shall mean any federal, state, local or foreign governmental or quasi-governmental entity or municipality or subdivision thereof or any authority, department, commission, board, bureau, agency, court, tribunal or instrumentality, or any applicable self-regulatory organization or association or any person that performs testing, validation or audit services in connection with any of the foregoing. The language used in this Agreement shall be deemed to be the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party. No summary of this Agreement prepared by any Party shall affect the meaning or interpretation of this Agreement. For purposes of this Agreement, “Affiliate” shall have the meaning set forth in Rule 12b-2 under the Securities Exchange Act of 1934.

**9.14 Third Party Beneficiaries.** This Agreement is not intended to, and shall not, confer upon any person other than the Parties any rights or remedies hereunder.

*[Remainder of page intentionally left blank; signatures appear on following page]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

“Purchaser”

**Analog Devices, Inc.**

By: /s/ David A. Zinsner

Name: David A. Zinsner

Title: Senior Vice President and Chief Financial Officer

“Seller”

**Sypris Electronics, LLC**

By: /s/ Jeffrey T. Gill

Name: Jeffrey T. Gill

Title: Chairman

“Parent”

**Sypris Solutions, Inc.**

By: /s/ Jeffrey T. Gill

Name: Jeffrey T. Gill

Title: President and Chief Executive Officer

**AMENDED AND RESTATED PROMISSORY NOTE**

This Amended and Restated Promissory Note represents an amendment and restatement of, and not a novation of, that certain Promissory Note made by Makers in favor of the Lender dated effective March 12, 2015, as heretofore amended, restated, modified and supplemented from time to time, in the maximum principal amount of \$6,500,000.00.

\$6,500,000.00

Louisville, Kentucky  
September 30, 2016

FOR VALUE RECEIVED, each of the undersigned, **SYPRIS SOLUTIONS, INC.**, a Delaware corporation ("Solutions"), **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation ("Technologies"), **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company ("Electronics"), **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation ("Data Systems"), **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, and **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation (each a "Maker" and collectively, the "Makers"), hereby jointly and severally promise and agree to pay to the order of **GILL FAMILY CAPITAL MANAGEMENT, INC.**, a Delaware corporation with principal office and place of business at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222 (the "Lender"), the principal sum of up to SIX MILLION FIVE HUNDRED THOUSAND DOLLARS (\$6,500,000.00) (the "Loan"), together with interest thereon as provided below. The terms and provisions of this Amended and Restated Promissory Note (this "Note") are as follows:

1. Calculation of Interest. From the date hereof to and until January 30, 2019, which date shall be the maturity date of this Note (the "Maturity Date"), the outstanding principal balance of this Note shall bear interest at the fixed rate per annum equal to eight percent (8.00%).

2. Payment of Principal and Interest. All principal and interest on this Note shall be due and payable as follows: (i) all accrued and unpaid interest shall be due and payable in consecutive quarterly installments commencing on October 2, 2016, the first business day immediately succeeding the third fiscal quarter end for Solutions, and continuing on the first business day immediately succeeding each subsequent fiscal quarter end for Solutions, to and until the Maturity Date, and (ii) the entire unpaid principal balance of and all accrued and unpaid interest on this Note, together with all other amounts due and owing under this Note, shall be due and payable in full on the Maturity Date.

3. Interest Calculated on 30-Day Month. All accrued interest on this Note shall be calculated on the basis of the actual number of days elapsed over twelve (12) assumed months consisting of thirty (30) days each.

4. Default Rate. Commencing five (5) days after written notice from the Lender (by facsimile transmission or otherwise) to the Makers to the effect that any installment of principal of and/or accrued interest on this Note is overdue (provided such notice shall be given no earlier than five (5) days after the due date of any such installment), such overdue installment of principal and/or accrued interest, provided it remains unpaid, shall commence to bear interest at the ten percent (10%) per annum (the "Default Rate"), and such overdue installment of principal and/or accrued interest together with all interest accrued thereon at the rate set forth herein shall continue to be immediately due and payable in full to the Lender. In the event the Lender accelerates the maturity date of this Note due to the occurrence of any Event of Default hereunder, the entire unpaid principal balance of this Note together with all accrued and unpaid interest thereon shall, beginning five (5) days after notice of acceleration of the maturity date of this Note has been given to the Makers, commence to bear interest at the Default Rate, and all such unpaid principal together with all interest accrued and unpaid thereon, including, without limitation, all interest accrued and accruing thereon as provided in this sentence, shall continue to be immediately due and payable in full to the Lender.



5. Place of Payment. All payments of principal and interest on this Note shall be made to the Lender in legal tender of the United States of America at its offices located at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222, or to such other person or such other place as may be designated in writing by the Lender.

6. Security Agreements; Mortgages; Security for Note. This Note is secured by, among other instruments, each of the following: [i] that certain Amended and Restated Security Agreement dated as of February 24, 2016 by and between the Makers, the other Borrower named therein and the Lender (as amended from time to time, the “General Security Agreement”), [ii] various other loan instruments that certain Amended and Restated Patent Security Agreement dated as of February 24, 2016 by and among Technologies, the other Grantor named therein and the Lender (as amended from time to time, the “Patent Security Agreement”) (the General Security Agreement and the Patent Security Agreement are collectively referred to herein as the “Security Agreements”), and [iii] that certain Amended and Restated Mortgage and Security Agreement with Assignment of Rents and Fixture Financing Statement dated as of October 30, 2015 made by Technologies for the benefit of Lender with respect to the Property described therein (as amended from time to time, collectively, the “Mortgage”) (the Security Agreements, Mortgage, and this Note may be referred to individually as a “Loan Instrument” and collectively as the “Loan Instruments”).

7. Representations and Warranties. Each Maker hereby jointly and severally represents and warrants to the Lender, as follows, which representations and warranties shall survive the execution and delivery of this Note and the making of the disbursement of Loan proceeds hereunder:

7.1 Maker’s Existence. Each Maker is a duly organized or incorporated and validly existing corporation or limited liability company, as applicable, in good standing under the laws of the State of Delaware and has all requisite authority to own its property and to carry on its business as presently conducted. Each Maker is duly qualified to transact business and is validly existing and in good standing as a foreign entity in every foreign jurisdiction where the failure to so qualify would materially and adversely affect such Maker’s business or its properties.

7.2 Authority of Maker. The obtaining of the Loan by each Maker from the Lender and the execution, delivery and performance by each Maker of this Note, the Security Agreements, the Mortgages and the other Loan Instruments to which it is a party are within the organizational powers of each Maker, have been duly authorized by all of the Directors or Members of such Maker, are not in contravention of the Certificate of Incorporation, Certificate of Formation, Bylaws or Operating Agreement of such Maker, as applicable, or the terms of any indenture, agreement or undertaking to which such Maker is a party or by which it or any of its property is bound, and do not contravene the provisions of, or constitute a default under, or result in the creation of any lien (except as expressly contemplated herein) upon the property of such Maker under any indenture, mortgage, contract or other agreement to which such Maker is a party or by which it or any of its properties is bound. Each Maker is duly qualified to do business as a foreign limited liability company in each state in which it is so required to be qualified.

7.3 Taxes. Each Maker has filed or caused to be filed all federal, state and local tax returns which, to the knowledge of its Members or Directors, are required to be filed, and each Maker has paid or caused to be paid all taxes as shown on such returns, on any assessment received by such Maker. Each Maker has established reserves which are believed to be adequate for the payment of additional taxes for years that have not been audited by the respective tax authorities.

7.4 Enforceability. This Note, the Security Agreements, the Mortgages and the other Loan Instruments to which any Maker is a party constitute valid and legally binding obligations of each such Maker, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency or similar laws affecting the rights of creditors generally and to general principles of equity, whether asserted in an action at law or in equity.

8. Affirmative Covenants. Each Maker hereby jointly and severally agrees that until the Loan and other secured indebtedness has been paid in full to the Lender and this Note has been terminated, each Maker, shall perform and observe all of the following provisions:

8.1 Financial Statements. Each Maker shall furnish to the Lender all financial statements and other financial information in form and at the times required to be furnished by the Lender.

8.2 Inspection. Each Maker covenants that it will permit the Lender and its employees and agents, at the Lender's expense (unless an Event of Default or Unmatured Event of Default has occurred hereunder, in which event the same shall be at the expense of said Maker) to examine corporate books and financial records of said Maker, and to discuss the affairs, finances and accounts of the Maker at such reasonable times and as often as the Lender may reasonably request.

8.3 Maker's Existence. Each Maker shall preserve its existence as a limited liability company or corporation, as applicable, under the laws of the State of Delaware.

8.4 Further Assurances. Each Maker shall execute and deliver to the Lender all agreements, documents and instruments, shall pay all filing fees and taxes in connection therewith and shall take such further actions as the Lender may reasonably request or as may be necessary or appropriate to effectuate the intent of this Note and the other Loan Instruments.

8.5 Notice of Default. The Makers shall promptly notify the Lender in writing of the occurrence of any Event of Default, specifying in connection with such notification all actions proposed to be taken to remedy such circumstance.

8.6 Notice of Legal Proceedings. The Makers shall, promptly upon becoming aware of the existence thereof, notify the Lender in writing of the institution of any litigation, legal proceeding, or dispute with any person or tribunal, that might materially and adversely affect the condition, financial or otherwise, or the earnings, affairs, business prospects or properties of any Maker.

8.7 Maintenance of Qualification and Assets. Each Maker shall at all times maintain: (i) its qualification to transact business and good standing as a foreign entity in all jurisdictions where the failure to so qualify would materially and adversely affect the nature of its properties or the conduct of its businesses; and (ii) all franchises, licenses, rights and privileges necessary for the proper conduct of its businesses.

8.8 Payment of Taxes and Claims. Each Maker shall pay all taxes imposed upon it or upon any of its properties or with respect to its franchises, business, income or profits before any material penalty or interest accrues thereon. Each Maker shall also pay all material claims (including without limitation claims for labor, services, materials and supplies) for sums which have or shall become due and payable and which by law have or might become a vendors lien or a mechanics, laborers', materialmen's, statutory or other lien affecting any of its properties; provided, however, that the respective Maker shall not be required to pay any such taxes or claims if (i) the amount, applicability or validity thereof is being contested in good faith by appropriate legal proceedings promptly initiated and diligently conducted and (ii) each Maker shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) adequate with respect thereto.

9. Acceleration; Offset; Special Rights Relating to Collateral. Each of the following events shall constitute an "Event of Default" under this Note: (a) the Makers shall fail to pay the principal of and/or any accrued interest on this Note when due and such failure shall continue for more than five (5) days after such due date; (b) a representation contained herein or in any of the Security Agreements, Mortgages or other Loan Instruments shall be untrue or any Maker shall violate any of the other terms or covenants contained in this Note or in any of the Security Agreements, Mortgages or other Loan Instruments and such failure shall continue for a period of thirty (30) days after receipt by such Maker of notice thereof from the Lender; (c) any Maker shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency, receivership, liquidation or similar law, (ii) consent to the institution of, or fail to contravene in a timely and appropriate manner, in any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally, to pay its debts as they become due, or (vii) take any action for the purpose of effecting any of the foregoing; (d) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of said Maker or of a substantial part of the property or assets of said Maker under Title 11 of the United States Code or any other federal, state or foreign bankruptcy, insolvency, receivership, liquidation or similar law or (ii) the appointment of a receiver, trustee, custodian, sequestrator or similar official of said Maker, or of a substantial part of the property or assets of said Maker; and any such proceeding or petition shall continue undismissed for sixty (60) consecutive days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for sixty (60) consecutive days; then, and in each such event (other than an event described in subsections (c) or (d) above); or (e) if there occurs any other "Event of Default" as defined in the Security Agreements, the Mortgages, any of the other Loan Instruments and the same continues past any applicable grace period. After the occurrence and continuation of any Event of Default, the Lender shall have full power and authority at any time or times to exercise, at its sole option, all or any one or more of the rights and remedies of a secured party under the Uniform Commercial Code of the Commonwealth of Kentucky (the "Kentucky UCC"), the Uniform Commercial Code of the State of Delaware (the "Delaware UCC") and/or all other applicable laws, including without limitation, declare the entire unpaid principal balance of and all accrued and unpaid interest on this Note to be, whereupon the same shall be, immediately due and payable in full to the Lender (unless the Event of Default is of the type referred to in subsection (c) or (d) above, in which event the entire unpaid principal balance of and all accrued and unpaid interest on this Note shall automatically be due and payable in full to the Lender without notice or demand). If any Event of Default shall occur and be continuing, the Lender shall have the right then, or at any time thereafter, to set off against, and appropriate and apply toward the payment of the unpaid principal of and/or accrued and unpaid interest on this Note in such order as the Lender may select in its sole and absolute discretion, whether or not this Note shall then have matured or be due and payable and whether or not the Lender has declared this Note to be in default and immediately due and payable, any and all deposit balances and other sums and indebtedness and other property then held or owed by the Lender to or for the credit or account of the Makers, and in and on all of which the Makers hereby grant the Lender a first priority security interest in and lien on to secure the payment of this Note, all without prior notice to or demand upon the Makers or any other Person, all such prior notices and demands being hereby expressly waived by the Makers. Any requirement of the Kentucky UCC or the Delaware UCC for reasonable notice shall be met if such notice is mailed, postage pre-paid, to the Makers at least five (5) days prior to the time of the event given rise to the requirement of notice. Notice shall be mailed to the address of the Makers as shown on the records of the Lender maintained with respect to the Loan. The Lender shall have no responsibility for the collection or protection of the Collateral or any part thereof or to exercise (or give notice to the Makers of) any option, privilege or right with respect to the Collateral, all of which are waived by the Makers. The Lender, at its option, may transfer or register all or any part of the Collateral into its or its nominee's name without any indication of security interest, without notice in either before or after the maturity of this Note. The Lender may transfer this Note, and deliver the Collateral to the transferee, and the transferee shall become vested with all powers and rights given to the Lender with respect to the Collateral.

10. Rights Under Security Instruments; Cumulative Rights. Upon the occurrence of any Event of Default, the Lender shall have all of the rights and remedies under this Note, the Mortgages, the Security Agreements, the other Loan Instruments and at law or in equity. All of the rights and remedies of the Lender upon the occurrence of an Event of Default hereunder shall be cumulative to the greatest extent permitted by law.

11. Indemnity. The Makers shall jointly and severally indemnify and hold harmless the Lender, its successors, assigns, officers, shareholders, agents and employees, from and against any and all claims, actions, suits, proceedings, costs, expenses, damages, fines, penalties and liabilities, including, without limitation, reasonable attorneys' fees and costs, arising out of, connected with or resulting from (a) this Note or any of the other Loan Instruments, (b) the Lender's preservation or attempted preservation of any of the collateral taken pursuant to any of the Loan Instruments, and/or (c) any failure of the security interests and liens granted to the Lender pursuant to the Loan Instruments to be or to remain perfected or to have the priority as contemplated herein and in the Loan Instrument; provided, however, the Makers shall not have any obligation to indemnify the Lender for any such claims, actions, suits, proceedings, costs, expenses, damages, fines, penalties and/or liabilities to the extent the same have been caused by or have arisen solely and completely from any gross negligence or willful misconduct committed by the Lender. At the Lender's request, the Makers shall, at their own cost and expense, defend or cause to be defended any and all such actions or suits that may be brought against the Lender and, in any event, shall satisfy, pay and discharge any and all judgments, awards, penalties, costs and fines that may be recovered against the Lender in any such action, plus all attorneys' fees and costs related thereto to the extent permitted by applicable law; provided, however, that the Lender shall give the Makers (to the extent the Lender seeks indemnification from the Makers under this section) prompt written notice of any such claim, demand or suit after the Lender has received written notice thereof, and the Lender shall not settle any such claim, demand or suit, if the Lender seeks indemnification therefor from the Makers, without first giving notice to the Makers of the Lender's desire to settle and obtaining the consent of the Makers to the same, which consent the Makers hereby agree not to unreasonably withhold. All obligations of the Makers under this section shall survive the payment of the Note.

12. Invalidity. If any part of this Note shall be adjudged invalid or unenforceable, whether in general or in any particular circumstance, then such partial invalidity or enforcement shall not cause the remainder of this Note to be or to become invalid or unenforceable, and if a provision hereof is held invalid or unenforceable, and if a provision hereof is held invalid or unenforceable in one or more of its applications, the Lender and the Makers hereby agree that said provision shall remain in effect in all valid applications that are severable from the invalid or unenforceable application or applications.

13. Assignment. This Note may not be assigned by any or all of the Makers. This Note and the other Loan Instruments may be assigned by the Lender. All rights of the Lender hereunder shall inure to the benefit of its successors and assigns, and all obligations, covenants and agreements of the Makers shall bind its successors and assigns, if any.

14. Entire Agreement. This Note and the other Loan Instruments constitute the entire agreement between the Lender and the Makers with respect to the subject matter hereof.

15. Costs and Expenses. The Makers jointly and severally agree to pay: (a) the reasonable fees of Lender's counsel, including all out-of-pocket expenses incurred by such counsel, including costs incurred on behalf of the Lender in the negotiation, preparation, printing, documentation, review and execution of this Note and other Loan Instruments, and (b) all other charges, out-of-pocket costs and expenses incurred by the Lender or Lender's counsel including, without limitation, including all documentary stamp or other tax liabilities, recording fees and costs of lien searches, certified documents and flood zone verifications. All obligations of the Makers under this section shall survive the termination or cancellation of this Note for any reason whatsoever.

16. No Third Party Beneficiaries. All conditions of the obligations of the Lender to disburse the proceeds of the Loan hereunder are imposed solely and exclusively for the benefit of the Lender and its successors and assigns and the Makers, and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that the Lender will refuse to disburse proceeds of the Loan in the absence of strict compliance with any or all of such conditions, and no other Person shall, under any circumstances, be deemed to be beneficiary of such conditions, any or all of which may be freely waived in whole or in part by the Lender at any time in its sole and absolute discretion.

17. Amendments. No amendment, modification, or supplement to this Note or the other Loan Instruments, or to any other document or instrument executed or issued by any of the parties hereto in connection with the transactions contemplated herein, shall be binding unless executed in writing by all parties hereto or thereto; and this provisions of this Note and the other Loan Instruments shall not be subject to waiver by any party and shall be strictly enforced.

18. Role of the Lender. Notwithstanding any of the terms or conditions hereof or of the other Loan Instruments to the contrary, the Lender shall not have, and by its execution and acceptance of this Note hereby expressly disclaims, any obligation or responsibility for the management, conduct or operation of the business and affairs of any of the Makers. Any term or condition hereof, or of any of the other Loan Instruments, permitting the Lender to take or refrain from taking any action with respect to the Makers or the collateral shall be deemed solely to permit the Lender to audit and review the management, operation and conduct of the business and affairs of the Makers and to maintain and preserve the security given by the Makers to the Lender, for the secured obligations, and may not be relied upon by any other Person. Further, the Lender shall not have, has not assumed, and by its execution and acceptance of this Note and the other Loan Instruments hereby expressly disclaims, any liability or responsibility for the payment or performance of any indebtedness or obligation of the Makers, and no term or condition hereof, or of any of the other Loan Instruments, shall be construed otherwise.

19. No Implied Waivers: Time is of the Essence. The failure of the Lender to exercise any of its rights, powers and/or remedies shall not constitute a waiver of the right to exercise the same at that or any other time. All rights and remedies of the Lender for an Event of Default hereunder and/or under the other Loan Instruments, shall be cumulative to the greatest extent permitted by law. Time shall be of the essence in (i) the payment of all installments of principal of and accrued interest on this Note, and (ii) the performance of the Makers' other obligations hereunder and under the Security Agreements, Mortgages and the other Loan Instruments.

20. Attorneys' Fees. If there is any Event of Default under this Note, the Security Agreements, the Mortgages and/or the other Loan Instruments which is not timely cured, and this Note is placed in the hands of any attorney for collection, or is collected through any court, including any bankruptcy court, the Makers promise and agree to pay to the Lender its reasonable attorneys' fees, court costs and other expenses incurred in collecting or attempting to collect or securing or attempting to secure this Note or enforcing the Lender's rights hereunder and under the Security Agreements, Mortgages and the other Loan Instruments.

21. Prepayment. This Note may be prepaid at any time, in whole or in part, without penalty or premium.

22. Governing Law; Jurisdiction. This Note and all of the rights and remedies of the holder hereof shall be governed by, and construed in accordance with, the laws of the Commonwealth of Kentucky without regard to conflicts of law principles. THE MAKERS SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF KENTUCKY AND OF ANY KENTUCKY STATE COURT SETTING IN JEFFERSON COUNTY, KENTUCKY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS NOTE, THE SECURITY AGREEMENTS, MORTGAGES OR ANY OF THE OTHER LOAN INSTRUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

23. Waivers. The Makers hereby waive presentment, demand, notice of dishonor, protest, notice of protest and nonpayment, and further waives all exemptions to which it may now or hereafter be entitled to under the laws of this or any other state or of the United States. The Lender shall have the right to grant the Makers any extension of time for payment of this Note or any other indulgence or forbearance whatsoever, and may release any security for the payment of this Note if any, as applicable, in every instance without the consent of the Makers and without in any way affecting the liability of the Makers hereunder and without waiving any rights the Lender may have hereunder or by virtue of the laws of the Commonwealth of Kentucky or any other state or of the United States.

24. Legal Rate of Interest. Nothing herein contained shall be construed or so operate as to require payment of interest at a rate greater than the highest permitted contract rate under applicable law, or to make any payment or to do any act contrary to applicable law. To this end, if during the course of any litigation involving the enforceability of the obligations represented by this Note, a court having jurisdiction of the subject matter or of the parties to said litigation shall determine that either the interest rate as set forth herein, or the effect of said rate in relation to the particular circumstances of default resulting in said litigation, are separately or collectively usurious, then the interest rate set forth herein shall be reduced, or the operation and effect thereof ameliorated, to achieve the highest interest rate or charge which shall not be usurious. As an example of such an amelioration, in the event the indebtedness represented by this Note is declared due by the Lender prior to maturity, and the total amount of interest paid causes interest to exceed the highest rate permitted by law, such interest rate shall be recalculated at the highest rate which shall not be usurious and any excess paid over such recalculated interest rate shall be credited to the unpaid principal of this Note.

25. Captions. The section headings of this Note are inserted herein solely for convenience of reference and shall not affect the construction or interpretation of the provisions hereof.

2.6. WAIVER OF JURY TRIAL. THE MAKERS HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY (AFTER ACTUAL CONSULTATION OR THE OPPORTUNITY TO HAVE CONSULTATION WITH LEGAL COUNSEL) WAIVE THE RIGHT EACH MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON THIS NOTE, THE SECURITY AGREEMENTS, MORTGAGES OR ANY OF THE OTHER LOAN INSTRUMENTS, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THE NOTE, THE LOAN OR ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION THEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENT (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDER IN MAKING THE LOAN TO THE MAKERS. THE PROVISIONS OF THIS SECTION MAY ONLY BE MODIFIED BY A WRITTEN INSTRUMENT EXECUTED BY THE MAKERS AND THE LENDER.

[The remainder of this page has intentionally been left blank]

IN WITNESS WHEREOF, the Makers agree to each of the terms set forth above and has executed this Note as of the 30th day of September, 2016.

**SYPRIS SOLUTIONS, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS ELECTRONICS, LLC,**  
a Delaware limited liability company

By: John R. McGeeney

Title: General Counsel

**SYPRIS DATA SYSTEMS, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES MARION, LLC,**  
a Delaware limited liability company

By: John R. McGeeney

Title: General Counsel



**SYPRIS TECHNOLOGIES KENTON, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES MEXICAN  
HOLDINGS, LLC,** a Delaware limited liability  
company

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES NORTHERN, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES SOUTHERN, INC.,**  
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

**SYPRIS TECHNOLOGIES INTERNATIONAL,  
INC.,** a Delaware corporation

By: John R. McGeeney

Title: General Counsel

(the “Makers”)

COMMONWEALTH OF KENTUCKY            )  
  ) SS:  
COUNTY OF JEFFERSON                )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS SOLUTIONS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY            )  
  ) SS:  
COUNTY OF JEFFERSON                )

The foregoing instrument was subscribed, sworn to and acknowledged before me 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY            )  
  ) SS:  
COUNTY OF JEFFERSON                )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The foregoing instrument was subscribed, sworn to and acknowledged before me 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY                    )  
  ) SS:  
COUNTY OF JEFFERSON                         )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher \_\_\_\_\_  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY                    )  
  ) SS:  
COUNTY OF JEFFERSON                         )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher \_\_\_\_\_  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY                    )  
  ) SS:  
COUNTY OF JEFFERSON                         )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher \_\_\_\_\_  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

COMMONWEALTH OF KENTUCKY                    )  
  ) SS:  
COUNTY OF JEFFERSON                        )

The foregoing instrument was subscribed, sworn to and acknowledged before me this 30th day of September, 2016, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

Andrea Luescher  
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2017

# EXECUTIVE LONG-TERM INCENTIVE AWARD AGREEMENT



## Restricted Stock

Effective as of **[date of the award]** (“Grant Date”) contingent on your continued employment as of that date, the Company hereby grants to **[participant]** certain rights to ownership of up to: **[number of shares]** Restricted Shares on the terms of this Award Agreement (the “Terms”), the attached Program, and the 2015 Sypris Omnibus Plan (“Plan”) as follows:

Vesting Date	# of Shares Vesting
[3 <sup>rd</sup> Anniversary]	[100%]

Intending to be legally bound by all such Terms, the Program and the Plan, I acknowledge the sole authority of the Committee to interpret the terms of the foregoing, the forfeiture of my rights upon any termination of my employment under such Terms. I have received and had an opportunity to review, with the benefit of any legal counsel of my choosing (any such legal counsel to be retained at my own expense), the Plan, the Program and this Award Agreement.

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

# 2016 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



1. **Purpose of the Program.** The Company's Executive Long-Term Incentive Program ("ELTIP") under the 2015 Sypris Omnibus Plan ("Plan") shall be effective for all Awards incorporating these terms to advance the Company's growth and prosperity by providing long-term financial incentives to its key employees, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines.
2. **Awards.** Each ELTIP Participant will be eligible to receive an annual Award of Restricted Shares as determined by the Committee.
3. **Restricted Shares.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.
  - 3.1. **Restricted Share Vesting.** Unless otherwise determined by the Committee, grants of Restricted Shares will vest as follows: 100% of each Award on the third anniversary of its Grant Date (each such anniversary, a "Vesting Date") as provided in the applicable Award Agreement, unless forfeited before such Vesting Date.
  - 3.2. **Distribution.** All Restricted Shares will be held by the Company or issued in book entry form until their Vesting Dates, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.
4. **Annual Review.** The Committee will review the terms and conditions of the ELTIP annually in February of each year. The Committee will also review and approve of the Award to be granted to each Participant for the then current year, taking into consideration the (i) Participant's contribution to the Company, (ii) results of the most recent national compensation survey data, and (iii) Company's performance. Any Awards granted are entirely within the discretion of the Committee and receipt of an Award in one year does not guarantee that you will receive future Awards.
5. **Reduction in Job Responsibilities.** If a Participant's job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the ELTIP with respect to future Awards, unless otherwise determined by the Committee.
6. **Leaves of Absence.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.
7. **Termination.** If employment is terminated for any reason or no reason, each unvested Option will terminate, expire and be forfeited as provided in Article V of the Plan. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)
8. **Administration.** The Committee shall have complete authority to administer or interpret the ELTIP or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the ELTIP or any Award Agreements (including to establish or amend any rules regarding the ELTIP that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the ELTIP will be final.

## 2016 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



9. **Section 83(b) Election.** Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), a Participant may elect to be taxed at the time the Shares are acquired, rather than when such Shares vest, by filing an election with the Internal Revenue Service within thirty (30) days after the Grant Date. **IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS BEHALF. THE PARTICIPANT MUST RELY SOLELY ON HIS OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY 83(b) ELECTION.**
10. **Miscellaneous.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
- 10.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the ELTIP or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
- 10.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, as determined by the Committee in its sole discretion: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such lapse of restrictions.
- 10.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.



# EXECUTIVE LONG-TERM INCENTIVE AWARD AGREEMENT



## Non-Qualified Stock Options

Effective as of [Date ] (“Grant Date”), the Company hereby grants to [Participant Name] certain rights to purchase up to: [Number of Shares] total Shares for \$ [Price] per Share until [5<sup>th</sup> Anniversary of Grant Date] (“Expiration Date”) on the Terms of this Agreement, the attached Program, and the 2015 Sypris Omnibus Plan (“Plan”) as follows:

Vesting Date	# of Options	Option Price	Expiration Date
[3 <sup>rd</sup> Anniversary]	[100%]	[FMV at grant]	[5 <sup>th</sup> Anniversary]

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

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Title:** \_\_\_\_\_

# 2016 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



The Company's Executive Long-Term Incentive Program ("ELTIP") under the 2010 Sypris Omnibus Plan ("Plan") shall be effective for all Awards incorporating these terms on or after March 1, 2011, to advance the Company's growth and prosperity by providing long-term financial incentives to its key employees, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines.

1. **Options.** Initially, each "Option" is the right to purchase one Share at the Option Price, from its Vesting Date until its Expiration Date or forfeiture (subject to adjustments per the Plan). Options must be exercised by written notice, unless waived by the Company.
  - 1.1. **Option Price.** "Option Price" means the closing price per Share on the Grant Date. The Option Price is payable to the Company in cash or any other method of payment authorized by the Committee in its discretion, which may include Stock (valued as the closing price per Share on the exercise date) or vested Options (valued as the closing price per Share on the exercise date, less the Option Price), in each case in accordance with applicable Rules. Similarly, the Participant must arrange for tax withholding in accordance with applicable Rules, to the satisfaction of the Committee.
  - 1.2. **Shares.** Initially, each "Share" is one Share of the Common Stock (subject to adjustments per the Plan). Shares may be certificated upon request, with any legends required by applicable Rules.
  - 1.3. **Option Vesting.** Unless otherwise determined by the Committee, Option Awards will vest 100% on the third anniversary of the Grant Date ("Vesting Date"), unless forfeited before such Vesting Date.
  - 1.4. **Expiration Date.** Each Option's "Expiration Date" will be the fifth anniversary of its Grant Date.
2. **Annual Review.** The Committee will review the terms and conditions of the ELTIP annually in February of each year. The Committee will also review and approve of the Award to be granted to each Participant for the then current year, taking into consideration the (i) Participant's contribution to the Company, (ii) results of the most recent national compensation survey data, and (iii) Company's performance. Any Awards granted are entirely within the discretion of the Committee and receipt of an Award in one year does not guarantee that you will receive future Awards.
3. **Reduction in Job Responsibilities.** If a Participant's job responsibilities are reduced in scope or otherwise altered, the Participant shall automatically cease to participate in the ELTIP with respect to future Awards, unless otherwise determined by the Committee.
4. **Leaves of Absence.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.

## 2016 EXECUTIVE LONG-TERM INCENTIVE PROGRAM



5. **Termination.** If employment is terminated for any reason or no reason, each unvested Option will terminate, expire and be forfeited as provided in Article V of the Plan. (The Committee has sole discretion to determine whether a demotion is a “termination” of employment.)
6. **Administration.** The Committee shall have complete authority to administer or interpret the ELTIP or any Award, to prescribe, amend and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the ELTIP or any Award Agreements (including to establish or amend any rules regarding the ELTIP that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee’s sole discretion (“Rule”). In addition, with respect to any future grants or the unvested portion of any Awards, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the ELTIP will be final.
7. **Miscellaneous.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
  - 7.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the ELTIP or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
  - 7.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, as determined by the Committee in its sole discretion: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such lapse of restrictions.
  - 7.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.

**FOUR YEAR DISCRETIONARY DIRECTOR  
RESTRICTED STOCK PROGRAM**



**Restricted Stock**

Effective as of **[Date]** (the “Grant Date”) contingent on your continued service as of that date, the Company hereby grants to **[Director Name]** certain rights to ownership of up to: **[# of shares granted]** Restricted Shares on the terms of this Award Agreement (the “Terms”), the attached Program, and the 2015 Sypris Omnibus Plan (as amended from time to time, the “Plan”) as follows:

Vesting Dates	# of Shares Vesting
[4 <sup>th</sup> Anniversary]	[xxx]

Intending to be legally bound by all such Terms, the Program, and the Plan, I acknowledge the sole authority of the Committee to interpret the terms of the foregoing, the forfeiture of my rights upon any termination of my service as a Director under such Terms. I have received and had an opportunity to review, with the benefit of any legal counsel of my choosing (any such legal counsel to be retained at my own expense), the Plan, the Program, and this Award Agreement.

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_  
**Name:** \_\_\_\_\_  
**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_  
**Name:** \_\_\_\_\_  
**Title:** \_\_\_\_\_

## FOUR YEAR DISCRETIONARY DIRECTOR RESTRICTED STOCK PROGRAM



1. **Purpose of the Program.** The Company's Four Year Discretionary Director Restricted Stock Program ("Program") under the 2015 Sypris Omnibus Plan (as amended from time to time, the "Plan") shall be effective for all Awards incorporating these terms on or after September 26, 2016, to advance the Company's growth and prosperity by providing long-term financial incentives to its Directors, and to further the Company's philosophy of equity ownership by the Company's Directors in accordance with the Company's Equity Ownership Guidelines.
2. **Restricted Shares.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.
  - 2.1. **Restricted Share Vesting.** Unless otherwise determined by the Committee, grants of Restricted Shares will vest 100% on the fourth anniversary of the Grant Date (the "Vesting Date"), unless forfeited before such Vesting Date.
  - 2.2. **Distribution.** All Restricted Shares will be held by the Company or issued in book entry form until the Vesting Date, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.
3. **Future Awards.** Future awards, if any, are strictly subject to the sole discretion of the Committee and receipt of any Award does not guarantee that a Participant will receive future Awards.
4. **Termination.** If the Participant's service on the Board of Directors is terminated for any reason or no reason, each unvested Restricted Share will terminate, expire, and be forfeited as provided in Article V of the Plan.
5. **Administration.** The Committee shall have complete authority to administer or interpret the Program or any Award, to prescribe, amend, and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the Program or any Award Agreements (including to establish or amend any rules regarding the Program that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation, or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Award, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any Director or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action, or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the Program will be final.
6. **Section 83(b) Election.** Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), a Participant may elect to be taxed at the time the Restricted Shares are acquired, rather than when such Restricted Shares vest, by filing an election with the Internal Revenue Service within thirty (30) days after the Grant Date. **IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PARTICIPANT'S BEHALF. THE PARTICIPANT MUST RELY SOLELY ON HIS OR HER OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY CODE SECTION 83(b) ELECTION.**

**FOUR YEAR DISCRETIONARY DIRECTOR  
RESTRICTED STOCK PROGRAM**



7. **Miscellaneous.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
- 7.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the Program, or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
- 7.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, as determined by the Committee in its sole discretion: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state, or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state, or local taxing authority with respect to such lapse of restrictions.
- 7.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.

**FOUR YEAR RESTRICTED  
STOCK AWARD AGREEMENT**



**Restricted Stock**

Effective as of   [Date]   (the “Grant Date”) contingent on your continued employment as of that date, the Company hereby grants to [Employee Name] certain rights to ownership of up to: [# of shares] Restricted Shares on the terms of this Award Agreement (the “Terms”), the attached Program, and the 2015 Sypris Omnibus Plan (as amended from time to time, the “Plan”) as follows:

<b>Vesting Dates</b>	<b># of Shares Vesting</b>
[4 <sup>th</sup> Anniversary]	[100%]

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

**SYPRIS SOLUTIONS, INC.**

**PARTICIPANT**

**By:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Title:** \_\_\_\_\_

# FOUR YEAR RESTRICTED STOCK AWARD AGREEMENT



1. **Purpose of the Program.** The Company's Four Year Restricted Stock Program ("Program") under the 2015 Sypris Omnibus Plan (as amended from time to time, the "Plan") shall be effective for all Awards incorporating these terms on or after May 19, 2015, to advance the Company's growth and prosperity by providing long-term financial incentives to its key employees, and to further the Company's philosophy of equity ownership by the Company's officers in accordance with the Company's Equity Ownership Guidelines.
2. **Restricted Shares.** Each "Restricted Share" is one Share of the Common Stock (subject to adjustments per the Plan) which is subject to forfeiture before its Vesting Date, as set forth below.
  - 2.1. Restricted Share Vesting. Unless otherwise determined by the Committee, grants of Restricted Shares will vest 100% on the fourth anniversary of the Grant Date (the "Vesting Date"), unless forfeited before such Vesting Date.
  - 2.2. Distribution. All Restricted Shares will be held by the Company or issued in book entry form until the Vesting Date, and physically distributed to the Participant thereafter, with any legends required by applicable Rules. Participants may vote and receive cash dividends on such Restricted Shares, as applicable, after the Grant Date.
3. **Future Awards.** Future awards, if any, are strictly subject to the sole discretion of the Committee and receipt of any Award does not guarantee that a Participant will receive future Awards.
4. **Leaves of Absence.** The Committee may in its discretion treat all or any portion of any period during which a Participant is on military or other approved leave of absence as a period of employment for purposes of the accrual of rights hereunder.
5. **Termination.** If the Participant's employment is terminated for any reason or no reason, each unvested Restricted Share will terminate, expire, and be forfeited as provided in Article V of the Plan. (The Committee has sole discretion to determine whether a demotion is a "termination" of employment.)
6. **Administration.** The Committee shall have complete authority to administer or interpret the Program or any Award, to prescribe, amend, and rescind rules and regulations relating thereto, and to make all other determinations necessary or advisable for the administration of the Program or any Award Agreements (including to establish or amend any rules regarding the Program that are necessary or advisable to comply with, or qualify under, any applicable law, listing requirement, regulation, or policy of any entity, agency, organization, governmental entity, or the Company, in the Committee's sole discretion ("Rule")). In addition, with respect to any future grants or the unvested portion of any Award, the Committee may amend or terminate these Terms or any Awards, in its sole discretion without the consent of any employee or beneficiary, subject to applicable Rules, at any time and from time-to-time. With respect to any amendment, action, or approval hereunder, the Committee may require the approval of any other persons or entities, pursuant to applicable Rules. The decisions of the Committee in interpreting and applying the Program will be final.



## FOUR YEAR RESTRICTED STOCK AWARD AGREEMENT



7. **Section 83(b) Election.** Under Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"), a Participant may elect to be taxed at the time the Restricted Shares are acquired, rather than when such Restricted Shares vest, by filing an election with the Internal Revenue Service within thirty (30) days after the Grant Date. **IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(b), EVEN IF THE PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON THE PARTICIPANT'S BEHALF. THE PARTICIPANT MUST RELY SOLELY ON HIS OR HER OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE ANY CODE SECTION 83(b) ELECTION.**
  
8. **Miscellaneous.** Unless otherwise specified, all capitalized terms herein shall have the meanings assigned to them in the Plan or in the Award Agreement.
  - 8.1. **No Other Rights.** The Awards include no other rights beyond those expressly provided in the Plan, the Program, or the Award Agreement. Awards are non-assignable and non-transferable except by will or the laws of descent and distribution, unless otherwise approved by the Committee.
  - 8.2. **Taxes.** The Participant must arrange for all tax withholding obligations related to any Award. Tax withholding obligations may be satisfied by any of the following methods, as determined by the Committee in its sole discretion: (i) cash, (ii) surrender of Shares of then-equivalent value (including the surrender of Shares otherwise to be received in connection with the vesting of an Award), or (iii) other forms of payment as determined by the Committee. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state, or local tax withholding requirements upon the lapse of restrictions applicable to an Award cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state, or local taxing authority with respect to such lapse of restrictions.
  - 8.3. **Delegation.** The Committee may delegate any portion of their responsibilities and powers to one or more persons selected by them, subject to applicable Rules. Such delegation may be revoked by the Committee at any time.

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

I, Jeffrey T. Gill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sypris Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2016

By: /s/ Jeffrey T. Gill  
Jeffrey T. Gill  
President & Chief Executive Officer

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

I, Anthony C. Allen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sypris Solutions, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2016

By: /s/ Anthony C. Allen  
Anthony C. Allen  
Vice President & Chief Financial Officer

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

In connection with the Quarterly Report of Sypris Solutions, Inc. (the Company) on Form 10-Q for the period ending October 2, 2016 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions, Inc., that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 16, 2016

By: /s/ Jeffrey T. Gill  
 Jeffrey T. Gill  
 President & Chief Executive Officer

Date: November 16, 2016

By: /s/ Anthony C. Allen  
 Anthony C. Allen  
 Vice President & Chief Financial Officer

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

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

