



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 July 3, 2011

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)

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

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

(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. (Check one):

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 August 1, 2011 the Registrant had 19,922,366 shares of common stock outstanding.

Table of Contents

PART I.	<u>FINANCIAL INFORMATION</u>	
ITEM 1.	<u>FINANCIAL STATEMENTS</u>	
	<u>Consolidated Statements of Operations for the Three and Six Months Ended July 3, 2011 and July 4, 2010</u>	2
	<u>Consolidated Balance Sheets at July 3, 2011 and December 31, 2010</u>	3
	<u>Consolidated Cash Flow Statements for the Six Months Ended July 3, 2011 and July 4, 2010</u>	4
	<u>Notes to Consolidated Financial Statements</u>	5
ITEM 2.	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	13
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	19
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	19
PART II.	<u>OTHER INFORMATION</u>	
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	19
ITEM 1A.	<u>RISK FACTORS</u>	19
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	19
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	19
ITEM 4.	<u>[REMOVED AND RESERVED]</u>	20
ITEM 5.	<u>OTHER INFORMATION</u>	20
ITEM 6.	<u>EXHIBITS</u>	20
	<u>SIGNATURES</u>	21

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYPRIS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except for per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 3, 2011</u>	<u>July 4, 2010</u>	<u>July 3, 2011</u>	<u>July 4, 2010</u>
	(Unaudited)		(Unaudited)	
Net revenue:				
Outsourced services	\$72,757	\$54,739	\$134,264	\$110,258
Products	<u>12,301</u>	<u>8,367</u>	<u>26,604</u>	<u>15,751</u>
Total net revenue	85,058	63,106	160,868	126,009
Cost of sales:				
Outsourced services	64,884	51,690	121,055	102,453
Products	<u>12,063</u>	<u>6,824</u>	<u>23,554</u>	<u>13,196</u>
Total cost of sales	76,947	58,514	144,609	115,649
Gross profit	8,111	4,592	16,259	10,360
Selling, general and administrative	6,810	6,740	13,673	13,072
Research and development	924	320	1,540	473
Amortization of intangible assets	28	28	56	56
Nonrecurring income	0	0	(3,000)	0
Restructuring expense (income), net	<u>130</u>	<u>1,002</u>	<u>(123)</u>	<u>1,415</u>
Operating income (loss)	219	(3,498)	4,113	(4,656)
Interest expense, net	726	583	1,455	1,184
Other expense (income), net	<u>275</u>	<u>(688)</u>	<u>506</u>	<u>(222)</u>
Income (loss) from continuing operations, before taxes	(782)	(3,393)	2,152	(5,618)
Income tax expense	<u>768</u>	<u>571</u>	<u>1,200</u>	<u>770</u>
Income (loss) from continuing operations	(1,550)	(3,964)	952	(6,388)
Loss from discontinued operations, net of tax	<u>0</u>	<u>(300)</u>	<u>(450)</u>	<u>(300)</u>
Net income (loss)	<u>\$ (1,550)</u>	<u>\$ (4,264)</u>	<u>\$ 502</u>	<u>\$ (6,688)</u>
Basic income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.08)	\$ (0.21)	\$ 0.05	\$ (0.34)
Loss per share from discontinued operations	<u>0.00</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.02)</u>
Net income (loss) per share	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.36)</u>
Diluted income (loss) per share:				
Income (loss) per share from continuing operations	\$ (0.08)	\$ (0.21)	\$ 0.05	\$ (0.34)
Loss per share from discontinued operations	<u>0.00</u>	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.02)</u>
Net income (loss) per share	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.36)</u>
Weighted average shares outstanding:				
Basic	18,833	18,640	18,853	18,588
Diluted	18,833	18,640	19,047	18,588

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except for share data)

	July 3, 2011 (Unaudited)	December 31, 2010 (Note)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,160	\$ 16,592
Accounts receivable, net	54,054	41,434
Inventory, net	38,864	30,264
Prepaid expenses and other current assets	4,578	5,717
Total current assets	111,656	94,007
Property, plant and equipment, net	65,405	68,590
Restricted cash	3,000	3,000
Goodwill	6,900	6,900
Other assets	7,211	7,195
Total assets	<u>\$194,172</u>	<u>\$ 179,692</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 54,288	\$ 39,488
Accrued liabilities	24,832	22,763
Current portion of long-term debt	0	2,000
Total current liabilities	79,120	64,251
Long-term debt	22,000	21,305
Other liabilities	30,258	34,338
Total liabilities	131,378	119,894
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; 20,016,100 shares issued and 19,922,366 shares outstanding in 2011 and 19,964,348 shares issued and 19,663,229 shares outstanding in 2010	200	199
Additional paid-in capital	148,741	148,555
Retained deficit	(74,128)	(74,629)
Accumulated other comprehensive loss	(12,018)	(14,324)
Treasury stock, 93,734 and 301,119 shares in 2011 and 2010, respectively	(1)	(3)
Total stockholders' equity	<u>62,794</u>	<u>59,798</u>
Total liabilities and stockholders' equity	<u>\$194,172</u>	<u>\$ 179,692</u>

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED CASH FLOW STATEMENTS
(in thousands)

	Six Months Ended	
	July 3, 2011	July 4, 2010
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 502	\$ (6,688)
Loss from discontinued operations	(450)	(300)
Income (loss) from continuing operations	952	(6,388)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,285	7,428
Stock-based compensation expense	549	579
Deferred revenue recognized	(3,442)	(3,056)
Deferred loan costs recognized	134	191
Write-off of debt issuance costs	277	0
Gain on sale of assets	(578)	5
Provision for excess and obsolete inventory	751	197
Other noncash items	1,062	29
Contributions to pension plans	(352)	(223)
Change in operating assets and liabilities:		
Accounts receivable	(12,402)	389
Inventory	(9,352)	(3,677)
Prepaid expenses and other assets	1,075	8
Accounts payable	14,765	3,905
Accrued and other liabilities	747	553
Net cash provided by (used in) operating activities	1,471	(60)
Cash flows from investing activities:		
Capital expenditures, net	(2,898)	(630)
Proceeds from sale of assets	575	71
Changes in nonoperating assets and liabilities	34	36
Net cash used in investing activities	(2,289)	(523)
Cash flows from financing activities:		
Repayment of former Revolving Credit Agreement	(10,000)	0
Repayment of former Senior Notes	(13,305)	0
Net proceeds from Credit Facility	22,000	0
Payments for deferred loan costs	(373)	0
Proceeds from the issuance of common stock	64	0
Net cash used in financing activities	(1,614)	0
Net decrease in cash and cash equivalents	(2,432)	(583)
Cash and cash equivalents at beginning of period	16,592	15,608
Cash and cash equivalents at end of period	\$ 14,160	\$ 15,025

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of Business

Sypris is a diversified provider of outsourced services and specialty products. The Company performs a wide range of manufacturing, engineering, design and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for truck components and assemblies and aerospace and defense electronics. The Company provides such services through its Industrial and Electronics Groups (Note 11).

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sypris Solutions, Inc. and its wholly-owned subsidiaries (collectively, "Sypris" or the "Company"), and have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The Company's operations are domiciled in the United States (U.S.), Mexico and Denmark and service a wide variety of domestic and international customers. All significant intercompany transactions and accounts have been eliminated. These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the results of operations, financial position and cash flows for the periods presented, and the disclosures herein are adequate to make the information presented not misleading. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results for the three and six months ended July 3, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements, and notes thereto, for the year ended December 31, 2010 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 June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05 which provides new guidance on the presentation of comprehensive income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and instead requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU will not have a significant impact on the Company's consolidated financial statements, as it only requires a change in the format of the current presentation.

(4) Discontinued Operations

On October 26, 2009, the Company sold all of the stock of its wholly owned subsidiary, Sypris Test & Measurement, for \$39,000,000, of which \$3,000,000 was deposited in an escrow account in connection with certain customary representations, warranties, covenants and indemnifications of the Company. During 2010, the Company was made aware of a potential indemnification claim from the purchaser of Sypris Test & Measurement. The Company estimates that its total liability arising from this claim will not exceed \$946,000, of which \$450,000 was recorded during the first six months of 2011. The Company has paid \$196,000 related to the claim as of July 3, 2011. The remaining amount has been reserved in accrued liabilities on the Company's consolidated balance sheets. There can be no assurance that similar potential claims will not emerge in the future or that relevant facts and circumstances will not change, necessitating future changes to an estimated liability. This charge is included in discontinued operations, net in the consolidated statement of operations.

(5) Nonrecurring Income

During the six months ended July 3, 2011, the Company recognized a gain of \$3,000,000 in connection with a settlement regarding prior year volumes with one of its customers.

(6) Restructuring, Impairments and Other Nonrecurring Charges

As announced during the fourth quarter of 2008, the Company committed to a restructuring program, which included the closure of its Kenton, Ohio facility, significant reductions in the workforce in its Marion, Ohio facility and the integration of its Electronics Group subsidiaries. The purpose of the restructuring program is to reduce fixed costs, accelerate integration efficiencies, exit certain unprofitable product lines and significantly improve operating earnings on a sustained basis. As a result of the restructuring program, the Company recorded a charge of \$130,000 for the three months ended July 3, 2011 and a gain of \$123,000 for the six months ended July 3, 2011, which is included in restructuring expense, net on the consolidated statement of operations. Of the \$130,000 charge recorded in the second quarter of 2011, \$155,000 was for equipment relocation costs and \$87,000 represented other costs, primarily related to mothball costs associated with closed or partially closed facilities. Partially offsetting this was a \$112,000 gain on the sale of assets that had previously been impaired. The gain of \$123,000 for the six months ended July 3, 2011 consisted of a \$493,000 gain on the sale of assets that had previously been impaired partially offset by equipment relocation costs and mothball costs.

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

	Total Program	Costs Incurred		Remaining Costs to be Recognized
		Six Months Ended July 3, 2011	Total Recognized to date	
Severance and benefit-related costs	\$ 4,046	\$ —	\$ 4,046	\$ —
Asset impairments	13,028	(493)	13,028	—
Deferred contract costs write-offs	17,798	—	17,798	—
Inventory related charges	7,895	—	7,895	—
Equipment relocation costs	2,761	185	2,276	485
Asset retirement obligations	1,501	—	1,501	—
Contract termination costs	3,209	—	3,209	—
Other	5,351	185	5,202	149
	<u>\$55,589</u>	<u>\$ (123)</u>	<u>\$ 54,955</u>	<u>\$ 634</u>

A summary of restructuring activity and related reserves at July 3, 2011 is as follows (in thousands):

	Accrued Balance at December 31, 2010	2011 Charge	Gross Cash Payments	Accrued Balance at July 3, 2011
Severance and benefit-related costs	\$ 267	\$ —	\$ (81)	\$ 186
Asset impairments	—	(493)	493	—
Equipment relocation costs	—	185	(185)	—
Asset retirement obligations	1,173	—	(269)	904
Contract termination costs	459	—	(153)	306
Other	—	185	(185)	—
	<u>\$ 1,899</u>	<u>\$(123)</u>	<u>\$ (380)</u>	<u>\$ 1,396</u>

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

	Industrial Group	Electronics Group	Total
Severance and benefit-related costs	\$ 2,562	\$ 1,484	\$ 4,046
Asset impairments	13,028	—	13,028
Deferred contract costs write-offs	—	17,798	17,798
Inventory related charges	—	7,895	7,895
Equipment relocation costs	2,254	22	2,276
Asset retirement obligations	1,501	—	1,501
Contract termination costs	1,868	1,341	3,209
Other	1,571	3,631	5,202
	<u>\$22,784</u>	<u>\$ 32,171</u>	<u>\$54,955</u>

The total pre-tax costs of \$55,589,000 expected to be incurred includes \$23,418,000 within the Industrial Group and \$32,171,000 within the Electronics Group. The Company expects to incur additional pre-tax costs of \$634,000, all within the Industrial Group.

(7) Dana Claim

On March 3, 2006, the Company's largest customer, Dana Corporation ("Dana"), and 40 of its U.S. subsidiaries, filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. On August 7, 2007, the Company entered into a comprehensive settlement agreement with Dana (the "Settlement Agreement") to resolve all outstanding disputes between the parties, terminate previously approved arbitration payments and replace three existing supply agreements with a single, revised contract running through 2014. In addition, Dana provided the Company with an allowed general unsecured non-priority claim in the face amount of \$89,900,000 (the "Claim").

The Claim provided to Sypris was agreed to by Sypris and Dana as consideration for the aggregate economic impact of the various elements the two parties were negotiating. After the aggregate Claim value of \$89,900,000 was established, Sypris recorded the claim at the estimated fair value of \$76,483,000 and allocated the estimated fair value to each commercial issue negotiated. The revenues and resulting net income associated with each of those issues requiring the Company's continued involvement was deferred and will be recognized over the applicable period of the involvement. For the six months ended July 3, 2011 and July 4, 2010, the Company recognized into revenue \$3,442,000 and \$3,056,000, respectively, related to the Claim.

The Claim entitles the Company to participate in distributions of Dana common stock if certain disputed matters are ultimately resolved for less than Dana's reserves for those matters. At July 3, 2011, the Company's right to participate in additional distributions, presently estimated to be 87,000 shares, is carried at \$64,000 in other assets. Had these shares been received at July 3, 2011, the Company would have recorded a \$1,551,000 unrealized holding gain to other comprehensive loss.

(8) Earnings (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 586,000 potential common shares excluded from diluted earnings per share for the six months ended July 3, 2011. All potential common shares were excluded from earnings per share for the three months ended July 3, 2011 and the three and six months ended July 4, 2010, because the effect of inclusion 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):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>July 3, 2011</u>	<u>July 4, 2010</u>	<u>July 3, 2011</u>	<u>July 4, 2010</u>
	(Unaudited)		(Unaudited)	
Earnings attributable to stockholders:				
(Loss) income from continuing operations attributable to stockholders	\$ (1,550)	\$ (3,964)	\$ 952	\$ (6,388)
Discontinued operations, net of tax	—	(300)	(450)	(300)
Net (loss) income	(1,550)	(4,264)	502	(6,688)
Less distributed and undistributed earnings allocable to restricted award holders	—	—	(24)	—
Net (loss) income allocable to common stockholders	<u>\$ (1,550)</u>	<u>\$ (4,264)</u>	<u>\$ 478</u>	<u>\$ (6,688)</u>
Basic (loss) earnings per common share attributable to stockholders:				
Continuing operations	\$ (0.08)	\$ (0.21)	\$ 0.05	\$ (0.34)
Discontinued operations	0.00	(0.02)	(0.02)	(0.02)
Net (loss) income	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.36)</u>
Diluted (loss) earnings per common share attributable to stockholders:				
Continuing operations	\$ (0.08)	\$ (0.21)	\$ 0.05	\$ (0.34)
Discontinued operations	—	(0.02)	(0.02)	(0.2)
Net (loss) income	<u>\$ (0.08)</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.36)</u>
Weighted average shares outstanding-basic	18,833	18,640	18,853	18,588
Weighted average additional shares assuming conversion of potential common shares	—	—	194	—
Weighted average shares outstanding - diluted	<u>18,833</u>	<u>18,640</u>	<u>19,047</u>	<u>18,588</u>

(9) Inventory

Inventory consisted of the following (in thousands):

	<u>July 3, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	
Raw materials	\$ 6,166	\$ 4,758
Work in process	7,613	6,171
Finished goods	2,817	3,729
Costs relating to long-term contracts and programs	23,430	16,431
Reserve for excess and obsolete inventory	(1,162)	(825)
	<u>\$ 38,864</u>	<u>\$ 30,264</u>

(10) Debt

Debt consisted of the following (in thousands):

	July 3, 2011 (Unaudited)	December 31, 2010
Credit Facility	\$ 22,000	\$ —
Former Revolving Credit Agreement	—	10,000
Former Senior Notes	—	13,305
	<u>22,000</u>	<u>23,305</u>
Less current portion	—	2,000
	<u>\$ 22,000</u>	<u>\$ 21,305</u>

On May 12, 2011, the Company entered into a new credit facility (Credit Facility) providing total availability up to \$50,000,000 that supports short-term funding needs and letters of credit, which replaced the Company's Revolving Credit Agreement and Senior Notes scheduled to expire in January 2012. Loans made under the Credit Facility will mature and the commitments thereunder will terminate in May 2016. The Credit Facility provides for an option, subject to certain conditions, to increase total availability to \$60,000,000 in the future. Borrowing availability under the Credit Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of the value of eligible accounts receivable, inventory and machinery and equipment, less certain reserves and subject to certain other adjustments.

Obligations under the Credit Facility are guaranteed by all of our U.S. subsidiaries and are secured by a first priority lien on substantially all assets of the Company.

The Credit Facility contains a number of covenants that, among other things, limit or restrict our ability to dispose of assets, incur additional indebtedness, incur guarantee obligations, engage in sale and leaseback transactions, prepay other indebtedness, modify organizational documents and certain other agreements, create restrictions affecting subsidiaries, make dividends and other restricted payments, create liens, make investments, make acquisitions, engage in mergers, change the nature of our business and engage in certain transactions with affiliates.

(11) Segment Data

The Company is organized into two business groups, the Industrial Group and the Electronics Group. The segments are each managed separately because of the distinctions between products, services, markets, customers, technologies and workforce skills of the segments. The Industrial Group provides manufacturing services for a variety of customers that outsource forged and finished steel components and subassemblies. The Industrial Group also manufactures high-pressure closures and other fabricated products. The Electronics Group provides manufacturing and technical services as an outsourced service provider and manufactures complex data storage systems. There was no intersegment net revenue recognized in any of the periods presented.

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
	(Unaudited)		(Unaudited)	
Net revenue from unaffiliated customers:				
Industrial Group	\$68,885	\$46,571	\$128,435	\$ 90,677
Electronics Group	16,173	16,535	32,433	35,332
	<u>\$85,058</u>	<u>\$63,106</u>	<u>\$160,868</u>	<u>\$126,009</u>
Gross profit:				
Industrial Group	\$ 7,080	\$ 2,286	\$ 12,212	\$ 4,739
Electronics Group	1,031	2,306	4,047	5,621
	<u>\$ 8,111</u>	<u>\$ 4,592</u>	<u>\$ 16,259</u>	<u>\$ 10,360</u>
Operating income (loss):				
Industrial Group	\$ 4,634	\$ (154)	\$ 10,649	\$ (361)
Electronics Group	(2,421)	(1,371)	(2,313)	(309)
General, corporate and other	(1,994)	(1,973)	(4,223)	(3,986)
	<u>\$ 219</u>	<u>\$ (3,498)</u>	<u>\$ 4,113</u>	<u>\$ (4,656)</u>

(12) Commitments and Contingencies

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying balance sheets, as of July 3, 2011 and December 31, 2010 was \$914,000 and \$866,000, respectively. The Company's warranty expense for the six months ended July 3, 2011 and July 4, 2010 was \$187,000 and \$240,000, respectively.

Additionally, the Company sells three and five-year extended warranties for one of its link encryption products. The revenue from the extended warranties is deferred and recognized ratably over the contractual term. As of July 3, 2011 and December 31, 2010, the Company had deferred \$2,233,000 and \$2,076,000, 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.

The Company is involved in certain litigation and contract issues arising in the normal course of business. While the outcome of these matters cannot, at this time, be predicted in light of the uncertainties inherent therein, management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the Company.

As of July 3, 2011, the Company had outstanding purchase commitments of approximately \$5,471,000, primarily for the acquisition of inventory and manufacturing equipment. As of July 3, 2011, the Company also had outstanding letters of credit of \$990,000 primarily under the aforementioned captive insurance program.

(13) 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 2011 and 2010. The Company's foreign

operations are also subject to minimum income taxes in periods where positive cash flows exceed taxable income. Reconciling items between the federal statutory rate and the effective tax rate also include state income taxes, valuation allowances and certain other permanent differences.

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax basis 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 the current forecast, the Company has established a valuation allowance against the domestic net deferred tax asset. 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 certain non-U.S. tax benefits.

(14) Employee Benefit Plans

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
	(Unaudited)		(Unaudited)	
Service cost	\$ 7	\$ 15	\$ 18	\$ 31
Interest cost on projected benefit obligation	455	561	1,034	1,137
Net amortizations, deferrals and other costs	154	142	293	288
Expected return on plan assets	(673)	(635)	(1,277)	(1,292)
	<u>\$ (57)</u>	<u>\$ 83</u>	<u>\$ 68</u>	<u>\$ 164</u>

(15) Other Comprehensive (Loss) Income

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

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

	Three Months Ended		Six Months Ended	
	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
	(Unaudited)		(Unaudited)	
Net (loss) income	\$ (1,550)	\$ (4,264)	\$ 502	\$ (6,688)
Other comprehensive income (loss):				
Foreign currency translation adjustments	732	(2,030)	2,306	104
Total comprehensive (loss) income	<u>\$ (818)</u>	<u>\$ (6,294)</u>	<u>\$ 2,808</u>	<u>\$ (6,584)</u>

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

	<u>July 3,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	<u>(Unaudited)</u>	
Foreign currency translation adjustments	\$ 362	\$ (1,944)
Employee benefit-related adjustments, net of tax of \$2,512 – U.S	(11,889)	(11,889)
Employee benefit-related adjustments – Mexico	(491)	(491)
Accumulated other comprehensive loss	<u>\$ (12,018)</u>	<u>\$ (14,324)</u>

(16) Fair Value of Financial Instruments

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the consolidated financial statements at their carrying amount which approximates fair value because of the short-term maturity of those instruments. The carrying amount of debt outstanding at July 3, 2011 under the Credit Facility approximates fair value because borrowings are for terms of less than six months and have rates that reflect currently available terms and conditions for similar debt.

(17) Subsequent Event

On August 1, 2011, the Company entered into an agreement to sell certain idle machinery and equipment for an anticipated gain of approximately \$3,500,000. The Company expects to complete the sale on or before September 9, 2011.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Overview**

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

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

Results of Operations

We operate in two business segments, the Industrial Group and the Electronics Group. The tables presented below, which compare our segment and consolidated results for the three and six month periods of operations of 2011 to 2010, present the results for each period, the change in those results from 2011 to 2010 in both dollars and percentage change and the results for each period as a percentage of net revenue.

- The first two data 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 July 3, 2011 Compared to Three Months Ended July 4, 2010

	Three Months Ended		Year Over	Year Over	Results as Percentage of	
	July 3, 2011	July 4, 2010	Change Favorable (Unfavorable)	Change Favorable (Unfavorable)	Net Revenue for the Three Months Ended	
					July 3, 2011	July 4, 2010
(in thousands, except percentage data)						
Net revenue:						
Industrial Group	\$68,885	\$46,571	\$ 22,314	47.9%	81.0%	73.8%
Electronics Group	16,173	16,535	(362)	(2.2)	19.0	26.2
Total	85,058	63,106	21,952	34.8	100.0	100.0
Cost of sales:						
Industrial Group	61,805	44,285	(17,520)	(39.6)	89.7	95.1
Electronics Group	15,142	14,229	(913)	6.4	93.6	86.1
Total	76,947	58,514	(18,433)	(31.5)	90.5	92.7
Gross profit:						
Industrial Group	7,080	2,286	4,794	209.7	10.3	4.9
Electronics Group	1,031	2,306	(1,275)	(55.3)	6.4	13.9
Total	8,111	4,592	3,519	76.6	9.5	7.3
Selling, general and administrative	6,810	6,740	(70)	(1.0)	8.0	10.7
Research and development	924	320	(604)	(188.8)	1.1	0.5
Amortization of intangible assets	28	28	—	—	—	—
Restructuring expense, net	130	1,002	872	87.0	0.2	1.6
Operating income (loss)	219	(3,498)	3,717	NM	0.3	(5.6)
Interest expense, net	726	583	(143)	(24.5)	0.9	0.9
Other expense (income), net	275	(688)	(963)	NM	0.3	(1.1)
Loss from continuing operations, before taxes	(782)	(3,393)	2,611	77.0	(0.9)	(5.4)
Income tax expense	768	571	(197)	(34.5)	0.9	0.9
Loss from continuing operations	(1,550)	(3,964)	2,414	60.9	(1.8)	(6.3)
Loss from discontinued operations, net of tax	—	(300)	300	NM	—	(0.5)
Net loss	<u>\$ (1,550)</u>	<u>\$ (4,264)</u>	<u>\$ 2,714</u>	63.6%	<u>(1.8)%</u>	<u>(6.8)%</u>

Six Months Ended July 3, 2011 Compared to Six Months Ended July 4, 2010

	Six Months Ended		Year Over	Year	Results as Percentage of	
	July 3, 2011	July 4, 2010	Change	Change	Net Revenue for the Six	
			Favorable	Favorable	July 3, 2011	July 4, 2010
			(Unfavorable)	(Unfavorable)		
(in thousands, except percentage data)						
Net revenue:						
Industrial Group	\$128,435	\$ 90,677	\$ 37,758	41.6%	79.8%	72.0%
Electronics Group	<u>32,433</u>	<u>35,332</u>	<u>(2,899)</u>	(8.2)	<u>20.2</u>	<u>28.0</u>
Total	160,868	126,009	34,859	27.7	100.0	100.0
Cost of sales:						
Industrial Group	116,223	85,938	(30,285)	(35.2)	90.5	94.8
Electronics Group	<u>28,386</u>	<u>29,711</u>	<u>1,325</u>	4.5	<u>87.5</u>	<u>84.1</u>
Total	144,609	115,649	(28,960)	(25.0)	89.9	91.8
Gross profit:						
Industrial Group	12,212	4,739	7,473	157.7	9.5	5.2
Electronics Group	<u>4,047</u>	<u>5,621</u>	<u>(1,574)</u>	(28.0)	<u>12.5</u>	<u>15.9</u>
Total	16,259	10,360	5,899	56.9	10.1	8.2
Selling, general and administrative	13,673	13,072	(601)	(4.6)	8.5	10.4
Research and development	1,540	473	(1,067)	(225.6)	1.0	0.4
Amortization of intangible assets	56	56	—	—	—	—
Nonrecurring income	(3,000)	—	3,000	NM	(1.9)	0.0
Restructuring expense, net	<u>(123)</u>	<u>1,415</u>	<u>1,538</u>	NM	<u>(0.1)</u>	<u>1.1</u>
Operating income (loss)	4,113	(4,656)	8,769	NM	2.6	(3.7)
Interest expense, net	1,455	1,184	(271)	(22.9)	0.9	0.9
Other expense (income), net	<u>506</u>	<u>(222)</u>	<u>(728)</u>	NM	<u>0.3</u>	<u>(0.2)</u>
Income (loss) from continuing operations, before taxes	2,152	(5,618)	7,770	NM	1.3	(4.5)
Income tax expense	<u>1,200</u>	<u>770</u>	<u>(430)</u>	(55.8)	<u>0.7</u>	<u>0.6</u>
Income (loss) from continuing operations	952	(6,388)	7,340	NM	0.6	(5.1)
Loss from discontinued operations, net of tax	<u>(450)</u>	<u>(300)</u>	<u>(150)</u>	(50.0)	<u>(0.3)</u>	<u>(0.2)</u>
Net income (loss)	<u>\$ 502</u>	<u>\$ (6,688)</u>	<u>\$ 7,190</u>	NM	<u>0.3%</u>	<u>(5.3)%</u>

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group for the three and six month periods ended July 3, 2011 increased \$22.3 million and \$37.8 million from the prior year comparable periods, respectively. Increased volumes for medium and heavy duty commercial trucks, light trucks and trailer axles have contributed to increased revenue of approximately \$18.9 million and \$31.7 million for the three and six month periods, respectively. Manufacturing services for a new commercial vehicle customer contributed to increased revenue of approximately \$2.0 million and \$3.2 million for the three and six month periods, respectively. Increased volumes for the off-highway business contributed to increased revenue of \$0.1 million and \$0.4 million for the three and six month periods, respectively. Specialty products contributed to increased revenue of approximately \$0.3 million and \$0.1 million for the three and six month periods, respectively. Increased steel prices, which is contractually passed through to customers under certain contracts, and pricing adjustments also contributed to increased revenue of approximately \$1.2 million and \$2.3 million for the three and six month periods, respectively.

The Electronics Group derives its revenue from product sales and technical outsourced services. Net revenue in the Electronics Group for the three and six month periods ended July 3, 2011 decreased \$0.4 million and \$2.9 million from the prior year comparable periods, respectively. The decreases from the prior year are primarily

due to the completion of several programs within our Electronic Manufacturing and Engineering Services businesses and the mix within our space business. Additionally, the Electronics Group continues to be affected by the delayed approval by Congress of the fiscal 2011 Defense Appropriations Bill, as funds have not yet been fully allocated through the various departments and agencies for program use. Partially offsetting this were increased sales of secured communication and data recording products over the prior year period.

Gross Profit. The Industrial Group's gross profit increased to \$7.1 million and \$12.2 million in the three and six month periods ended July 3, 2011, respectively, from \$2.3 million and \$4.7 million in the prior year comparable periods. The increase in sales volume resulted in an increase of gross profit of approximately \$3.7 million and \$6.1 million for the three and six month periods, respectively. The Industrial Group also realized an increase in gross profit of \$1.4 million and \$1.8 million for the three and six month periods ended July 3, 2011, respectively, as a result of productivity improvements. Partially offsetting this was a \$0.2 million and \$0.4 million cost increase for the three and six month periods ended July 3, 2011, respectively, due to the strengthening of the Mexican Peso.

The Electronics Group's gross profit decreased \$1.3 million and \$1.6 million in the three and six month periods ended July 3, 2011, respectively. The decrease in gross profit is primarily a result of additional engineering charges allocated to improvements in our product portfolio and the decline in revenue, particularly in the higher margin Electronic Manufacturing Services business (EMS). The Electronics Group also experienced an increase in its excess and obsolete inventory provision over the prior year period. The Electronics Group's gross profit as a percentage of revenue in the second quarter decreased to 6.4% and 12.5% for the three and six month periods ended July 3, 2011, respectively from 13.9% and 15.9% for the comparable 2010 periods.

Selling, General and Administrative. Selling, general and administrative expense increased \$0.1 million and \$0.6 million for the three and six month periods ended July 3, 2011, respectively. However, selling, general and administrative expense decreased as a percentage of revenue to 8.0% and 8.5% for the three and six month periods ended July 3, 2011, respectively, as compared to 10.7% and 10.4% for the comparable 2010 periods. The Company has continued to limit increases in controllable general and administrative expenses as revenues have increased in its Industrial Group.

Research and Development. Research and development costs increased \$0.6 million and \$1.1 million for the three and six month periods ended July 3, 2011, respectively, in support of the Electronics Group's self-funded product and technology development activities. Additionally, during the first six months of 2010, engineering efforts were redirected to assist with technical issues with existing products, which have since been resolved.

Nonrecurring Income. During the six months ended July 3, 2011, the Company recognized a gain of \$3.0 million in connection with a settlement regarding prior year volumes with one of its customers.

Restructuring Expense. As a result of the Company's restructuring program, we recorded expense of \$0.1 million and a gain of \$0.1 million related to these initiatives during the three and six months ended July 3, 2011, respectively. During the three and six month periods ended July 4, 2010, we recorded expense of \$1.0 million and \$1.4 million, respectively. The gain for the six months ended July 3, 2011 consisted of a \$0.5 million gain on the sale of assets that had previously been impaired, partially offset by \$0.2 million in equipment relocation costs and \$0.2 million in other various mothball charges.

Interest Expense. Interest expense for the three and six month periods ended July 3, 2011 increased due to the write-off of \$0.3 million in unamortized loan costs and additional fees paid in conjunction with the repayment of our former Revolving Credit Agreement and Senior Notes. Our weighted average debt outstanding increased to \$21.5 million and \$19.9 million for the three and six month periods of 2011, respectively, from \$18.6 million and \$18.9 million during the three and six month periods of 2010, respectively. The weighted average interest rate was 6.0% and 8.6% for the three and six month periods of 2011, respectively, compared to 9.4% and 9.5% for the three and six month periods of 2010, respectively. The reduction in the weighted average interest rates for the three months ended July 3, 2011 is primarily due to the Company entering into a new credit facility with favorable terms on May 12, 2011.

Income Taxes. The provision for income taxes in the three and six month periods of 2011 and 2010 is associated primarily with our Mexican subsidiaries.

Discontinued Operations. On October 26, 2009, the Company sold all of the outstanding stock of its wholly owned subsidiary, Sypris Test & Measurement, for approximately \$39.0 million. In accordance with requirements of ASC 205-20-45, the results of the Test & Measurement segment have been reported as discontinued operations for all periods presented. During 2010, the Company was made aware of a potential indemnification claim from the purchaser of Sypris Test & Measurement. As of July 3, 2011, the Company estimates that its total liability arising from this claim will not exceed \$0.9 million, of which \$0.5 million was charged to loss from discontinued operations, net of tax for the six months ended July 3, 2011.

Liquidity

On May 12, 2011, the Company entered into a new credit facility (Credit Facility) which provides for total availability up to \$50.0 million to support short-term funding needs and letters of credit, which replaced the Company's Revolving Credit Agreement and Senior Notes scheduled to expire in January 2012. Loans made under the Credit Facility will mature and the commitments thereunder will terminate in May 2016. The Credit Facility provides for an option, subject to certain conditions, to increase total availability to \$60.0 million in the future.

Borrowing availability under the Credit Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of the value of eligible accounts receivable, inventory and machinery and equipment, less certain reserves and subject to certain other adjustments. At July 3, 2011 we had total excess availability under the Credit Facility of \$22.3 million along with an unrestricted cash balance of \$14.1 million, which provides for total cash and borrowing capacity of \$36.4 million. Approximately \$9.8 million of the unrestricted cash balance relates to our Mexican subsidiaries. Standby letters of credit up to a maximum of \$5.0 million may be issued under the Credit Facility, of which \$1.0 million were issued at July 3, 2011.

We also had purchase commitments totaling approximately \$5.5 million at July 3, 2011, primarily for inventory and manufacturing equipment.

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

Financial Condition

Operating Activities. Net cash provided by operating activities (continuing operations) was \$1.5 million in the first six months of 2011 as compared to net cash used of \$0.1 million for the first six months of 2010, primarily due to the increase in net income over the prior year period and partially offset by an increase in working capital. The Industrial Group's net revenue increase of \$37.8 million resulted in increases in accounts receivable and inventory of \$15.7 million and \$1.9 million, respectively. The Electronics Group's net revenue decrease generated cash from accounts receivable of \$3.3 million during the six months ended July 3, 2011. However, inventory within the Electronics Group increased primarily as a result of the timing of shipments and the building of inventory for potential sales during the second half of 2011 and used \$7.5 million of cash. Accounts payable increased during the six months ended July 3, 2011 and provided \$14.8 million primarily due to increased purchases by our Industrial Group and the timing of payments to our suppliers. Accrued liabilities increased in the same period and provided \$0.7 million, primarily as a result of increased accrued taxes for our Mexico operations and an advanced payment from a customer within the Electronics Group.

Investing Activities. Net cash used in investing activities was \$2.3 million for the first six months of 2011 as compared to \$0.5 million for the first six months of 2010. Net cash used by investing activities for the first six months of 2011 included \$2.9 million of capital expenditures partially offset by proceeds of \$0.6 million from the sale of certain idle assets within the Industrial Group.

Financing Activities. Net cash used by financing activities was \$1.6 million in the first half of 2011 due to the repayment of debt under the Company's former Revolving Credit Agreement and Senior Notes partially offset by borrowings of \$22.0 million under the new Credit Facility. The Company also paid \$0.4 million of deferred loan costs during the period in conjunction with the new Credit Facility. The Company's financing activities were cash neutral for the first half of 2010.

Critical Accounting Policies

See the information concerning our critical accounting policies included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. There have been no significant changes in our critical accounting policies during the six month period ended July 3, 2011.

Forward-looking Statements

This quarterly report, and our other oral or written communications, may contain "forward-looking" statements. These statements may include our expectations or projections about the future of our industries, business strategies, potential acquisitions or financial results and our views about developments beyond our control, including domestic or global economic conditions, trends and market developments. These statements are based on management's views and assumptions at the time originally made, and, except as required by law, we undertake no obligation to update these statements, even if, for example, they remain available on our website after those views and assumptions have changed. There can be no assurance that our expectations, projections or views will come to pass, and undue reliance should not be placed on these forward-looking statements.

A number of significant factors could materially affect our specific business operations and cause our performance to differ materially from any future results projected or implied by our prior statements. Many of these factors are identified in connection with the more specific descriptions contained throughout this report. Other factors which could also materially affect such future results currently include: declining revenues in our aerospace and defense business lines as we transition from legacy products and services into new market segments and technologies; potential liabilities associated with discontinued operations, including post-closing indemnifications or claims related to business or asset dispositions; adverse determinations by government contracting officers, especially regarding the potential retrofit of certain electronic products with respect to alleged "latent defects," which are disputed by the Company; the costs of compliance with our auditing, regulatory or contractual obligations; regulatory actions or sanctions (in each case including FCPA, OSHA and Federal Acquisition Regulations, among others); breakdowns, relocations or major repairs of machinery and equipment; potential impairments, non-recoverability or write-offs of goodwill, assets or deferred costs, including deferred tax assets in the U.S. or Mexico; inventory valuation risks including obsolescence, shrinkage, theft, overstocking or underbilling; dependence on, recruitment or retention of key employees; pension valuation, health care or other benefit costs; labor relations; strikes; union negotiations; changes or delays in government or other customer budgets, funding or programs; reliance on major customers or suppliers, especially in the automotive or aerospace and defense electronics sectors; the cost, efficiency and yield of our operations and capital investments, including working capital, production schedules, cycle times, scrap rates, injuries, wages, overtime costs, freight or expediting costs; our inability to successfully launch or sustain new or next generation programs or product features, especially in accordance with budgets or committed delivery schedules; disputes or litigation, involving customer, supplier, lessor, landlord, creditor, stockholder, product liability or environmental claims; the costs and supply of debt, equity capital, or insurance; fees, costs or other dilutive effects of refinancing, compliance with covenants; cost and availability of raw materials such as steel, component parts, natural gas or utilities; volatility of our customers' forecasts, financial conditions, market shares, product requirements or scheduling demands; adverse impacts of new technologies or other competitive pressures which increase our costs or erode our margins; failure to adequately insure or to identify environmental or other insurable risks; revised contract prices or estimates of major contract costs; risks of foreign operations; currency exchange rates; changes in licenses, security clearances, or other legal rights to operate, manage our work force or import and export as needed; potential weaknesses in internal controls over enterprise risk management; war, terrorism, computer hacking or other cyber attacks, 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, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

None.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in “MD&A - Forward-Looking Statements,” in Part I - Item 2 of this Form 10-Q and in “Risk Factors” in Part I - Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2010 and Part II, Item 1A of our Report on Form 10-Q for the fiscal quarter ended July 3, 2011. There have been no material changes from the risk factors previously disclosed in the filings indicated above.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 4, 2011, the restrictions expired on 2,872 shares of restricted common stock which had been granted to employees pursuant to the Company’s equity compensation programs. As a result of such vesting, 1,105 shares were withheld by the Company to satisfy withholding tax obligations. The common shares withheld were immediately cancelled. The following table summarizes our repurchases during the second quarter ended July 3, 2011 (which consisted entirely of shares withheld to satisfy withholding taxes):

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 4, 2011	1,105	\$ 3.92	—	\$ —

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1	Revolving Credit and Security Agreement between PNC Bank, National Association, Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc. and Sypris Technologies Mexican Holdings, LLC dated as of May 12, 2011.
31(i).1	CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
31(i).2	CFO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
32	CEO and CFO certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.
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: August 9, 2011

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

Date: August 9, 2011

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

REVOLVING CREDIT
AND
SECURITY AGREEMENT
PNC BANK, NATIONAL ASSOCIATION
(AS LENDER AND AS AGENT)
WITH
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
(BORROWERS)
Dated as of May 12, 2011

TABLE OF CONTENTS

I	DEFINITIONS.	1
1.1.	<u>Accounting Terms</u>	1
1.2.	<u>General Terms</u>	1
1.3.	<u>Uniform Commercial Code Terms</u>	30
1.4.	<u>Certain Matters of Construction</u>	30
II	ADVANCES, PAYMENTS.	31
2.1.	<u>Revolving Advances</u>	31
2.2.	<u>Procedure for Revolving Advances Borrowing</u>	32
2.3.	<u>Disbursement of Advance Proceeds</u>	34
2.4.	<u>Amortizing Tranche of Formula Amount</u>	35
2.5.	<u>Maximum Advances</u>	35
2.6.	<u>Repayment of Advances</u>	35
2.7.	<u>Repayment of Excess Advances</u>	35
2.8.	<u>Statement of Account</u>	36
2.9.	<u>Letters of Credit</u>	36
2.10.	<u>Issuance of Letters of Credit</u>	36
2.11.	<u>Requirements For Issuance of Letters of Credit</u>	37
2.12.	<u>Disbursements, Reimbursement</u>	37
2.13.	<u>Repayment of Participation Advances</u>	38
2.14.	<u>Documentation</u>	39
2.15.	<u>Determination to Honor Drawing Request</u>	39
2.16.	<u>Nature of Participation and Reimbursement Obligations</u>	39
2.17.	<u>Indemnity</u>	41
2.18.	<u>Liability for Acts and Omissions</u>	41
2.19.	<u>Additional Payments</u>	42
2.20.	<u>Manner of Borrowing and Payment</u>	42
2.21.	<u>Mandatory Prepayments; Cash Collateral</u>	44
2.22.	<u>Use of Proceeds</u>	45
2.23.	<u>Defaulting Lender</u>	45
2.24.	<u>Increase of the Maximum Revolving Advance Amount</u>	46
III	INTEREST AND FEES.	47
3.1.	<u>Interest</u>	47
3.2.	<u>Letter of Credit Fees</u>	47
3.3.	<u>Facility Fee</u>	48
3.4.	<u>Fee Letter</u>	48
3.5.	<u>Computation of Interest and Fees</u>	48
3.6.	<u>Maximum Charges</u>	48
3.7.	<u>Increased Costs</u>	48
3.8.	<u>Basis For Determining Interest Rate Inadequate or Unfair</u>	49
3.9.	<u>Capital Adequacy</u>	50
3.10.	<u>Gross Up for Taxes</u>	50
3.11.	<u>Withholding Tax Exemption</u>	51
3.12.	<u>FATCA</u>	52

IV	COLLATERAL: GENERAL TERMS	52
4.1.	<u>Security Interest in the Collateral</u>	52
4.2.	<u>Perfection of Security Interest</u>	52
4.3.	<u>Disposition of Collateral</u>	53
4.4.	<u>Preservation of Collateral</u>	53
4.5.	<u>Ownership of Collateral</u>	53
4.6.	<u>Defense of Agent's and Lenders' Interests</u>	54
4.7.	<u>Books and Records</u>	54
4.8.	<u>Deleted</u>	54
4.9.	<u>Compliance with Laws</u>	55
4.10.	<u>Inspection of Premises</u>	55
4.11.	<u>Insurance</u>	55
4.12.	<u>Failure to Pay Insurance</u>	57
4.13.	<u>Payment of Taxes</u>	57
4.14.	<u>Payment of Leasehold Obligations</u>	57
4.15.	<u>Receivables</u>	57
4.16.	<u>Inventory</u>	62
4.17.	<u>Maintenance of Equipment</u>	62
4.18.	<u>Exculpation of Liability</u>	62
4.19.	<u>Environmental Matters</u>	62
4.20.	<u>Financing Statements</u>	64
V	REPRESENTATIONS AND WARRANTIES.	64
5.1.	<u>Authority</u>	64
5.2.	<u>Formation, Qualification, Equity Interests, Subsidiaries</u>	65
5.3.	<u>Survival of Representations and Warranties</u>	65
5.4.	<u>Tax Returns</u>	66
5.5.	<u>Financial Statements</u>	66
5.6.	<u>Entity Names</u>	66
5.7.	<u>O.S.H.A. and Environmental Compliance</u>	66
5.8.	<u>Solvency; No Litigation, Violation, Indebtedness or Default</u>	67
5.9.	<u>Patents, Trademarks, Copyrights and Licenses</u>	68
5.10.	<u>Licenses and Permits</u>	69
5.11.	<u>Default of Indebtedness</u>	69
5.12.	<u>No Contract Defaults</u>	69
5.13.	<u>No Burdensome Restrictions</u>	69
5.14.	<u>No Labor Disputes</u>	69
5.15.	<u>Margin Regulations</u>	69
5.16.	<u>Investment Company Act</u>	70
5.17.	<u>Disclosure</u>	70
5.18.	<u>Conflicting Agreements</u>	70
5.19.	<u>Application of Certain Laws and Regulations</u>	70
5.20.	<u>Business and Property of Borrowers</u>	70
5.21.	<u>Section 20 Subsidiaries</u>	70
5.22.	<u>Anti-Terrorism Laws</u>	70
5.23.	<u>Trading with the Enemy</u>	71

VI	AFFIRMATIVE COVENANTS.	71
6.1.	<u>Payment of Fees</u>	71
6.2.	<u>Conduct of Business and Maintenance of Existence and Assets</u>	71
6.3.	<u>Violations</u>	72
6.4.	<u>Government Receivables</u>	72
6.5.	<u>Fixed Charge Coverage Ratio</u>	72
6.6.	<u>Execution of Supplemental Instruments</u>	72
6.7.	<u>Payment of Indebtedness</u>	72
6.8.	<u>Standards of Financial Statements</u>	73
VII	NEGATIVE COVENANTS.	73
7.1.	<u>Merger, Consolidation, Acquisition and Sale of Assets</u>	73
7.2.	<u>Creation of Liens</u>	73
7.3.	<u>Guarantees</u>	73
7.4.	<u>Investments</u>	73
7.5.	<u>Loans</u>	73
7.6.	<u>Deleted</u>	74
7.7.	<u>Dividends</u>	74
7.8.	<u>Indebtedness</u>	74
7.9.	<u>Nature of Business</u>	74
7.10.	<u>Transactions with Affiliates</u>	74
7.11.	<u>Leases</u>	75
7.12.	<u>Subsidiaries</u>	75
7.13.	<u>Fiscal Year and Accounting Changes</u>	75
7.14.	<u>Pledge of Credit</u>	75
7.15.	<u>Amendment of Articles of Incorporation, By-Laws, Certificate of Formation, Operating Agreement; Change of Name</u>	75
7.16.	<u>Compliance with ERISA</u>	75
7.17.	<u>Prepayment of Indebtedness</u>	76
7.18.	<u>Anti-Terrorism Laws</u>	76
7.19.	<u>Membership/Partnership Interests</u>	76
7.20.	<u>Trading with the Enemy Act</u>	77
VIII	CONDITIONS PRECEDENT.	77
8.1.	<u>Conditions to Initial Advances</u>	77
8.2.	<u>Conditions to Each Advance</u>	80
IX	INFORMATION AS TO BORROWERS.	80
9.1.	<u>Disclosure of Material Matters</u>	81
9.2.	<u>Schedules</u>	81
9.3.	<u>Environmental Reports</u>	81
9.4.	<u>Litigation</u>	81
9.5.	<u>Material Occurrences</u>	81
9.6.	<u>Government Receivables</u>	82
9.7.	<u>Annual Financial Statements</u>	82
9.8.	<u>Quarterly Financial Statements</u>	82
9.9.	<u>Monthly Financial Statements</u>	83
9.10.	<u>Other Reports</u>	83

9.11.	<u>Additional Information</u>	83
9.12.	<u>Projected Operating Budget</u>	83
9.13.	<u>Variances From Operating Budget</u>	84
9.14.	<u>Notice of Suits, Adverse Events</u>	84
9.15.	<u>ERISA Notices and Requests</u>	84
9.16.	<u>Additional Documents</u>	85
9.17.	<u>Availability Calculation</u>	85
X	EVENTS OF DEFAULT.	85
10.1.	<u>Nonpayment</u>	85
10.2.	<u>Breach of Representation</u>	85
10.3.	<u>Financial Information</u>	85
10.4.	<u>Judicial Actions</u>	85
10.5.	<u>Noncompliance</u>	85
10.6.	<u>Judgments</u>	85
10.7.	<u>Bankruptcy</u>	86
10.8.	<u>Inability to Pay</u>	86
10.9.	<u>Deleted</u>	86
10.10.	<u>Material Adverse Effect</u>	86
10.11.	<u>Lien Priority</u>	86
10.12.	<u>Cross Default</u>	86
10.13.	<u>Change of Control</u>	86
10.14.	<u>Invalidity</u>	86
10.15.	<u>Deleted</u>	86
10.16.	<u>Seizures</u>	86
10.17.	<u>Operations</u>	87
10.18.	<u>Pension Plans</u>	87
XI	LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT.	87
11.1.	<u>Rights and Remedies</u>	87
11.2.	<u>Agent's Discretion</u>	89
11.3.	<u>Setoff</u>	89
11.4.	<u>Rights and Remedies not Exclusive</u>	89
11.5.	<u>Appointment of Receiver</u>	89
11.6.	<u>Allocation of Payments After Event of Default</u>	90
XII	WAIVERS AND JUDICIAL PROCEEDINGS.	91
12.1.	<u>Waiver of Notice</u>	91
12.2.	<u>Delay</u>	91
12.3.	<u>Jury Waiver</u>	91
XIII	EFFECTIVE DATE AND TERMINATION.	91
13.1.	<u>Term</u>	91
13.2.	<u>Termination</u>	91
XIV	REGARDING AGENT.	92
14.1.	<u>Appointment</u>	92
14.2.	<u>Nature of Duties</u>	92
14.3.	<u>Lack of Reliance on Agent and Resignation</u>	93

14.4.	<u>Certain Rights of Agent</u>	93
14.5.	<u>Reliance</u>	93
14.6.	<u>Notice of Default</u>	94
14.7.	<u>Indemnification</u>	94
14.8.	<u>Agent in its Individual Capacity</u>	94
14.9.	<u>Delivery of Documents</u>	94
14.10.	<u>Borrowers' Undertaking to Agent</u>	94
14.11.	<u>No Reliance on Agent's Customer Identification Program</u>	95
14.12.	<u>Other Agreements</u>	95
XV	<u>BORROWING AGENCY.</u>	95
15.1.	<u>Borrowing Agency Provisions</u>	95
15.2.	<u>Waiver of Subrogation</u>	96
15.3.	<u>Cross Guaranty</u>	96
15.4.	<u>Subordination</u>	96
XVI	<u>MISCELLANEOUS</u>	97
16.1.	<u>Governing Law</u>	97
16.2.	<u>Entire Understanding</u>	98
16.3.	<u>Successors and Assigns; Participations; New Lenders</u>	100
16.4.	<u>Application of Payments</u>	102
16.5.	<u>Indemnity</u>	102
16.6.	<u>Notice</u>	103
16.7.	<u>Survival</u>	104
16.8.	<u>Severability</u>	104
16.9.	<u>Expenses</u>	105
16.10.	<u>Injunctive Relief</u>	105
16.11.	<u>Consequential Damages</u>	105
16.12.	<u>Captions</u>	105
16.13.	<u>Counterparts; Facsimile Signatures</u>	105
16.14.	<u>Construction</u>	105
16.15.	<u>Confidentiality; Sharing Information</u>	106
16.16.	<u>Publicity</u>	106
16.17.	<u>Certifications From Banks and Participants; US PATRIOT Act</u>	106

LIST OF EXHIBITS AND SCHEDULES

Exhibits

Exhibit 1.2	Borrowing Base Certificate
Exhibit 2.1(a)	Revolving Credit Note
Exhibit 5.5(a)	Financial Projections
Exhibit 4.15(j)	US Assignment
Exhibit 16.3	Commitment Transfer Supplement

Schedules

Schedule 1.2(a)	Permitted Encumbrances
Schedule 4.5(a)	Real Property; Mortgaged Real Property; Owned Real Property
Schedule 4.5(b)(i)	Third-Party Warehouse and Processor Locations
Schedule 4.5(b)(iv)	Other Places of Business
Schedule 4.11	Insurance
Schedule 4.15(h)	Deposit and Investment Accounts
Schedule 4.15(j)	Government Contracts
Schedule 5.1	Consents
Schedule 5.2(a)	States of Qualification and Good Standing
Schedule 5.2(b)	Equity Interests; Subsidiaries
Schedule 5.4	Federal Tax Identification Number
Schedule 5.6	Prior Names
Schedule 5.8(b)	Litigation
Schedule 5.8(d)	ERISA Plans
Schedule 5.9	Intellectual Property, Source Code Escrow Agreements
Schedule 5.10	Licenses and Permits
Schedule 5.12	Material Contracts
Schedule 5.14	Labor Disputes
Schedule 7.3	Guarantees

REVOLVING CREDIT AND SECURITY AGREEMENT

Revolving Credit and Security Agreement dated as of May 12, 2011 among **SYPRIS SOLUTIONS, INC.**, a corporation organized under the laws of the State of Delaware ("Holdings"), **SYPRIS TECHNOLOGIES, INC.**, a corporation organized under the laws of the State of Delaware ("Technologies"), **SYPRIS ELECTRONICS, LLC**, a limited liability company formed under the laws of the State of Delaware ("Electronics"), **SYPRIS DATA SYSTEMS, INC.**, a corporation organized under the laws of the State of Delaware ("Data Systems"), **SYPRIS TECHNOLOGIES MARION, LLC**, a limited liability company formed under the laws of the State of Delaware ("Marion"), **SYPRIS TECHNOLOGIES KENTON, INC.**, a corporation organized under the laws of the State of Delaware ("Kenton"), **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a limited liability company formed under the laws of the State of Delaware ("Mexican Holdings") (Holdings, Technologies, Electronics, Data Systems, Marion, Kenton, and Mexican Holdings, each a "Borrower", and collectively the "Borrowers"), the financial institutions which are now or which hereafter become a party hereto (each a "Lender", and collectively, the "Lenders") and **PNC BANK, NATIONAL ASSOCIATION ("PNC")**, as agent for Lenders (PNC, in such capacity, the "Agent").

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrowers, Lenders and Agent hereby agree as follows:

I DEFINITIONS.

1.1. Accounting Terms. As used in this Agreement, the Other Documents or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP; provided, however, whenever such accounting terms are used for the purposes of determining compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Holdings and its Subsidiaries for the fiscal year ended December 31, 2010.

1.2. General Terms. For purposes of this Agreement the following terms shall have the following meanings:

"Account Control Notice" shall have the meaning set forth in Section 4.15(h)(ii).

"Advance Rates" shall mean, collectively, each of the percentages identified in Section 2.1(a)(y).

"Advances" shall mean and include the Revolving Advances and Letters of Credit.

"Affiliate" of any Person shall mean (a) any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director, managing member, general partner or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (x) to vote 5% or more of the Equity Interests having ordinary voting power for the election of directors of such

Person or other Persons performing similar functions for any such Person, or (y) to direct or cause the direction of the management and policies of such Person whether by ownership of Equity Interests, contract or otherwise.

“Agent” shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

“Agreement” shall mean this Revolving Credit and Security Agreement, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Alternate Base Rate” shall mean, for any day, a rate per annum equal to the higher of (i) the Base Rate in effect on such day, (ii) the Federal Funds Open Rate in effect on such day plus 1/2 of 1% and (iii) the Daily LIBOR Rate plus 1%. For purposes of this definition, “Daily LIBOR Rate” shall mean, for any day, the rate per annum determined by Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any eurocurrency funding by banks on such day. For the purposes of this definition, “Published Rate” shall mean the rate of interest published each Business Day in The Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication determined by Agent).

“Amortizing Tranche” shall mean the portion of the Formula Amount calculated in accordance with Section 2.1(a)(y)(vi)(A).

“Anti-Terrorism Laws” shall mean any Applicable Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA PATRIOT Act, the Applicable Laws comprising or implementing the Bank Secrecy Act, and the Applicable Laws administered by the United States Treasury Department’s Office of Foreign Asset Control (as any of the foregoing Applicable Laws may from time to time be amended, renewed, extended, or replaced).

“Applicable Law” shall mean all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Other Document or contract in question, including all applicable common law and equitable principles; all provisions of all applicable local, state, federal and foreign constitutions, statutes, rules, regulations, treaties, directives and orders of any Governmental Body, and all orders, judgments and decrees of all courts and arbitrators.

“Applicable Margin” shall mean, commencing as of the Closing Date, (i) for Revolving Advances, 2.25% per annum for Eurodollar Rate Loans and 0.50% per annum for Domestic Rate Loans, and (ii) for the Facility Fee, 0.375% per annum. Thereafter, effective as of November 12, 2011 (based upon an Availability Calculation for the fiscal quarter ending September 30, 2011), and thereafter upon receipt of an Availability Calculation for each subsequent fiscal quarter (each day of such delivery, an “Adjustment Date”), the Applicable Margin for each Revolving Advance and the Facility Fee shall be adjusted, if necessary, to the applicable percent per annum set forth in the pricing table set forth below corresponding to the Average Availability of Borrowers during the fiscal quarter ending immediately prior to the applicable Adjustment Date:

Average Availability	"Eurodollar Rate Loan Applicable Margin"	"Domestic Rate Loan Applicable Margin"	"Facility Fee Applicable Margin"
≥ \$25,000,000	2.00%	0.25%	0.50%
< \$25,000,000 but ≥ \$10,000,000	2.25%	0.50%	0.375%
< \$10,000,000	2.50%	0.75%	0.25%

If Borrowing Agent shall fail to deliver an Availability Calculation for any fiscal quarter on or before the fifth (5th) Business Day of the following fiscal quarter, each Applicable Margin shall be conclusively presumed to equal the highest Applicable Margin specified in the pricing table set forth above until the date of delivery of such Availability Calculation, at which time the rate will be adjusted prospectively based upon the Average Availability reflected in such Availability Calculation.

No downward adjustment of any Applicable Margin shall occur if, at the time such downward adjustment would otherwise be made, there shall exist any Event of Default, provided that such downward adjustment shall be made on the first (1st) day of the month after the date on which the applicable Event of Default shall have been waived by Agent in writing. During any period which an Event of Default exists, the Applicable Margin(s) shall adjust to the highest Applicable Margin(s) set forth above at the option of Agent or at the direction of Required Lenders.

If the Agent reasonably determines that (a) the Availability Calculation as of any applicable date was inaccurate or otherwise is not consistent with Agent's calculation of Average Availability, which calculation of Agent shall control in the event of any inconsistency, and (b) Agent's determination of the Average Availability would have resulted in different pricing for any period, then (y) if Agent's determination of the Average Availability would have resulted in higher pricing for such period, Borrowers shall automatically and retroactively be obligated to pay to the Agent, promptly upon demand by the Agent, an amount equal to the excess of the amount of interest and fees that should have been paid for such period over the amount of interest and fees actually paid for such period; and (z) if Agent's determination of the Average Availability would have resulted in lower pricing for such period, Agent and Lenders shall have no obligation to repay any interest or fees to Borrowers under any circumstance, and Borrowers' sole remedy with respect to such overpayment shall be to receive a credit against interest subsequently due to Lenders in the amount of the overpayment.

"Arvin" shall mean Meritor, Inc., an Indiana corporation.

"Authority" shall have the meaning set forth in Section 4.19(d).

"Availability Calculation" shall mean a calculation by Borrowing Agent of the Average Availability of Borrowers using Agent's on-line Collateral monitoring system and including a

schedule of the amount owing to Borrowers' trade creditors which are sixty (60) days or more past due as of the end of such quarter, executed by a Responsible Officer and delivered to the Agent, appropriately completed, by which such Responsible Officer shall certify to Agent the Average Availability and calculation thereof as of the date of such certificate.

"Average Availability" shall mean, for any fiscal quarter, an amount equal to (a) the daily average (as of the end of each Business Day) during such fiscal quarter of the lesser of (i) the Formula Amount minus the outstanding amount of the Revolving Advances, or (ii) the Maximum Revolving Advance Amount minus the Maximum Undrawn Amount of all Letters of Credit minus the outstanding amount of the Revolving Advances, minus (b) all amounts owing to Borrowers' trade creditors which are sixty (60) days or more past due as of the end of such fiscal quarter.

"Bankruptcy Code" shall mean title 11 of the United States Code or any similar legislation in effect from time to time.

"Base Rate" shall mean the base commercial lending rate of PNC as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by PNC as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by PNC to any particular class or category of customers of PNC.

"Benefited Lender" shall have the meaning set forth in Section 2.20(d).

"Blocked Account Agreement" shall have the meaning set forth in Section 4.15(h)(ii).

"Blocked Account Bank" shall have the meaning set forth in Section 4.15(h)(i).

"Blocked Accounts" shall have the meaning set forth in Section 4.15(h)(i).

"Blocked Person" shall have the meaning set forth in Section 5.22(b).

"Borrower" or "Borrowers" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Persons, and any Person that shall join this Agreement as a Borrower hereunder.

"Borrowers' Account" shall have the meaning set forth in Section 2.8.

"Borrowing Agent" shall mean Holdings.

"Borrowing Base Certificate" shall mean a certificate in substantially the form of Exhibit 1.2 duly executed by a Responsible Officer and delivered to the Agent, appropriately completed, by which such Responsible Officer shall certify to Agent the Formula Amount and calculation thereof as of the date of such certificate.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East

Brunswick, New Jersey and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which dealings are carried on in the London interbank market.

“Capital Expenditures” shall mean expenditures made or liabilities incurred for the acquisition of any fixed assets or improvements, replacements, substitutions or additions thereto which have a useful life of more than one (1) year, including the total principal portion of Capitalized Lease Obligations, which, in accordance with GAAP, would be classified as capital expenditures.

“Capitalized Lease Obligation” shall mean any Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

“Cash Dominion Period” shall mean any period commencing upon the occurrence of a Triggering Event and ending upon the occurrence of a related Satisfaction Event.

“CCR” shall have the meaning set forth in Section 4.15(j)(iv).

“CERCLA” shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§9601 et seq.

“Change of Control” shall mean (a) any merger or consolidation of or with any Borrower or sale of all or substantially all of the property or assets of any Borrower (other than Marion or Kenton in accordance with the terms hereof) or any of their respective Subsidiaries, provided that the merger of one (1) or more Borrowers into or with a Borrower shall not constitute a Change of Control so long as (i) Agent is provided prior written notice of such merger, (ii) Borrowing Agent delivers to Agent such documentation as Agent shall reasonably request with respect to such merger, and (iii) the surviving Borrower delivers such assumption or other agreements with respect to the Obligations and Liens on the Collateral as Agent shall reasonably require, if any, or (b) that any Person, together with its Affiliates, acquires Equity Interests in Holdings in one or more transactions such that they collectively own or control, directly or indirectly, greater than 50% of the Equity Interests of Holdings, or (c) that Holdings ceases to own, directly or indirectly, and control 100% of the outstanding Equity Interests of (i) each of the other Borrowers and (ii) each of its Subsidiaries.

“Charges” shall mean all taxes, charges, fees, imposts, levies or other assessments, including all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, Liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including the Pension Benefit Guaranty Corporation or any environmental agency or superfund), upon the Collateral, any Borrower or any of their respective Subsidiaries.

“Closing Date” shall mean the date of this Agreement.

“Code” shall mean the Internal Revenue Code of 1986, as the same may be amended or supplemented from time to time, and any successor statute of similar import, and the rules and regulations thereunder, as from time to time in effect.

“Collateral” shall mean and include:

- (a) all Receivables other than Excluded Receivables;
- (b) all Equipment;
- (c) all General Intangibles;
- (d) all Inventory;
- (e) all Investment Property;
- (f) all Mortgaged Real Property;
- (g) all Subsidiary Stock;
- (h) the Leasehold Interests;

(i) all of each Borrower’s right, title and interest in and to, whether now owned or hereafter acquired and wherever located, (i) its respective goods and other property including, but not limited to, all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of each Borrower’s rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to any Borrower from any Customer relating to the Receivables; (iv) other property, including warranty claims, relating to any goods securing the Obligations; (v) all of each Borrower’s contract rights, rights of payment which have been earned under a contract right, instruments (including promissory notes), documents, documents of title, chattel paper (including electronic chattel paper), warehouse receipts, deposit accounts, accounts, letters of credit and money; (vi) all commercial tort claims (whether now existing or hereafter arising); (vii) if and when obtained by any Borrower, all real and personal property of third parties in which it has been granted a lien or security interest as security for the payment or enforcement of Receivables; (viii) all letter of credit rights (whether or not the respective letter of credit is evidenced by a writing); (ix) all supporting obligations; and (x) any other goods, personal property or Real Property now owned or hereafter acquired in which any Borrower has expressly granted a security interest or may in the future grant a security interest to Agent hereunder, or in any amendment or supplement hereto or thereto, or under any other agreement between Agent and any Borrower;

(j) all of each Borrower’s ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (owned by any Borrower or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this Paragraph; and

(k) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h), (i) and (j) in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

“Collateral Access Agreement” shall mean an agreement in form and substance satisfactory to the Agent which is executed in favor of Agent by (a) a Person who owns or occupies premises at which any Collateral may be located from time to time and by which such Person shall waive or subordinate lien rights and authorize Agent from time to time to enter upon the premises to access, inspect or remove the Collateral from such premises or to use such premises to store or dispose of such Collateral, or (b) a Person who has possession, custody or control of Collateral and by which such Person shall waive Lien rights and agree to grant Agent access to the Collateral upon request and to follow the instructions of Agent with respect to the disposition of such Collateral.

“Collection Accounts” shall have the meaning set forth in Section 4.15(h)(i).

“Commitment Percentage” of any Lender shall mean the percentage set forth below such Lender’s name on the signature page hereof as same may be adjusted upon any assignment by a Lender pursuant to Section 16.3(c) or (d).

“Commitment Transfer Supplement” shall mean a document in the form of Exhibit 16.3, properly completed and otherwise in form and substance satisfactory to Agent by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances under this Agreement.

“Compliance Certificate” shall mean a compliance certificate to be signed by a Responsible Officer, which shall state that, based on an examination sufficient to permit such Responsible Officer to make an informed statement, no Default or Event of Default exists, or if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrowers with respect to such default and, such certificate shall have appended thereto the calculation of the Fixed Charge Coverage Ratio (which during a Cash Dominion Period shall be calculated as of each month-end on a trailing twelve (12) month basis, and, at all other times, as of each quarter-end on a trailing four (4) quarters basis), and calculations evidencing compliance with Sections 7.4 and 7.7 to the extent applicable.

“Consents” shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Bodies and other third parties, domestic or foreign, necessary to carry on any business or necessary (including to avoid a conflict or breach under any agreement, instrument, other document, license, permit or other authorization) for the execution, delivery or performance of this Agreement, the Other Documents, including any Consents required under all applicable federal, state or other Applicable Law.

“Consigned Inventory” shall mean Inventory that is in the possession of another Person on a consignment, sale or return, processing, or other basis that does not constitute a final sale and acceptance of such Inventory.

“Controlled Group” shall mean, at any time, each Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control and all other entities which, together with any Borrower, are treated as a single employer under Section 414 of the Code.

“Customer” shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with any Borrower, pursuant to which such Borrower is to deliver any personal property or perform any services.

“Customs” shall have the meaning set forth in Section 2.11(b).

“Dana” shall mean Dana Holding Corporation, a Delaware corporation.

“Deemed Credit Request” shall have the meaning set forth in Section 2.2(b).

“Default” shall mean an event, circumstance, default, or condition which, with the giving of notice or passage of time or both, would constitute an Event of Default.

“Default Rate” shall have the meaning set forth in Section 3.1(c).

“Defaulting Lender” shall have the meaning set forth in Section 2.23(a).

“Designated Lender” shall have the meaning set forth in Section 16.2(c).

“Dollar” and the sign “\$” shall mean lawful money of the United States of America.

“Domestic Rate Loan” shall mean any Advance that bears interest based upon the Alternate Base Rate.

“Domestic Subsidiary” shall mean any direct or indirect Subsidiary of a Person that is organized under the laws of any state of the United States or the District of Columbia (other than an indirect Subsidiary of a Person which is a direct or indirect Subsidiary of another Subsidiary which is not organized under such laws).

“Drawing Date” shall have the meaning set forth in Section 2.12(b).

“Earnings Before Interest and Taxes” shall mean for any period, for Holdings and its Subsidiaries on a Consolidated Basis, the sum of (a) net income (or loss) (excluding extraordinary items and income (or loss) from discontinued operations), plus (b) all interest expense, plus (c) all charges against income for federal, state and local taxes, all for the same period.

“EBITDA” shall mean for any period, for Holdings and its Subsidiaries on a Consolidated Basis, the sum of (a) Earnings Before Interest and Taxes, plus (b) depreciation expenses, plus (c) amortization expenses, plus (d) all non-cash charges or expenses reflected in net income (other than write-downs of Collateral), including non-cash stock compensation expense, plus or minus (e) non-cash translation gains and losses due to changes in foreign currency exchange rates, plus (f) non-cash impairment of long-lived assets, goodwill, and intangibles, plus (g) to the extent approved by Agent in its Permitted Discretion, all restructuring charges reflected in net income and not otherwise added back in the calculation of Earnings Before Interest and Taxes including, reasonable expenses related to the closure of facilities, non-cash reserves, non-recurring charges, and severance expenses, all for the same period.

“Eligible Equipment” shall mean all of Borrower’s Equipment located in the United States, other than that of Marion and Kenton, which is free and clear of all Liens.

“Eligible Finished Goods Inventory” shall mean and include finished goods Inventory, with respect to each Borrower, valued at the lower of cost or market, determined on a first-in-first-out basis, which is not, in Agent’s Permitted Discretion, excess, obsolete, slow moving or unmerchantable and which Agent shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate in its Permitted Discretion, including whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than a Permitted Encumbrance). Agent shall use reasonable efforts to provide Borrowing Agent with a written explanation of such considerations within five (5) days after such Inventory is deemed ineligible; provided that the failure of Agent to provide such a written explanation shall not result in such Inventory being deemed eligible. In addition, Inventory shall not be Eligible Finished Goods Inventory if it (a) does not conform to all standards imposed by any Governmental Body which has regulatory authority over such goods or the use or sale thereof, (b) constitutes Consigned Inventory, (c) is the subject of an Intellectual Property Claim, (d) is subject to a License Agreement or other agreement that in any material respect limits, conditions or restricts any Borrower’s or Agent’s right to sell or otherwise dispose of such Inventory, unless Agent is a party to a Licensor/Agent Agreement with the Licensor under such License Agreement, (e) is situated at a location that is not Owned Real Property, unless there is a Collateral Access Agreement in effect or a rent reserve has been established by Agent with respect thereto, or (f) it is located outside the continental United States. Eligible Finished Goods Inventory shall not include Inventory in-transit or Inventory being acquired pursuant to a trade Letter of Credit to the extent such trade Letter of Credit remains outstanding.

“Eligible Government Receivable” shall have the meaning provided in the definition of “Eligible Receivables”.

“Eligible Inventory” shall mean collectively Eligible Finished Goods Inventory, Eligible Work-In-Process Inventory, and Eligible Raw Material Inventory.

“Eligible Raw Materials Inventory” shall mean and include raw materials Inventory with respect to each Borrower, valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in Agent’s Permitted Discretion, excess, obsolete, slow moving or unmerchantable and which Agent shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate in its Permitted Discretion,

including whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than a Permitted Encumbrance). Agent shall use reasonable efforts to provide Borrowing Agent with a written explanation of such considerations within five (5) days after such Inventory is deemed ineligible; provided that the failure of Agent to provide such a written explanation shall not result in such Inventory being deemed eligible. In addition, Inventory shall not be Eligible Raw Materials Inventory if it (a) does not conform to all standards imposed by any Governmental Body which has regulatory authority over such goods or the use or sale thereof, (b) constitutes Consigned Inventory, (c) is the subject of an Intellectual Property Claim; (d) is subject to a License Agreement or other agreement that in any material respect limits, conditions or restricts any Borrower's or Agent's right to sell or otherwise dispose of such Inventory, unless Agent is a party to a Licensor/Agent Agreement with the Licensor under such License Agreement; (e) is situated at a location that is not Owned Real Property, unless there is a Collateral Access Agreement in effect or a rent reserve has been established by Agent with respect thereto, (f) is located outside the continental United States. Eligible Raw Materials Inventory shall not include Inventory in-transit or Inventory being acquired pursuant to a trade Letter of Credit to the extent such trade Letter of Credit remains outstanding.

"Eligible Receivables" shall mean and include with respect to each Borrower, each Receivable of such Borrower arising in the Ordinary Course of Business and which Agent, in its Permitted Discretion, shall deem to be an Eligible Receivable, based on such considerations as Agent may from time to time deem appropriate, in its Permitted Discretion. Agent shall use reasonable efforts to provide Borrowing Agent with a written explanation of such considerations within five (5) days after such Inventory is deemed ineligible; provided that the failure of Agent to provide such a written explanation shall not result in such Receivable being deemed eligible. A Receivable shall not be deemed eligible unless such Receivable is subject to Agent's first priority perfected security interest and no other Lien (other than Permitted Encumbrances), and is evidenced by an invoice or other documentary evidence reasonably satisfactory to Agent. In addition, no Receivable shall be an Eligible Receivable if:

(a) it arises out of a sale made by any Borrower to an Affiliate of any Borrower or to a Person controlled by an Affiliate of any Borrower;

(b) it is due or unpaid more than one hundred twenty (120) days after the original invoice date; provided that each Receivable due from Arvin which otherwise qualifies as an Eligible Receivable shall be an Eligible Receivable to the extent it has not been due or unpaid more than one hundred thirty (135) days after the original invoice date;

(c) fifty percent (50%) or more of the Receivables from such Customer are not deemed Eligible Receivables hereunder;

(d) any material covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) except to the extent permitted by Agent in its sole discretion, the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its

debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(f) the sale is invoiced to a Customer outside of Canada or the continental United States of America, provided that such a Receivable shall be an Eligible Receivable if such Receivable would otherwise qualify as an Eligible Receivable, and (i) the sale is on letter of credit terms acceptable to Agent in its Permitted Discretion, or (ii) the sale is to a Foreign Subsidiary of Dana and the payment of the Receivable is guaranteed by Dana under terms acceptable to Agent in its Permitted Discretion;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Agent believes, in its Permitted Discretion, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States, any state, territory, or any department, agency or instrumentality of any of them, provided that such a Receivable shall be an Eligible Receivable if (i) such Receivable would otherwise qualify as an Eligible Receivable, and (ii) the applicable Borrower complies with the requirements Section 4.15(j) with respect to such Receivable (each an "Eligible Government Receivable");

(j) the goods giving rise to such Receivable have not been delivered to and accepted by the Customer or the services giving rise to such Receivable have not been performed by the applicable Borrower and accepted by the Customer or the Receivable otherwise does not represent a final sale;

(k) the Receivables of the Customer exceed a credit limit determined by Agent, in its Permitted Discretion, to the extent such Receivable exceeds such limit, provided, that Receivables due from the United States Government (or any agency or department thereof), Arvin and Dana shall not be subject to exclusion based on such limit;

(l) such Receivable is subject to any offset, deduction, defense, dispute, or counterclaim, the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason, but only to the extent of any such offset, deduction, defense, or other dispute; provided that, Receivables due from Dana shall not be subject to exclusion based on the existence of a supplier relationship with Dana so long as the contracts governing the relationship provide that no offsets may be taken by Dana against Receivables;

(m) the applicable Borrower has made any agreement with any Customer for any deduction therefrom (to the extent of such deduction only), except for discounts or

allowances made in the Ordinary Course of Business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

- (n) any return, rejection or repossession of the merchandise has occurred or the rendition of services has been disputed;
- (o) such Receivable is not payable to a Borrower;
- (p) such Receivable is not payable in US dollars; or
- (q) such Receivable is an Excluded Receivable.

“Eligible Work-In-Process Inventory” shall mean and include work-in-process Inventory with respect to each Borrower, valued at the lower of cost or market value, determined on a first-in-first-out basis, which is not, in Agent’s Permitted Discretion, excess, obsolete, slow moving or unmerchantable and which Agent shall not deem ineligible Inventory, based on such considerations as Agent may from time to time deem appropriate in its Permitted Discretion, including whether the Inventory is subject to a perfected, first priority security interest in favor of Agent and no other Lien (other than a Permitted Encumbrance). Agent shall use reasonable efforts to provide Borrowing Agent with a written explanation of such considerations within five (5) days after such Inventory is deemed ineligible; provided that the failure of Agent to provide such a written explanation shall not result in such Inventory being deemed eligible. In addition, Inventory shall not be Eligible Work-In-Process Inventory if it (a) constitutes raw material or finished goods, (b) does not conform to all standards imposed by any Governmental Body which has regulatory authority over such goods or the use or sale thereof, (c) constitutes Consigned Inventory, (d) is the subject of an Intellectual Property Claim; (e) is subject to a License Agreement or other agreement that in any material respect limits, conditions or restricts any Borrower’s or Agent’s right to sell or otherwise dispose of such Inventory, unless Agent is a party to a Licensor/Agent Agreement with the Licensor under such License Agreement; (f) is situated at a location that is not Owned Real Property, unless there is a Collateral Access Agreement in effect or a rent reserve has been established by Agent with respect thereto, or (g) is located outside the continental United States. Eligible Work-In-Process Materials Inventory shall not include Inventory in-transit or Inventory being acquired pursuant to a trade Letter of Credit to the extent such trade Letter of Credit remains outstanding.

“Environmental Complaint” shall have the meaning set forth in Section 4.19(d).

“Environmental Laws” shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

“Equipment” shall mean and include as to each Borrower, all of its goods (other than Inventory) whether now owned or hereafter acquired and wherever located including all

equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

“Equity Interest Pledge Agreement” shall mean the Pledge Agreement by Borrowers pledging to Agent the Equity Interests in each Borrower (other than Holdings) and their respective Subsidiaries as Collateral for the Obligations, and all supplements, amendments, restatements and modifications thereto.

“Equity Interests” of any Person shall mean any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such Person, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other “equity security” (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

“Eurodollar Rate” shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto the interest rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by Agent by dividing (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Agent which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (an “Alternative Source”), at approximately 11:00 a.m., London time two (2) Business Days prior to the first day of such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Agent at such time (which determination shall be conclusive absent manifest error) for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period by (ii) a number equal to 1.00 minus the Reserve Percentage.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. Agent shall give prompt notice to the Borrowing Agent of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

“Eurodollar Rate Loan” shall mean an Advance at any time that bears interest based on the Eurodollar Rate.

“Event of Default” shall have the meaning set forth in Article X.

“Exchange Act” shall have the mean the Securities Exchange Act of 1934, as amended.

“Excluded Receivables” shall mean any Receivable owing by a Customer that is a Blocked Person or that arises out of a transaction or activity that would violate the Trading with the Enemy Act.

“Executive Order No. 13224” shall mean the Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Facility Fee” shall have the meaning set forth in Section 3.3.

“FATCA” means Sections 1471 through 1474 of the Code and any current or future regulations or official interpretations thereof.

“Federal Assignment of Claims Act” shall mean the Assignment of Claims Act of 1940, as amended, 31 U.S.C. Sub-Section 3727 et seq. and 41 U.S.C. Sub-Section 15 et seq., as the same now exists or may from time to time hereafter be amended, modified, recodified, or supplemented, together with all rules, regulations, and interpretations thereunder or related thereto.

“Federal Funds Effective Rate” for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed and rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the “Federal Funds Effective Rate” as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the “Federal Funds Effective Rate” for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

“Federal Funds Open Rate” for any day shall mean the rate per annum (based on a year of 360 days and actual days elapsed) which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption “OPEN” (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by PNC (an “Alternate Source”) (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Source, a comparable replacement rate determined by the PNC at such time (which determination shall be conclusive absent manifest error); provided however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the “open” rate on the immediately preceding Business Day. If and when the Federal Funds Open Rate changes, the rate of interest with respect to any advance to which the Federal Funds Open Rate applies will change automatically without notice to the Borrowers, effective on the date of any such change.

“Fee Letter” shall mean the fee letter dated as of the Closing Date among PNC and the Borrowers.

“Fixed Charge Coverage Ratio” shall mean, for Holdings and its Subsidiaries on a Consolidated Basis, with respect to any fiscal period, the ratio of (a) EBITDA, minus Unfinanced Capital Expenditures made, minus cash income taxes paid (or required to have been paid and not Properly Contested) to (b) all Senior Debt Payments, plus the amount of each reduction to the Amortizing Tranche required hereunder, plus all amounts paid by Holdings on account of dividends, redemptions, stock repurchases, and distributions, plus amounts paid in connection with net investments in or net advances to Subsidiaries of Mexican Holdings in excess of \$1,500,000 in the aggregate during any trailing 12-month period, all for the same period.

“Foreign Subsidiary” of any Person, shall mean any Subsidiary of such Person that is not a Domestic Subsidiary.

“Formula Amount” shall have the meaning set forth in Section 2.1(a)(y).

“GAAP” shall mean generally accepted accounting principles in the United States of America in effect from time to time.

“General Intangibles” shall mean and include as to each Borrower all of its respective general intangibles, whether now owned or hereafter acquired, including all payment intangibles, all choses in action, causes of action, corporate or other business records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, trademark applications, service marks, trade secrets, goodwill, copyrights, design rights, software, computer information, source codes, codes, records and updates, registrations, licenses, franchises, customer lists, tax refunds, tax refund claims, computer programs, all claims under guaranties, security interests or other security held by or granted to it to secure payment of any of the Receivables (other than to the extent covered by Receivables) all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

“Governmental Acts” shall have the meaning set forth in Section 2.17.

“Governmental Body” shall mean any nation or government, any state or other political subdivision thereof or any entity, authority, agency, division or department exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

“Guarantor” shall mean any Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and “Guarantors” means collectively all such Persons. As of the Closing Date, there are no Guarantors.

“Guarantor Security Agreement” shall mean any Security Agreement executed by any Guarantor in favor of Agent securing the Guaranty of such Guarantor, in form and substance satisfactory to the Agent.

“Guaranty” shall mean any guaranty of the obligations of Borrowers executed by a Guarantor in favor of Agent for its benefit and for the ratable benefit of Lenders, in form and substance satisfactory to the Agent.

“Hazardous Discharge” shall have the meaning set forth in Section 4.19(d).

“Hazardous Substance” shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

“Hazardous Wastes” shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

“Hedge Agreement” shall mean any and all transactions, agreements, or documents now existing or hereafter entered into by any Borrower that provides for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Borrowers’ exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

“Hedge Liabilities” shall have the meaning provided in the definition of “Lender-Provided Hedge”.

“Holdings” shall have the meaning set forth in the preamble to this Agreement.

“Holdings and its Subsidiaries on a Consolidated Basis” shall mean the consolidation in accordance with GAAP of the accounts or other items of Holdings and each of its Subsidiaries.

“Indebtedness” of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except trade payables, capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include all indebtedness, debt and other similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment dates of such indebtedness, and all indebtedness secured by a Lien on assets owned by such Person, whether or not such indebtedness actually shall have been created, assumed or incurred by such Person. Any indebtedness of such Person resulting from the acquisition by such Person of any assets subject to any Lien shall be deemed, for the purposes hereof, to be the equivalent of the creation, assumption and incurring of the indebtedness secured thereby, whether or not actually so created, assumed or incurred.

“Ineligible Security” shall mean any security which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

“Insolvency Proceeding” shall mean any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other national, state, provincial or federal bankruptcy or insolvency law, assignments for the benefit of creditors, or proceedings seeking reorganization, arrangement, liquidation, or other similar relief.

“Intellectual Property” shall mean property constituting under any Applicable Law a patent, patent application, copyright, trademark, service mark, trade name, mask work, trade secret or license or other right to use any of the foregoing.

“Intellectual Property Claim” shall mean the assertion by any Person of a claim (whether asserted in writing, by action, suit or proceeding or otherwise) that any Borrower’s ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other property or asset is violative of any ownership of or right to use any Intellectual Property of such Person.

“Intercompany Obligations” shall have the meaning set forth in Section 15.4(a).

“Interest Period” shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(c).

“Inventory” shall mean and include as to each Borrower all of its now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in such its business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

“Investment Property” shall mean and include as to each Borrower, all of its now owned or hereafter acquired securities (whether certificated or uncertificated), securities entitlements, securities accounts, commodities contracts and commodities accounts, but, with respect to the Equity Interests of any Foreign Subsidiary of a Borrower, only 65% of such Equity Interests.

“Issuer” shall mean any Person who issues a Letter of Credit and/or accepts a draft pursuant to the terms hereof.

“Kenton” shall have the meaning set forth in the preamble to this Agreement.

“Leasehold Interests” shall mean all of each Borrower’s right, title and interest in and to the premises leased by it.

“Lender” and “Lenders” shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

“Lender-Provided Hedge” shall mean a Hedge Agreement with any Lender and with respect to which the Agent confirms meets the following requirements: (i) it is documented on a standard International Swap Dealer Association Agreement or other form agreement acceptable

to Agent, (ii) it provides for the method of calculating the reimbursable amount of the provider's credit exposure in a reasonable and customary manner, and (iii) it is entered into for hedging (rather than speculative) purposes. The liabilities of any Borrower to the provider of any Lender-Provided Hedge (the "Hedge Liabilities") shall be "Obligations" hereunder, guaranteed obligations under each Guaranty and secured obligations hereunder, and otherwise treated as Obligations for purposes of each of the Other Documents. The Liens securing the Hedge Liabilities shall be pari passu with the Liens securing all other Obligations under this Agreement and the Other Documents.

"Letter of Credit Fees" shall have the meaning set forth in Section 3.2.

"Letter of Credit Borrowing" shall have the meaning set forth in Section 2.12(d).

"Letter of Credit Sublimit" shall mean \$5,000,000.

"Letters of Credit" shall have the meaning set forth in Section 2.9

"License Agreement" shall mean any agreement between any Borrower and a Licensor pursuant to which such Borrower is authorized to use any Intellectual Property in connection with the manufacturing, marketing, sale or other distribution of any Inventory of such Borrower or otherwise in connection with such Borrower's business operations.

"Licensor" shall mean any Person from whom any Borrower obtains the right to use (whether on an exclusive or non-exclusive basis) any Intellectual Property in connection with such Borrower's manufacture, marketing, sale or other distribution of any Inventory or otherwise in connection with such Borrower's business operations.

"Licensor/Agent Agreement" shall mean an agreement between Agent and a Licensor, in form and content satisfactory to Agent, by which Agent is given the unqualified right, vis-a-vis such Licensor, to enforce Agent's Liens with respect to and to dispose of any Borrower's Inventory with the benefit of any Intellectual Property applicable thereto, irrespective of such Borrower's default under any License Agreement with such Licensor.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), Charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including any conditional sale or other title retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

"Marion" shall have the meaning set forth in the preamble to this Agreement.

"Material Adverse Effect" shall mean a material adverse effect on (a) the financial condition of any Borrower or any of their respective Subsidiaries, (b) any Borrower's ability to duly and punctually pay or perform the Obligations in accordance with the terms thereof, (c) the value of the Collateral, or Agent's Liens on the Collateral or the priority of any such Lien or (d)

the practical realization of the benefits of Agent's and each Lender's rights and remedies under this Agreement and the Other Documents.

"Material Contract" shall mean, with respect to any Person, each contract or agreement to which such Person or any of its Subsidiaries is a party, the loss, termination or modification of which, in Agent's opinion, could be expected to result in a Material Adverse Effect.

"Maximum Face Amount" shall mean, with respect to any outstanding Letter of Credit, the face amount of such Letter of Credit including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

"Maximum Revolving Advance Amount" shall mean \$50,000,000.

"Maximum Undrawn Amount" shall mean with respect to any outstanding Letter of Credit, the amount of such Letter of Credit that is or may become available to be drawn, including all automatic increases provided for in such Letter of Credit, whether or not any such automatic increase has become effective.

"Mexican Holdings" shall have the meaning set forth in the preamble to this Agreement.

"Mexican Loan" shall mean the loan evidenced by the promissory note of Technologies to Sypris Technologies Mexico, S. De R.L. De C.V. dated as of October 26, 2009 in the original principal amount of \$11,503,824.

"Modified Commitment Transfer Supplement" shall have the meaning set forth in Section 16.3(d).

"Mortgage" or "Mortgages" shall mean, singularly or collectively, as the context may require, each mortgage and deed of trust on the Mortgaged Real Property securing the Obligations, together with all extensions, restatements, amendments, supplements, and replacements thereof.

"Mortgaged Real Property" shall mean the Owned Real Property listed on Schedule 4.5(a) and identified therein as Real Property to be subject to a Mortgage.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Sections 3(37) and 4001(a)(3) of ERISA.

"Multiple Employer Plan" shall mean a Plan which has two or more contributing sponsors (including any Borrower or any member of the Controlled Group) at least two of whom are not under common control, as such a plan is described in Section 4064 of ERISA.

"Note" shall mean each Revolving Credit Note.

"Obligations" shall mean and include all of the following, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, liquidated or unliquidated, regardless of how they arise or by what agreement or instrument they may be evidenced: (a) any

and all Indebtedness, loans, advances, debts, liabilities, guaranties, obligations, covenants and duties owing by any Borrower to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender under this Agreement and the Other Documents, including any Lender-Provided Hedge, of any kind or nature, present or future (including any interest or other amounts accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to any Borrower, whether or not a claim for post-filing or post-petition interest or other amounts is allowed in such proceeding), (b) any and all Indebtedness, liabilities, debts or advances arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Agent's or any Lender's non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, and (c) all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing, including reasonable attorneys' fees and expenses.

“Ordinary Course of Business” shall mean with respect to any Borrower, the ordinary course of such Borrower's business as conducted on the Closing Date.

“Other Documents” shall mean the Mortgages, the Note, the Fee Letter, any Guaranty, any Equity Interest Security Agreement, the Trademark Security Agreement, the Patent Security Agreement, any Guarantor Security Agreement, any Lender-Provided Hedge and any and all other agreements, instruments and documents, including guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements and all other writings heretofore, now or hereafter executed by any Borrower or any Guarantor and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

“Out-of-Formula Loans” shall have the meaning set forth in Section 16.2(d).

“Owned Real Property” shall mean the Real Property listed on Schedule 4.5(a) and identified therein as Real Property owned by a Borrower.

“Parent” of any Person shall mean a corporation or other entity owning, directly or indirectly at least 50% of the shares of stock or other ownership interests having ordinary voting power to elect a majority of the directors of the Person, or other Persons performing similar functions for any such Person.

“Participant” shall mean each Person who shall be granted the right by any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

“Participation Advance” shall have the meaning set forth in Section 2.12(d).

“Participation Commitment” shall mean each Lender's obligation to buy a participation of the Letters of Credit issued hereunder.

“Patent Security Agreement” shall mean the Patent Security Agreement among Borrowers and Agent dated as of the Closing Date, as amended, restated, supplemented or otherwise modified from time to time.

“Payee” shall have the meaning set forth in Section 3.10.

“Payment Office” shall mean initially Two Tower Center Boulevard, East Brunswick, New Jersey 08816; thereafter, such other office of Agent, if any, which it may designate by notice to Borrowing Agent and to each Lender to be the Payment Office.

“PBGC” shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

“Pension Benefit Plan” shall mean at any time any employee pension benefit plan (including a Multiple Employer Plan, but not a Multiemployer Plan) which is covered by Title IV of ERISA or is subject to the minimum funding standards under Section 412 of the Code and either (i) is maintained by any member of the Controlled Group for employees of any member of the Controlled Group; or (ii) has at any time within the preceding five years been maintained by any entity which was at such time a member of the Controlled Group for employees of any entity which was at such time a member of the Controlled Group.

“Permitted Acquisition” shall mean an acquisition made by any Borrower, provided, that:

- (a) immediately before and after the consummation of such acquisition, no Default or Event of Default shall have occurred and be continuing;
- (b) Borrowing Agent shall have furnished to Agent at least ten (10) Business Days (or such shorter period as permitted by Agent in its reasonable discretion) prior to the consummation of such acquisition:
 - (i) written notice of such proposed acquisition;
 - (ii) a term sheet and/or commitment letter, executed if available, setting forth in reasonable detail the terms and conditions of such acquisition and, at the request of Agent, such other information and documents that Agent may reasonably request;
 - (iii) pro forma projections of consolidated financial statements for the twelve (12) month period immediately following the expected date of the consummation of such acquisition, presented in accordance with GAAP, taking into consideration such acquisition and all Indebtedness in connection therewith;
 - (iv) a certificate of a Responsible Officer demonstrating, on a pro forma basis, (x) a Fixed Charge Coverage Ratio of greater than or equal to 1.25 to 1.00 for the twelve (12) month period ending on the last day of the month prior to the month of the proposed acquisition, after giving effect to such acquisition, as evidenced by such Certificate delivered to Agent and approved by Agent prior to such acquisition being made, and (y) immediately prior to and after giving effect to such acquisition and the Advances to be made in connection therewith, Undrawn Availability of not less than

\$8,000,000 plus the Undrawn Test Adjustment. The calculation of Undrawn Availability for purposes of clause (y) herein shall exclude any and all of the acquired (or to be acquired) assets of any Person unless Agent has first completed field exams and appraisals (to the extent deemed necessary by the Agent in its Permitted Discretion) relating to such assets with results satisfactory to the Agent in its Permitted Discretion and such assets are otherwise Eligible Inventory or Eligible Receivables; and

(v) copies of all financial information presented to the board of directors of Borrowing Agent in connection with such acquisition;

(c) all property to be so acquired in connection with such acquisition shall be free and clear of any and all Liens, except for Permitted Encumbrances (and if any such property is subject to any Lien not permitted by this clause (c), then concurrently with such acquisition such Lien shall be released);

(d) the subject assets or any Subsidiary to be acquired or formed as a result of such acquisition shall be engaged in substantially the same line of business of the Borrowers and any such Subsidiary will be a direct wholly-owned Subsidiary of a Borrower;

(e) such acquisition shall be effected in such a manner so that the acquired Equity Interests or assets (if an asset acquisition) are owned by a Borrower and, if effected by merger or consolidation involving a Borrower, the continuing or surviving Person shall be a Borrower;

(f) such acquisition shall have been approved by the board of directors or other governing body of the Person whose Equity Interests or assets are proposed to be acquired to the extent required by the governing documents of the Person whose Equity Interests or assets are proposed to be acquired or by Applicable Law;

(g) Agent shall be satisfied that all acts necessary to perfect Agent's Liens in the assets acquired have been taken; provided that, in the case of an acquisition of assets constituting Equity Interests, Agent's Liens shall be perfected with respect to the Equity Interests in and the assets of the acquired Person (other than in the case of a Foreign Subsidiary, where Agent shall have a perfected Lien upon 65% of the Equity Interests of such Foreign Subsidiary only);

(h) all or substantially all of the business and assets of the entity being acquired are located in the United States or other country acceptable to Agent in its Permitted Discretion;

(i) the Purchase Price for such acquisition(s) shall not individually or in the aggregate with all other acquisitions during any trailing twelve (12) month period exceed \$15,000,000 and any Indebtedness constituting part of the Purchase Price (other than Indebtedness that would be permitted under Sections 7.8 (b) or (c)) shall be subject to a subordination agreement acceptable to Agent; and

(j) nothing contained in this definition of Permitted Acquisition shall permit a Borrower to make any acquisition prohibited by any other provision of this Agreement.

“Permitted Discretion” shall mean a determination made in the exercise of reasonable judgment from the perspective of a secured asset-based lender.

“Permitted Dispositions” shall mean:

(a) the sale of Inventory in the Ordinary Course of Business;

(b) the sale, disposition or transfer of idle, obsolete and worn-out Equipment during any fiscal year having an aggregate fair market value of not more than \$1,500,000 for Holdings and its Subsidiaries on a Consolidated Basis;

(c) provided no Default or Event of Default is continuing, the sale of the assets, including the Real Property, of Marion and Kenton, previously used in their respective operations;

(d) assignments and licenses of Intellectual Property in the Ordinary Course of Business;

(e) the sale, disposition or transfer of property of any Borrower to any other Borrower;

(f) leases of Real Property which, at the time of such transaction, is not being used in the business of the Borrowers or any of their respective Subsidiaries;

(g) transfers of Equipment to any Subsidiary of Mexican Holdings, provided that (i) the net book value of such transfers does not exceed \$2,000,000 in the aggregate during any calendar year, (ii) Borrowing Agent shall have provided Agent with at least thirty (30) days prior written notice of any such transfer, (iii) if the Equipment disposed of is Eligible Equipment, there shall also be a reduction in the Amortizing Tranche equal to the Unamortized Portion of such Eligible Equipment, and (iv) no Default or Event of Default is continuing; and

(h) nothing contained in this definition of Permitted Dispositions shall permit a Borrower to lease, sell or otherwise transfer any asset to the extent prohibited by any other provision of this Agreement.

“Permitted Encumbrances” shall mean:

(a) Liens in favor of Agent for the benefit of Agent and Lenders;

(b) Liens for taxes, assessments or other governmental charges not delinquent or being Properly Contested;

(c) Liens disclosed in the financial statements referred to in Section 5.5, other than those that are to be satisfied with the proceeds of the initial Advances hereunder;

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- (d) deposits or pledges to secure obligations under worker's compensation, social security or similar laws, or under unemployment insurance;
- (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the Ordinary Course of Business;
- (f) Liens arising by virtue of the rendition, entry or issuance of any judgment, writ, order, or decree for so long as each such Lien (i) is in existence for less than twenty (20) consecutive days after it first arises or is being Properly Contested and (ii) is at all times junior in priority to any Liens in favor of Agent;
- (g) mechanics', workers', materialmen's, or other like Liens arising in the Ordinary Course of Business with respect to obligations which are not due or which are being Properly Contested;
- (h) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof, provided that (i) any such Lien shall not encumber any other property of any Borrower, and (ii) the aggregate amount of Indebtedness secured by such Liens incurred as a result of such purchases shall not exceed the amount provided for in Section 7.8(b);
- (i) Liens disclosed on Schedule 1.2(a); provided that such Liens shall secure only those obligations which they secure on the Closing Date (and extensions, renewals and refinancings of such obligations permitted by Section 7.8(b)) and shall not subsequently apply to any other property or assets of any Borrower.
- (j) any Lien, UCC-1 financing statement, interest or title of a lessor under any operating lease entered into in the Ordinary Course of Business, or any interest or title of any lessee under any leases or subleases of Real Property, with respect solely to the leased property and not to any Collateral;
- (k) with respect solely to Real Property, defects and irregularities in title, survey exceptions, non-monetary encumbrances, licenses, covenants, restrictions, easements or reservations of others for rights-of-way, roads, pipelines, railroad crossings, services, utilities or other similar purposes; outstanding mineral rights or reservations (including rights with respect to the removal of material resources) which do not materially diminish the value of the Real Property, assuming usage of such surface estate similar to that being carried on by any Person as of the Closing Date, and Liens arising with respect to zoning restrictions, licenses, covenants, building restrictions and other similar charges or encumbrances on the use of Real Property of such Person which do not materially interfere with the ordinary conduct of such Person's business thereon; provided that, all of the foregoing must be acceptable to Agent in its reasonable discretion;
- (l) Liens consisting of UCC-1 financing statements or similar notices filed by a Person of a type listed in Section 9-505 of the UCC solely in such capacity; and
- (m) Extensions, renewals and replacements of Liens referred to in clauses (a) through (m) above; provided, however, that any such extension, renewal or replacement Lien shall be

limited to the property or assets covered by the Lien extended, renewed or replaced and that the obligations secured by any such extension, renewal or replacement Lien shall be in an amount not greater than the amount of the obligations secured by the Lien extended, renewed or replaced.

“Permitted Investments” shall mean:

- (a) obligations issued or guaranteed by the United States of America or any agency thereof;
- (b) commercial paper with maturities of not more than 180 days and a published rating of not less than A-1 or P-1 (or the equivalent rating);
- (c) certificates of time deposit and bankers’ acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency;
- (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America or an agency thereof;
- (e) investments constituting Permitted Acquisitions;
- (f) investments in or advances of cash and cash equivalents (excluding cash payments made in accordance with Section 7.10(e) which are permitted) to Subsidiaries of Mexican Holdings, provided that no such investment or advance shall be made if: (i) prior to or after giving effect to any such investment or advance there shall exist an Event of Default or Default, (ii) a notice of termination with regard to this Agreement shall be outstanding, (iii) Undrawn Availability is less than \$5,000,000 plus the Undrawn Test Adjustment prior to or immediately after giving effect to each such investment or advance, or (iv) the proforma Fixed Charge Coverage Ratio is less than 1.15 to 1.00 for the twelve (12) month period ending on the last day of the month prior to the month of the proposed investment or advance, after giving effect to such investment or advance, as evidenced by a pro-forma Compliance Certificate delivered by Borrowing Agent to Agent and approved by Agent prior to the investment or advance being made, provided however that, until the amount of such investments and advances made during any trailing twelve (12) month period exceed \$1,500,000 in the aggregate, Borrowers shall not be required to satisfy clause (iv) above with respect to each such investment or advance;
- (g) Intercompany Obligations between Borrowers; and
- (h) nothing contained in this definition of Permitted Investments shall permit a Borrower to maintain cash, cash equivalents, or the proceeds of Collateral contrary to the terms of Section 4.15.

“Person” shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, limited liability partnership, institution, public benefit corporation, joint venture, entity or Governmental Body (whether federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

“Plan” shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA (including a Pension Benefit Plan), maintained for employees of any Borrower or any member of the Controlled Group or any such Plan to which any Borrower or any member of the Controlled Group is required to contribute on behalf of any of its employees.

“PNC” shall have the meaning set forth in the preamble to this Agreement and shall extend to all of its successors and assigns.

“Projections” shall have the meaning set forth in Section 5.5(a).

“Properly Contested” shall mean, in the case of any Indebtedness or Lien, as applicable, of any Person (including any taxes) that is not paid as and when due or payable by reason of such Person’s bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Indebtedness or Lien, as applicable, is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) such Person has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such Indebtedness will not have a Material Adverse Effect and will not result in the forfeiture of any assets of such Person; (iv) no Lien is imposed upon any of such Person’s assets with respect to such Indebtedness unless such Lien is at all times junior and subordinate in priority to the Liens in favor of the Agent (except only with respect to Charges that have priority as a matter of Applicable Law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if such Indebtedness or Lien, as applicable, results from, or is determined by the entry, rendition or issuance against a Person or any of its assets of a judgment, writ, order or decree, enforcement of such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely (in whole or in part) to such Person, such Person forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith.

“Purchase Price” shall mean, with respect to any acquisition, the sum of, without duplication, (a) the aggregate consideration, whether cash, property (including the face amount of any promissory note or any other debt instrument issued in connection with such acquisition) or securities (including the fair market value of any Equity Interests of any Borrower issued in connection therewith), paid or delivered by a Borrower, plus (b) the aggregate amount of Indebtedness of the acquired business that is assumed by a Borrower or any of its Subsidiaries, or, in the case of the acquisition of Equity Interests, remains an obligation of the acquired Person after the closing on the acquisition, plus (c) all transaction costs and contingent obligations incurred by a Borrower.

“Purchasing CLO” shall have the meaning set forth in Section 16.3(d).

“Purchasing Lender” shall have the meaning set forth in Section 16.3(c).

“RCRA” shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as same may be amended from time to time.

“Real Property” shall mean all of each Borrower’s and each of the respective Subsidiary’s right, title and interest in and to the real estate identified on Schedule 4.5(a) hereto and related improvements, or which is hereafter owned or leased by any of them.

“Receivables” shall mean and include, as to each Borrower, all of its accounts, contract rights, instruments (including those evidencing indebtedness owed to it by its Affiliates), documents, chattel paper (including electronic chattel paper), general intangibles relating to accounts, drafts and acceptances, credit card receivables and all other forms of obligations owing to it arising out of or in connection with the sale or lease of Inventory or the rendition of services, all supporting obligations, guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Agent hereunder.

“Register” shall have the meaning set forth in Section 16.3(e).

“Reimbursement Obligation” shall have the meaning set forth in Section 2.12(b).

“Release” shall have the meaning set forth in Section 5.7(c)(i).

“Reportable Event” shall mean a reportable event described in Section 4043(c) of ERISA or the regulations promulgated thereunder.

“Required Lenders” shall mean Lenders holding at least sixty-six and two-thirds percent (66 2/3%) of the Advances and, if no Advances are outstanding, shall mean Lenders holding sixty-six and two-thirds percent (66 2/3%) of the Commitment Percentages; provided, however, if there are fewer than three (3) Lenders, Required Lenders shall mean all Lenders.

“Reserve Percentage” shall mean as of any day the maximum percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as “Eurocurrency Liabilities”).

“Responsible Officer” shall mean the President, Chief Executive Officer, Chief Financial Officer, Treasurer, or Controller of Borrowing Agent.

“Revolving Advances” shall mean Advances made other than Letters of Credit.

“Revolving Credit Note” shall mean, collectively, the promissory notes referred to in Section 2.1(a), together with all supplements, amendments, restatements and modifications thereto.

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus the Applicable Margin with respect to Domestic Rate Loans and (b)

the sum of the Eurodollar Rate plus the Applicable Margin with respect to Eurodollar Rate Loans.

“Satisfaction Event” shall mean the first (1st) date after a Triggering Event on which both of the following conditions are satisfied: (a) Undrawn Availability has equaled more than \$10,000,000 plus the Undrawn Test Adjustment for a period of forty-five (45) or more consecutive days after such Triggering Event, and (b) no Default or Event of Default is continuing.

“SEC” shall mean the Securities and Exchange Commission or any successor thereto.

“Section 20 Subsidiary” shall mean the Subsidiary of the bank holding company controlling PNC, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Senior Debt Payments” shall mean and include all cash actually expended to make (a) interest payments on any Advances hereunder, plus (b) net payments on account of all Hedging Agreements, plus (c) payments for all fees, commissions and charges paid to Agent, Issuer, or any Lender set forth herein and with respect to any Advances, plus (d) payments on Capitalized Lease Obligations, plus (e) payments with respect to any other Indebtedness for borrowed money, provided that the payment of the principal amount of any Indebtedness refinanced by the initial Advances made hereunder and any related pre-payment fee or premium shall not constitute a Senior Debt Payment.

“Senior Obligations” shall have the meaning set forth in Section 15.4(a).

“Settlement Date” shall mean the Closing Date and thereafter Wednesday or Thursday of each week or more frequently if Agent deems appropriate unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

“Subsidiary” of any Person shall mean a corporation or other entity of whose Equity Interests having ordinary voting power (other than Equity Interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

“Subsidiary Stock” shall mean all of the issued and outstanding Equity Interests of any Subsidiary owned by any Borrower (not to exceed 65% of the Equity Interests of any Foreign Subsidiary).

“Term” shall have the meaning set forth in Section 13.1.

“Termination Event” shall mean (i) a Reportable Event with respect to any Plan or Multiemployer Plan; (ii) the withdrawal of any Borrower or any member of the Controlled Group from a Plan or Multiemployer Plan during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA; (iii) the providing of notice

of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to terminate a Plan or Multiemployer Plan; (v) any event or condition (a) which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan, or (b) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (vi) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of any Borrower or any member of the Controlled Group from a Multiemployer Plan.

“Toxic Substance” shall mean and include any material present on the Real Property which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. “Toxic Substance” includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

“Trademark Security Agreement” shall mean the Trademark Security Agreement among Borrowers and Agent dated as of the Closing Date, as amended, restated, supplemented or otherwise modified from time to time.

“Trading with the Enemy Act” shall mean the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any enabling legislation or executive order relating thereto.

“Transferee” shall have the meaning set forth in Section 16.3(d).

“Triggering Event” shall mean either: (a) the occurrence of an Event of Default, or (b) the first (1st) date after the Closing Date (or the most recent Satisfaction Event if a Triggering Event has previously occurred) on which either of the following occur: (i) Undrawn Availability has equaled less than \$8,000,000 plus the Undrawn Test Adjustment for a period of five (5) or more consecutive days, or (ii) Undrawn Availability has equaled less than \$6,000,000 plus the Undrawn Test Adjustment.

“Unamortized Portion” shall mean, with respect to a piece of Eligible Equipment, eighty percent (80%) of the appraised orderly liquidation value (on or about the Closing Date) of such Eligible Equipment, multiplied by a fraction, the numerator of which is eighty-four (84) minus the number of calendar months that have elapsed since the Closing Date, and the denominator of which is eighty-four (84).

“Undrawn Availability” at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount, or (ii) the Maximum Revolving Advance Amount, minus the Maximum Undrawn Amount of all Letters of Credit, minus (b) the sum of (i) the outstanding amount of Revolving Advances, plus (ii) amounts due and owing to any Borrower’s trade creditors which are outstanding sixty (60) days or more past the due date thereof, plus (iii) fees and expenses due to Agent or Lenders for which Borrowers are liable but which have not been paid or charged to Borrowers’ Account.

“Undrawn Test Adjustment” shall mean the amount of the proportionate adjustment arising upon an increase in the Maximum Revolving Advance Amount provided for in Section 2.24.

“Unfinanced Capital Expenditures” shall mean all Capital Expenditures other than those made utilizing financing provided by the applicable seller or third party lenders. For the avoidance of doubt, Capital Expenditures made utilizing Revolving Advances shall be deemed Unfinanced Capital Expenditures.

“Uniform Commercial Code” shall have the meaning set forth in Section 1.3.

“US Assignment” shall have the meaning set forth in Section 4.15(j)(i).

“USA PATRIOT Act” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

“Week” shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

“Withholding Agent” means Borrowing Agent and Agent.

1.3. Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the State of Ohio from time to time (the “Uniform Commercial Code”) shall have the meaning given therein unless otherwise defined herein. Without limiting the foregoing, unless otherwise defined herein, the terms “accounts”, “chattel paper”, “commercial tort claims”, “instruments”, “general intangibles”, “goods”, “payment intangibles”, “proceeds”, “supporting obligations”, “securities”, “investment property”, “documents”, “deposit accounts”, “software”, “letter of credit rights”, “inventory”, “equipment” and “fixtures”, as and when used in the description of Collateral shall have the meanings given to such terms in Articles 8 or 9 of the Uniform Commercial Code. To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the Uniform Commercial Code, such expanded definition will apply automatically as of the date of such amendment, modification or revision.

1.4. Certain Matters of Construction. The terms “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. All references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Agent is a party, including references to any of the Other Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. All references herein to the time of day shall mean the time in Ohio. Unless otherwise provided, all financial calculations shall be performed with Inventory valued on a first-in, first-out basis. Whenever the words “including” or “include” shall be used, such words shall

be understood to mean “including, without limitation” or “include, without limitation”. A Default or Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing pursuant to this Agreement or, in the case of a Default, is cured within any period of cure expressly provided for in this Agreement; and an Event of Default shall “continue” or be “continuing” until such Event of Default has been waived in writing by the Required Lenders. Any Lien referred to in this Agreement or any of the Other Documents as having been created in favor of Agent, any agreement entered into by Agent pursuant to this Agreement or any of the Other Documents, any payment made by or to or funds received by Agent pursuant to or as contemplated by this Agreement or any of the Other Documents, or any act taken or omitted to be taken by Agent, shall, unless otherwise expressly provided, be created, entered into, made or received, or taken or omitted, for the benefit or account of Agent and Lenders. Wherever the phrase “to the best of Borrowers’ knowledge” or words of similar import relating to the knowledge or the awareness of any Borrower are used in this Agreement or Other Documents, such phrase shall mean and refer to (i) the actual knowledge of a Responsible Officer of any Borrower or (ii) the knowledge that a Responsible Officer would have obtained if he had engaged in good faith and diligent performance of his duties, including the making of such reasonably specific inquiries as may be necessary of the employees or agents of such Borrower and a good faith attempt to ascertain the existence or accuracy of the matter to which such phrase relates. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise within the limitations of, another covenant shall not avoid the occurrence of a default if such action is taken or condition exists. In addition, all representations and warranties hereunder shall be given independent effect so that if a particular representation or warranty proves to be incorrect or is breached, the fact that another representation or warranty concerning the same or similar subject matter is correct or is not breached will not affect the incorrectness of a breach of a representation or warranty hereunder.

II ADVANCES, PAYMENTS.

2.1. Revolving Advances.

(a) Amount of Revolving Advances. Subject to the terms and conditions set forth in this Agreement including Section 2.1(b), each Lender, severally and not jointly, will make Revolving Advances to Borrowers in aggregate amounts outstanding at any time equal to such Lender’s Commitment Percentage of the lesser of (x) the Maximum Revolving Advance Amount, minus the Maximum Undrawn Amount of all Letters of Credit or (y) an amount equal to the sum of:

(i) up to 85% of Eligible Receivables, plus

(ii) up to the lesser of (A) 75% of Eligible Finished Goods Inventory, or (B) 85% of the appraised orderly liquidation value of Eligible Finished Goods Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its Permitted Discretion exercised in good faith), plus

(iii) up to the lesser of (A) 65% of Eligible Raw Material Inventory, or (B) 85% of the appraised orderly liquidation value of Eligible Raw Materials Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its Permitted Discretion exercised in good faith), plus

(iv) up to the lesser of (A) 65% of Eligible Work-In-Process Inventory, (B) 85% of the appraised orderly liquidation value of Eligible Work-In-Process Inventory (as evidenced by an Inventory appraisal satisfactory to Agent in its Permitted Discretion exercised in good faith), or (C) \$10,000,000, minus

(v) the amount by which the sum of Section 2.1(a)(y)(ii) plus Section 2.1(a)(y)(iii) plus Section 2.1(a)(y)(iv) exceeds \$20,000,000, plus

(vi) (A) up to the lesser of (I) \$15,000,000, or (II) 80% of the appraised orderly liquidation value of all Eligible Equipment (as evidenced by an appraisal satisfactory to Agent in its Permitted Discretion exercised in good faith), minus (B) each reduction to the Amortizing Tranche required hereunder, minus

(vii) the Maximum Undrawn Amount of all Letters of Credit, minus

(viii) such reserves as Agent may deem proper and necessary from time to time in its Permitted Discretion.

The amount derived from the sum of Section 2.1(a)(y) at any time and from time to time shall be referred to as the "Formula Amount". The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the "Revolving Credit Note") substantially in the form attached hereto as Exhibit 2.1(a).

(b) Discretionary Rights. The Advance Rates may be increased or decreased by Agent at any time and from time to time in the exercise of its in its Permitted Discretion based upon updated appraisals or Collateral examinations. Agent shall provide Borrowing Agent with five (5) days prior written notice of any change to any Advance Rate. Each Borrower consents to any such increases or decreases and acknowledges that decreasing the Advance Rates or increasing or imposing reserves may limit or restrict Advances requested by Borrowing Agent. The rights of Agent under this subsection are subject to the provisions of Section 16.2(b).

2.2. Procedure for Revolving Advances Borrowing.

(a) Domestic Rate Loan Requests. Borrowing Agent on behalf of any Borrower may notify Agent prior to 12:00 Noon on a Business Day of a Borrower's request to incur, on that day, a Revolving Advance comprised of a Domestic Rate Loan hereunder.

(b) Deemed Credit Requests. The Borrowers shall be deemed to have made a request for a Revolving Advance (a "Deemed Credit Request"), which Deemed Credit Request shall be irrevocable upon any interest, principal, fee or other Obligation of the Borrowers hereunder becoming due, for a Revolving Advance comprised of a Domestic Rate Loan in an amount necessary to pay such interest, principal, fee or other Obligation.

(c) Eurodollar Rate Loan Requests. In the event any Borrower desires to obtain a Eurodollar Rate Loan, Borrowing Agent shall give Agent written notice by no later than 12:00 Noon on the day which is three (3) Business Days prior to the date such Eurodollar Rate Loan is to be borrowed, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount shall be in an aggregate principal amount that is not less than \$1,000,000 and integral multiples of \$100,000 in excess thereof, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two, three or six months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan shall be made available to any Borrower during the continuance of a Default or an Event of Default. After giving effect to each requested Eurodollar Rate Loan, including those which are converted from a Domestic Rate Loan under Section 2.2(d), there shall not be outstanding more than five (5) Eurodollar Rate Loans, in the aggregate. Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrowing Agent may elect as set forth in subsection (c)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term. Borrowing Agent shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Agent pursuant to Section 2.2(c) or by its notice of conversion given to Agent pursuant to Section 2.2(d), as the case may be. Borrowing Agent shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Agent of such duration not later than 12:00 Noon on the day which is three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Agent does not receive timely notice of the Interest Period elected by Borrowing Agent, Borrowing Agent shall be deemed to have elected to convert to a Domestic Rate Loan subject to Section 2.2(d) hereinbelow.

(d) Rate Conversions and Continuations. Provided that no Event of Default shall have occurred and be continuing, Borrowing Agent may, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Rate Loan, or on any Business Day with respect to Domestic Rate Loans, convert or continue any such loan into a loan of another type in the same aggregate principal amount provided that any conversion or continuation of a Eurodollar Rate Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Borrowing Agent desires to convert or continue a loan, Borrowing Agent shall give Agent written notice by no later than 12:00 Noon (i) on the day which is three (3) Business Days' prior to the date on which such conversion or continuation is to occur with respect to a conversion from a Domestic Rate Loan to a Eurodollar Rate Loan or a continuation of a Eurodollar Rate Loan as a Eurodollar Rate Loan, or (ii) on the day which is one (1) Business Day prior to the date on which such conversion is to occur with respect to a conversion from a Eurodollar Rate Loan to a Domestic Rate Loan, specifying, in each case, the date of such conversion or continuation, the loans to be converted or continued and if the conversion is from a Domestic Rate Loan to any other type of loan, the duration of the first Interest Period therefor.

(e) Eurodollar Rate Loan Prepayments. At its option and upon written notice given prior to 12:00 Noon at least three (3) Business Days' prior to the date of such prepayment, any Borrower may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. Such Borrower shall specify the date of prepayment of Advances which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrowers shall indemnify Agent and Lenders therefor in accordance with Section 2.2(f).

(f) Indemnity. Each Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders may sustain or incur as a consequence of any prepayment, conversion of or any default by any Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by any Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Agent or Lenders to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Agent or any Lender to Borrowing Agent shall be conclusive absent manifest error.

(g) Illegality of Eurodollar Rate Loans. Notwithstanding any other provision hereof, if any Applicable Law, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (g), the term "Lender" shall include any Lender and the office or branch where any Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lenders to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrowers shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Agent, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans into loans of another type. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrowers shall pay Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lenders to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lenders to Borrowing Agent shall be conclusive absent manifest error.

2.3. Disbursement of Advance Proceeds. All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrowers to Agent or Lenders, shall be charged to Borrowers' Account on Agent's books. During the Term, Borrowers may use the Revolving Advances by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrowing Agent on behalf of any Borrower shall, with respect to requested Revolving Advances to the extent Lenders make such

Revolving Advances, be made available to the applicable Borrower on the day so requested by way of credit to such Borrower's operating account at PNC, or such other bank as Borrowing Agent may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Deemed Credit Requests, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4. Amortizing Tranche of Formula Amount. The Amortizing Tranche shall be reduced on the first (1st) day of each month during the Term by an amount equal to \$178,572 each such month.

2.5. Maximum Advances. The aggregate balance of Revolving Advances outstanding at any time shall not exceed the lesser of (a) the Maximum Revolving Advance Amount less the Maximum Undrawn Amount of all Letters of Credit or (b) the Formula Amount.

2.6. Repayment of Advances.

(a) The Advances shall be due and payable in full on the last day of the Term subject to earlier prepayment as herein provided.

(b) Each Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent's agreement to conditionally credit Borrowers' Account as of the next Business Day following the Agent's receipt of those items of payment, each Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations one (1) Business Day after (i) the Business Day following the Agent's receipt of such payments via wire transfer or electronic depository check or (ii) in the case of payments received by Agent in any other form, the Business Day such payment constitutes good funds in Agent's account. Agent is not, however, required to credit Borrowers' Account for the amount of any item of payment which is unsatisfactory to Agent and Agent may charge Borrowers' Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent at the Payment Office not later than 1:00 p.m. on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by a Deemed Credit Request as provided in Section 2.2(b).

(d) Borrowers shall pay principal, interest, and all other amounts payable hereunder, or under any Other Document, without any deduction whatsoever, including, but not limited to, any deduction for any withholding, setoff or counterclaim (but such payment shall not constitute a waiver of any such counterclaim).

2.7. Repayment of Excess Advances. The aggregate balance of Advances outstanding at any time in excess of the maximum amount of Advances permitted hereunder shall be immediately due and payable without the necessity of any demand, at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8. Statement of Account. Agent shall maintain, in accordance with its customary procedures, a loan account (“Borrowers’ Account”) in the name of Borrowers in which shall be recorded the date and amount of each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and amount of any Advance shall not adversely affect Agent or any Lender. Each calendar month, Agent shall send to Borrowing Agent a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent and Borrowers during such month. The monthly statements shall be deemed correct and binding upon Borrowers in the absence of manifest error and shall constitute an account stated between Lenders and Borrowers unless Agent receives a written statement of Borrowers’ specific exceptions thereto within thirty (30) days after such statement is received by Borrowing Agent. The records of Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9. Letters of Credit. Subject to the terms and conditions hereof, Agent shall issue or cause the issuance of standby and/or trade letters of credit (“Letters of Credit”) for the account of any Borrower; provided, however, that Agent will not be required to issue or cause to be issued any Letter of Credit to the extent that the issuance thereof would then cause the sum of (a) the Revolving Advances, plus (b) the Maximum Undrawn Amount of all Letters of Credit (including such Letter of Credit to be issued) to exceed the lesser of (i) the Maximum Revolving Advance Amount or (ii) the Formula Amount (excluding from the calculation thereof such Letter of Credit to be issued). The Maximum Undrawn Amount of all Letters of Credit shall not exceed in the aggregate at any time the Letter of Credit Sublimit. All disbursements or payments related to Letters of Credit shall be deemed to be Domestic Rate Loans consisting of Revolving Advances and shall bear interest at the Revolving Interest Rate for Domestic Rate Loans; Letters of Credit that have not been drawn upon shall not bear interest.

2.10. Issuance of Letters of Credit.

(a) Borrowing Agent, on behalf of Borrowers, may request Agent to issue or cause the issuance of a Letter of Credit by delivering to Agent at the Payment Office, prior to 12:00 Noon at least five (5) Business Days’ prior to the proposed date of issuance, Agent’s form of Letter of Credit Application (the “Letter of Credit Application”) completed to the satisfaction of Agent; and, such other certificates, documents and other papers and information as Agent may reasonably request. Borrowing Agent, on behalf of Borrowers, also has the right to give instructions and make agreements with respect to any application, any applicable letter of credit and security agreement, any applicable letter of credit reimbursement agreement and/or any other applicable agreement, any letter of credit and the disposition of documents, disposition of any unutilized funds, and to agree with Agent upon any amendment, extension or renewal of any Letter of Credit.

(b) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts, other written demands for payment, or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date not later than twenty-four (24) months after such Letter of Credit’s date of issuance and in no event later than

the last day of the Term. Each standby Letter of Credit shall be subject either to the Uniform Customs and Practice for Documentary Credits as most recently published by the International Chamber of Commerce at the time a Letter of Credit is issued (the “UCP”) or the International Standby Practices (ISP98 International Chamber of Commerce Publication Number 590) (the “ISP98 Rules”), and any subsequent revision thereof at the time a standby Letter of Credit is issued, as determined by Agent, and each trade Letter of Credit shall be subject to the UCP.

(c) Agent shall use its reasonable efforts to notify Lenders of the request by Borrowing Agent for a Letter of Credit hereunder.

2.11. Requirements For Issuance of Letters of Credit.

(a) Borrowing Agent shall authorize and direct any Issuer to name the applicable Borrower as the “Applicant” or “Account Party” of each Letter of Credit. If Agent is not the Issuer of any Letter of Credit, Borrowing Agent shall authorize and direct the Issuer to deliver to Agent all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Agent’s instructions and agreements with respect to all matters arising in connection with the Letter of Credit, the application therefor or any acceptance therefor.

(b) In connection with all Letters of Credit issued or caused to be issued by Agent under this Agreement, each Borrower hereby appoints Agent, or its designee, as its attorney, with full power and authority if an Event of Default shall have occurred, (i) to sign and/or endorse such Borrower’s name upon any warehouse or other receipts, letter of credit applications and acceptances, (ii) to sign such Borrower’s name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department (“Customs”) in the name of such Borrower or Agent or Agent’s designee, and to sign and deliver to Customs officials powers of attorney in the name of such Borrower for such purpose; and (iv) to complete in such Borrower’s name or Agent’s, or in the name of Agent’s designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Agent nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for Agent’s or its attorney’s gross negligence or willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

2.12. Disbursements, Reimbursement.

(a) Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from Agent a participation in such Letter of Credit and each drawing thereunder in an amount equal to such Lender’s Commitment Percentage of the Maximum Face Amount of such Letter of Credit and the amount of such drawing, respectively.

(b) In the event of any request for a drawing under a Letter of Credit by the beneficiary or transferee thereof, Agent will promptly notify Borrowing Agent in writing. Provided that Borrowing Agent shall have received such notice, the Borrowers shall reimburse (such obligation to reimburse Agent shall sometimes be referred to as a “Reimbursement”

Obligation”) Agent prior to 12:00 Noon on each date that an amount is paid by Agent under any Letter of Credit (each such date, a “Drawing Date”) in an amount equal to the amount so paid by Agent. In the event Borrowers fail to reimburse Agent for the full amount of any drawing under any Letter of Credit by 12:00 Noon, on the Drawing Date, Agent will promptly notify each Lender thereof, and Borrowers shall be deemed to have requested that a Revolving Advance maintained as a Domestic Rate Loan be made by the Lenders to be disbursed on the Drawing Date under such Letter of Credit, subject to the amount of the unutilized portion of the lesser of Maximum Revolving Advance Amount or the Formula Amount and subject to Section 8.2.

(c) Each Lender shall upon any notice pursuant to Section 2.12(b) make available to Agent an amount in immediately available funds equal to its Commitment Percentage of the amount of the drawing, whereupon the participating Lenders shall (subject to Section 2.12(d)) each be deemed to have made a Revolving Advance maintained as a Domestic Rate Loan to Borrowers in that amount. If any Lender so notified fails to make available to Agent the amount of such Lender’s Commitment Percentage of such amount by no later than 2:00 p.m. on the Drawing Date, then interest shall accrue on such Lender’s obligation to make such payment, from the Drawing Date to the date on which such Lender makes such payment (i) at a rate per annum equal to the Federal Funds Effective Rate during the first three days following the Drawing Date and (ii) at a rate per annum equal to the rate applicable to Revolving Advances maintained as a Domestic Rate Loans on and after the fourth day following the Drawing Date. Agent will promptly give notice of the occurrence of the Drawing Date, but failure of Agent to give any such notice on the Drawing Date or in sufficient time to enable any Lender to effect such payment on such date shall not relieve such Lender from its obligation under this Section 2.12(c), provided that such Lender shall not be obligated to pay interest as provided in Section 2.12(c) (i) and (ii) until and commencing from the date of receipt of notice from Agent of a drawing.

(d) With respect to any unreimbursed drawing that is not converted into a Revolving Advance maintained as a Domestic Rate Loan to Borrowers in whole or in part as contemplated by Section 2.12(b), because of Borrowers’ failure to satisfy the conditions set forth in Section 8.2 (other than any notice requirements) or for any other reason, Borrowers shall be deemed to have incurred from Agent a borrowing (each a “Letter of Credit Borrowing”) in the amount of such drawing. Such Letter of Credit Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate per annum applicable to a Revolving Advance maintained as a Domestic Rate Loan. Each Lender’s payment to Agent pursuant to Section 2.12(c) shall be deemed to be a payment in respect of its participation in such Letter of Credit Borrowing and shall constitute a “Participation Advance” from such Lender in satisfaction of its Participation Commitment under this Section 2.12.

(e) Each Lender’s Participation Commitment shall continue until the last to occur of any of the following events: (i) Agent ceases to be obligated to issue or cause to be issued Letters of Credit hereunder; (ii) no Letter of Credit issued or created hereunder remains outstanding and uncanceled and (iii) all Persons (other than the Borrowers) have been fully reimbursed for all payments made under or relating to Letters of Credit.

2.13. Repayment of Participation Advances.

(a) Upon (and only upon) receipt by Agent for its account of immediately available funds from Borrowers (i) in reimbursement of any payment made by the Agent under the Letter of Credit with respect to which any Lender has made a Participation Advance to Agent, or (ii) in payment of interest on such a payment made by Agent under such a Letter of Credit, Agent will pay to each Lender, in the same funds as those received by Agent, the amount of such Lender's Commitment Percentage of such funds, except Agent shall retain the amount of the Commitment Percentage of such funds of any Lender that did not make a Participation Advance in respect of such payment by Agent.

(b) If Agent is required at any time to return to any Borrower, or to a trustee, receiver, liquidator, custodian, or any official in any Insolvency Proceeding, any portion of the payments made by Borrowers to Agent pursuant to Section 2.13(a) in reimbursement of a payment made under the Letter of Credit or interest or fee thereon, each Lender shall, on demand of Agent, forthwith return to Agent the amount of its Commitment Percentage of any amounts so returned by Agent plus interest at the Federal Funds Effective Rate.

2.14. Documentation. Each Borrower agrees to be bound by the terms of the Letter of Credit Application and by Agent's interpretations of any Letter of Credit issued on behalf of such Borrower and by Agent's written regulations and customary practices relating to letters of credit, though Agent's interpretations may be different from such Borrower's own. In the event of a conflict between the Letter of Credit Application and this Agreement, this Agreement shall govern. Except in the case of gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), Agent shall not be liable for any error, negligence and/or mistakes, whether of omission or commission, in following the Borrowing Agent's or any Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments or supplements thereto.

2.15. Determination to Honor Drawing Request. In determining whether to honor any request for drawing under any Letter of Credit by the beneficiary thereof, Agent shall be responsible only to determine that the documents and certificates required to be delivered under such Letter of Credit have been delivered and that they comply on their face with the requirements of such Letter of Credit and that any other drawing condition appearing on the face of such Letter of Credit has been satisfied in the manner so set forth.

2.16. Nature of Participation and Reimbursement Obligations. Each Lender's obligation in accordance with this Agreement to make the Revolving Advances or Participation Advances as a result of a drawing under a Letter of Credit, and the obligations of Borrowers to reimburse Agent upon a draw under a Letter of Credit, shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Section 2.16 under all circumstances, including the following circumstances:

(i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against Agent, any Borrower or any other Person for any reason whatsoever;

(ii) the failure of any Borrower or any other Person to comply, in connection with a Letter of Credit Borrowing, with the conditions set forth in this Agreement for

the making of a Revolving Advance, it being acknowledged that such conditions are not required for the making of a Letter of Credit Borrowing and the obligation of the Lenders to make Participation Advances under Section 2.12;

(iii) any lack of validity or enforceability of any Letter of Credit;

(iv) any claim of breach of warranty that might be made by Borrower or any Lender against the beneficiary of a Letter of Credit, or the existence of any claim, set-off, recoupment, counterclaim, cross-claim, defense or other right which any Borrower or any Lender may have at any time against a beneficiary, any successor beneficiary or any transferee of any Letter of Credit or the proceeds thereof (or any Persons for whom any such transferee may be acting), Agent or any Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between any Borrower or any Subsidiaries of such Borrower and the beneficiary for which any Letter of Credit was procured);

(v) the lack of power or authority of any signer of (or any defect in or forgery of any signature or endorsement on) or the form of or lack of validity, sufficiency, accuracy, enforceability or genuineness of any draft, demand, instrument, certificate or other document presented under or in connection with any Letter of Credit, or any fraud or alleged fraud in connection with any Letter of Credit, or the transport of any property or provisions of services relating to a Letter of Credit, in each case even if Agent or any of Agent's Affiliates has been notified thereof;

(vi) payment by Agent under any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit;

(vii) the solvency of, or any acts or omissions by, any beneficiary of any Letter of Credit, or any other Person having a role in any transaction or obligation relating to a Letter of Credit, or the existence, nature, quality, quantity, condition, value or other characteristic of any property or services relating to a Letter of Credit;

(viii) any failure by the Agent or any of Agent's Affiliates to issue any Letter of Credit in the form requested by Borrowing Agent, unless the Agent has received written notice from Borrowing Agent of such failure within three (3) Business Days after the Agent shall have furnished Borrowing Agent a copy of such Letter of Credit and such error is material and no drawing has been made thereon prior to receipt of such notice;

(ix) any Material Adverse Effect;

(x) any breach of this Agreement or any Other Document by any party thereto;

(xi) the occurrence or continuance of an Insolvency Proceeding with respect to any Borrower or any of their respective Subsidiaries;

(xii) the fact that a Default or Event of Default shall have occurred and be continuing;

(xiii) the fact that the Term shall have expired or this Agreement or the Obligations hereunder shall have been terminated; and

(xiv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

2.17. Indemnity. In addition to amounts payable as provided in Section 16.5, each Borrower hereby agrees to protect, indemnify, pay and save harmless Agent from and against any and all claims, demands, liabilities, damages, taxes, penalties, interest, judgments, losses, costs, charges and expenses (including reasonable fees, expenses and disbursements of counsel and allocated costs of internal counsel) which the Agent may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit, other than as a result of (a) the gross negligence or willful misconduct of the Agent as determined by a final and non-appealable judgment of a court of competent jurisdiction or (b) the wrongful dishonor by the Agent of a proper demand for payment made under any Letter of Credit, except if such dishonor resulted from any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Body (all such acts or omissions herein called "Governmental Acts").

2.18. Liability for Acts and Omissions. As between Borrowers and Agent and Lenders, each Borrower assumes all risks of the acts and omissions of, or misuse of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the respective foregoing, Agent shall not be responsible for: (i) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for an issuance of any such Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged (even if Agent shall have been notified thereof); (ii) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any such Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (iii) the failure of the beneficiary of any such Letter of Credit, or any other party to which such Letter of Credit may be transferred, to comply fully with any conditions required in order to draw upon such Letter of Credit or any other claim of any Borrower against any beneficiary of such Letter of Credit, or any such transferee, or any dispute between or among any Borrower and any beneficiary of any Letter of Credit or any such transferee; (iv) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, facsimile, telex or otherwise, whether or not they be in cipher; (v) errors in interpretation of technical terms; (vi) any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any such Letter of Credit or of the proceeds thereof; (vii) the misapplication by the beneficiary of any such Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (viii) any consequences arising from causes beyond the control of Agent, including any Governmental Acts, and none of the above shall affect or impair, or prevent the vesting of, any of Agent's rights or powers hereunder. Nothing in the preceding sentence shall relieve Agent from liability for Agent's gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment) in connection with actions or omissions described in such clauses (i) through (viii) of such

sentence. In no event shall Agent be liable to any Borrower for any indirect, consequential, incidental, punitive, exemplary or special damages or expenses (including without limitation attorneys' fees), or for any damages resulting from any change in the value of any property relating to a Letter of Credit.

Without limiting the generality of the foregoing, Agent (i) may rely on any written communication believed in good faith by Agent or such Affiliate to have been authorized or given by or on behalf of the applicant for a Letter of Credit, (ii) may honor any presentation if the documents presented appear on their face substantially to comply with the terms and conditions of the relevant Letter of Credit; (iii) may honor a previously dishonored presentation under a Letter of Credit, whether such dishonor was pursuant to a court order, to settle or compromise any claim of wrongful dishonor, or otherwise, and shall be entitled to reimbursement to the same extent as if such presentation had initially been honored, together with any interest paid by Agent; (iv) may honor any drawing that is payable upon presentation of a statement advising negotiation or payment, upon receipt of such statement (even if such statement indicates that a draft or other document is being delivered separately), and shall not be liable for any failure of any such draft or other document to arrive, or to conform in any way with the relevant Letter of Credit; (v) may pay any paying or negotiating bank claiming that it rightfully honored under the laws or practices of the place where such bank is located; and (vi) may settle or adjust any claim or demand made on Agent in any way related to any order issued at the applicant's request to an air carrier, a letter of guarantee or of indemnity issued to a carrier or any similar document (each an "Order") and honor any drawing in connection with any Letter of Credit that is the subject of such Order, notwithstanding that any drafts or other documents presented in connection with such Letter of Credit fail to conform in any way with such Letter of Credit.

In furtherance and extension and not in limitation of the specific provisions set forth above, any action taken or omitted by Agent under or in connection with the Letters of Credit issued by it or any documents and certificates delivered thereunder, if taken or omitted in good faith and without gross negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment), shall not put Agent under any resulting liability to any Borrower or any Lender.

2.19. Additional Payments. Any sums expended by Agent or any Lender due to any Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including any Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14 and 6.1, may be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations.

2.20. Manner of Borrowing and Payment.

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders.

(b) Each payment (including each prepayment) by any Borrower on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders. Except as

expressly provided herein, all payments (including prepayments) to be made by any Borrower on account of principal, interest and fees shall be made without set off or counterclaim (but such payment shall not constitute a waiver of any such counterclaim) and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 P.M. in Dollars and in immediately available funds.

(c) (i) Notwithstanding anything to the contrary contained in Sections 2.20(a) and (b), commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment by any Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 P.M. on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (I) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (w) such Revolving Advances and (x) such repayments and (II) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (y) such repayments and (z) such Revolving Advances.

(i) Each Lender shall be entitled to earn interest at the applicable Revolving Interest Rate on outstanding Revolving Advances which it has funded.

(ii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a "Benefited Lender") shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender's Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such Benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender's Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender's Advances may exercise all rights of payment (including rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Revolving Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrowers a corresponding amount. Agent will promptly notify Borrowing Agent of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrowers; provided, however, that Agent's right to such recovery shall not prejudice or otherwise adversely affect Borrowers' rights (if any) against such Lender.

2.21. Mandatory Prepayments: Cash Collateral.

(a) When any Borrower sells any Collateral other than Inventory in the Ordinary Course of Business, Borrowers shall repay the Advances in an amount equal to the net proceeds of such sale (i.e., gross proceeds less the reasonable costs of such sales), such repayments to be made promptly but in no event more than five (5) Business Days following receipt of such net proceeds, and until the date of payment, such proceeds shall be held in trust for Agent. The foregoing shall not be deemed to be implied consent to any such sale otherwise prohibited by the terms and conditions hereof, including Section 4.3. Such repayments shall be applied to the Revolving Advances subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof, provided however, if the Collateral disposed of is Eligible Equipment, there shall also be a reduction in the Amortizing Tranche equal to the Unamortized Portion of such Eligible Equipment.

(b) Upon demand made during a Cash Dominion Period, Borrowers will cause cash to be deposited and maintained in an account with Agent, as cash collateral, in an amount equal to one hundred and five percent (105%) of the Maximum Undrawn Amount of all Letters of Credit, and Borrowers hereby irrevocably authorize Agent, in its discretion, on Borrowers' behalf and in any Borrowers' name, to open such an account and to make and maintain deposits therein, or in an account opened by Borrowers, in the amounts required to be made by Borrowers, out of the proceeds of Receivables or other Collateral or out of any other funds of Borrowers coming into any Agent or any Lender's possession at any time. Agent will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Agent and Borrowers mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. Borrowers may not withdraw amounts credited to any such account except upon the occurrence of all of the following: (i) payment and performance in full of all Obligations, (ii) expiration of all Letters of Credit, and (iii) termination of this Agreement

2.22. Use of Proceeds.

(a) Borrowers shall apply the proceeds of Advances to (a) refinance the Borrowers' existing working capital credit facility, (b) refinance the Borrowers' outstanding senior notes, (c) pay the early termination fee due in connection with such senior notes, (d) fund permitted Capital Expenditures, Permitted Acquisitions and other transactions permitted hereunder, (e) pay the fees and expenses associated with this transaction at closing, (f) provide for working capital needs, and (g) reimburse drawings under Letters of Credit.

(b) Without limiting the generality of Section 2.22(a) above, neither the Borrowers, nor any of their respective Subsidiaries, nor any other Person which may in the future become party to this Agreement or the Other Documents as a Borrower, intends to use nor shall they use any portion of the proceeds of the Advances, directly or indirectly, for any purpose in violation of the Trading with the Enemy Act.

2.23. Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) has refused (which refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrowing Agent that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "Lender Default"), all rights and obligations hereunder of such Lender (a "Defaulting Lender") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.23 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders which are not Defaulting Lenders (the "Non-Defaulting Lenders") based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender (other than any Defaulting Lender) pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, Agent shall not be obligated to transfer to a Defaulting Lender any payments received by Agent for the Defaulting Lender's benefit, nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder (including any principal, interest or fees). Amounts payable to a Defaulting Lender shall instead be paid to or retained by Agent. Agent may hold and, in its discretion, re-lend to a Borrower the amount of such payments received or retained by it for the account of such Defaulting Lender.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have either Advances outstanding or a Commitment Percentage.

(d) Other than as expressly set forth in this Section 2.23, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.23 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which any Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

2.24. Increase of the Maximum Revolving Advance Amount. Borrowers shall have the option, upon at least thirty (30) days' prior written notice by Borrowing Agent to Agent, to increase the Maximum Revolving Advance Amount by up to \$10,000,000, subject to the following conditions precedent:

(a) no Default or Event of Default shall have occurred and be continuing on the date of such notice or on the date which such increase is to become effective;

(b) the representations and warranties set forth in Article V shall be true and correct on and as of the date on which such increase is to become effective, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date;

(c) such increase shall be in a minimum amount of \$5,000,000 and in integral multiples of \$1,000,000 in excess thereof;

(d) Borrowers shall have solicited and obtained additional lenders to join in this Agreement and provide the additional commitments necessary to fund the increase in the Maximum Revolving Advance Amount, which additional lenders must not be Affiliates of Holdings or any of its Subsidiaries and must be acceptable to the Agent and Lenders in their reasonable discretion;

(e) Agent shall have received all documents (including appropriate authorizing resolutions) it may reasonably request relating to the corporate or other necessary authority for such increase, and any other matters relevant thereto, all in form and substance reasonably satisfactory to Agent; and

(f) all costs and expenses of Agent and Lenders incurred in connection with any such increase or requested increase, including reasonable attorneys' fees and expenses shall be paid by Borrowers.

The foregoing option may be exercised once during the Term and such increase shall apply to the Maximum Revolving Advance Amount in effect at the time of the Borrowing Agent's notice to Agent. Promptly following receipt of a notice under this Section, the Agent shall advise the Lenders thereof. Any notice delivered by the Borrowing Agent pursuant to this Section shall be irrevocable. An increase to the Maximum Revolving Advance Amount shall not require or cause

a change in the commitment of any existing Lender in effect at such time, unless such existing Lender chooses, in its sole discretion, to fund in whole or in part, the increase in the Maximum Revolving Advance Amount. Agent shall not be obligated to solicit or obtain lenders to provide the additional commitments necessary for such increase. Upon any increase in the Maximum Revolving Advance Amount, each term of this Agreement that requires an assessment of the amount of Undrawn Availability (other than in Section 8.1(z) with respect to the initial Advances), including with respect to the occurrence of a Triggering Event, shall be adjusted proportionately by the percentage increase in the Maximum Revolving Advance Amount.

III INTEREST AND FEES.

3.1. Interest.

(a) Payment. Interest on Advances shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period or, for Eurodollar Rate Loans with an Interest Period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar Rate Loan or (b) the end of the Interest Period.

(b) Rate Changes. Interest charges shall be computed on the actual principal amount of Revolving Advances outstanding during the month at a rate per annum equal to the applicable Revolving Interest Rate. Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Revolving Interest Rate for Domestic Rate Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date.

(c) Default Rate. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Obligations shall bear interest at the highest Revolving Interest Rate payable under this Agreement plus two (2%) percent per annum (as applicable, the "Default Rate").

3.2. Letter of Credit Fees. Borrowers shall pay (x) to Agent, for the ratable benefit of Lenders, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by the Applicable Margin for Eurodollar Rate Loans then in effect per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each quarter and on the last day of the Term, and (y) to the Issuer, an issuance fee of one quarter of one percent (0.25%) per annum, together with any and all administrative, issuance, amendment, payment and negotiation charges with respect to Letters of Credit and all fees and expenses as agreed upon by the Issuer and the Borrowing Agent in connection with any Letter of Credit, including in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Agent for any and all fees and expenses, if any, paid by Agent to the Issuer (all of the foregoing fees, the "Letter of Credit").

Fees”). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer’s prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or pro-ration upon the termination of this Agreement for any reason. Upon and after the occurrence of an Event of Default, and during the continuation thereof, at the option of Agent or at the direction of Required Lenders, the Letter of Credit Fees described in clause (x) of this Section 3.2 shall be increased by an additional two percent (2%) per annum.

3.3. Facility Fee. If, for any fiscal quarter during the Term, the average daily balance of the Revolving Advances plus the Maximum Undrawn Amount of all Letters of Credit for each day of such fiscal quarter does not equal the Maximum Revolving Advance Amount, then Borrowers shall pay to Agent for the ratable benefit of Lenders a fee at a rate equal to the Facility Fee Applicable Margin per annum on the amount by which the Maximum Revolving Advance Amount exceeds such average daily balance (the “Facility Fee”). Such Facility Fee shall be payable to Agent in arrears on the first day of each fiscal quarter with respect to the previous fiscal quarter.

3.4. Fee Letter. Borrowers shall pay the amounts required to be paid in the Fee Letter in the manner and at the times required by the Fee Letter.

3.5. Computation of Interest and Fees. Interest and fees hereunder shall be computed on the basis of a year of 360 days and for the actual number of days elapsed. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable Revolving Interest Rate during such extension.

3.6. Maximum Charges. In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrowers, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to Borrowers and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.7. Increased Costs. In the event that any Applicable Law, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.7, the term “Lender” shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to

Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Agent or any Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Agent or any Lender, including pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

and the result of any of the foregoing is to increase the cost to Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Advances by an amount that Agent or such Lender deems to be material, then, in any case Borrowers shall either (i) promptly pay Agent or such Lender, upon its demand, such additional amount as will compensate Agent or such Lender for such additional cost or such reduction, as the case may be, or (ii) repay the Obligations in full within ninety (90) days after the date of receipt of demand for payment of such additional compensation from Agent or such Lender, without payment of the early termination fee otherwise required by the Fee Letter; provided that, Agent or such Lender shall only be permitted to charge Borrowers for such additional cost or such reduction if Agent or such Lender is charging amounts to customers similar to the Borrowers or with similar credit facilities as a result of the any of the foregoing circumstances. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrowing Agent, and such certification shall be conclusive absent manifest error.

3.8. Basis For Determining Interest Rate Inadequate or Unfair. In the event that Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Eurodollar Rate applicable pursuant to Section 2.2 for any Interest Period; or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan,

then Agent shall give Borrowing Agent prompt written notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrowing Agent shall notify Agent no later than 24 hours after receipt of such notice from Agent, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 24 hours after receipt of such notice from Agent, shall be maintained as an unaffected type

of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 12:00 Noon two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and no Borrower shall have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

3.9. Capital Adequacy.

(a) In the event that Agent or any Lender shall have determined that any Applicable Law or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Body, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any Lender (for purposes of this Section 3.9, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, Borrowers shall either (i) promptly pay Agent or such Lender, upon its demand made from time to time, such additional amount as will compensate Agent or such Lender for such reduction, or (ii) repay the Obligations in full within ninety (90) days after the date of receipt of demand for payment of any such additional amount from Agent or such Lender, without payment of the early termination fee otherwise required by the Fee Letter; provided that, Agent or such Lender shall only be permitted to charge Borrowers for such additional amount to compensate it if Agent or such Lender is charging amounts to customers similar to the Borrowers or with similar credit facilities as a result of any of the foregoing circumstances. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.9 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the Applicable Law or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.9(a) when delivered to Borrowing Agent shall be conclusive absent manifest error.

3.10. Gross Up for Taxes. If any Borrower shall be required by Applicable Law to withhold or deduct any taxes from or in respect of any sum payable under this Agreement or any of the Other Documents to Agent, or any Lender, assignee of any Lender, or Participant (each, individually, a "Payee" and collectively, the "Payees"), (a) the sum payable to such Payee or Payees, as the case may be, shall be increased as may be necessary so that, after making all

required withholding or deductions, the applicable Payee or Payees receives an amount equal to the sum it would have received had no such withholding or deductions been made (the “Gross-Up Payment”), (b) such Borrower shall make such withholding or deductions, and (c) such Borrower shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with Applicable Law. Notwithstanding the foregoing, no Borrower shall be obligated to make any portion of the Gross-Up Payment that is attributable to any withholding or deductions that would not have been paid or claimed had the applicable Payee or Payees properly claimed a complete exemption with respect thereto pursuant to Section 3.11.

3.11. Withholding Tax Exemption.

(a) Each Payee that is not incorporated under the Applicable Laws of the United States of America or a state thereof (and, upon the written request of Agent, each other Payee) agrees that it will deliver to Borrowing Agent and Agent two (2) duly completed appropriate valid Withholding Certificates (as defined under § 1.1441-1(c)(16) of the Income Tax Regulations (“Regulations”)) certifying its status (i.e., U.S. or foreign person) and, if appropriate, making a claim of reduced, or exemption from, U.S. withholding tax on the basis of an income tax treaty or an exemption provided by the Code. The term “Withholding Certificate” means a Form W-9; a Form W-8BEN; a Form W-8ECI; a Form W-8IMY and the related statements and certifications as required under § 1.1441-1(e)(2) and/or (3) of the Regulations; a statement described in § 1.871-14(c)(2)(v) of the Regulations; or any other certificates under the Code or Regulations that certify or establish the status of a payee or beneficial owner as a U.S. or foreign person.

(b) Each Payee required to deliver to Borrowing Agent and Agent a valid Withholding Certificate pursuant to Section 3.11(a) shall deliver such valid Withholding Certificate as follows: (A) each Payee which is a party hereto on the Closing Date shall deliver such valid Withholding Certificate at least five (5) Business Days prior to the first date on which any interest or fees are payable by any Borrower hereunder for the account of such Payee; (B) each Payee shall deliver such valid Withholding Certificate at least five (5) Business Days before the effective date of such assignment or participation (unless Agent in its sole discretion shall permit such Payee to deliver such Withholding Certificate less than five (5) Business Days before such date in which case it shall be due on the date specified by Agent). Each Payee which so delivers a valid Withholding Certificate further undertakes to deliver to Borrowing Agent and Agent two (2) additional copies of such Withholding Certificate (or a successor form) on or before the date that such Withholding Certificate expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent Withholding Certificate so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrowing Agent or Agent.

(c) Notwithstanding the submission of a Withholding Certificate claiming a reduced rate of or exemption from U.S. withholding tax required under Section 3.11(b), Agent shall be entitled to withhold United States federal income taxes at the full 30% withholding rate if in its reasonable judgment it is required to do so under the due diligence requirements imposed upon a withholding agent under § 1.1441-7(b) of the Regulations. Further, Agent is indemnified under § 1.1461-1(e) of the Regulations against any claims and demands of any Payee for the

amount of any tax it deducts and withholds in accordance with regulations under §1441 of the Code.

3.12. FATCA. If a payment made to a Payee under this Agreement would be subject to U.S. Federal withholding tax imposed by FATCA if such Payee were to fail to comply with the applicable reporting requirements of FATCA (including those containing in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Withholding Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Withholding Agent, such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Withholding Agent as may be necessary for the Withholding Agent to comply with its obligations under FATCA, to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment.

IV COLLATERAL: GENERAL TERMS

4.1. Security Interest in the Collateral.

(a) Grant. To secure the prompt payment and performance to Agent and each Lender of the Obligations, each Borrower hereby assigns, pledges and grants to Agent for its benefit and for the ratable benefit of each Lender a continuing security interest in and to and Lien on all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located.

(b) Books and Records. Each Borrower shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Agent's security interest and shall cause its financial statements to reflect such security interest.

(c) Commercial Tort Claims. Each Borrower shall promptly provide Agent with written notice of each commercial tort claim, such notice to contain the case title together with the applicable court and a brief description of the claim(s). Upon delivery of each such notice, such Borrower shall be deemed to hereby grant to Agent a security interest and lien in and to such commercial tort claims and all proceeds thereof.

4.2. Perfection of Security Interest. Each Borrower shall take all action that may be necessary or desirable, or that Agent may request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in and Lien on the Collateral or to enable Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (i) immediately discharging all Liens other than Permitted Encumbrances, (ii) obtaining Collateral Access Agreements for locations not owned by a Borrower at which Collateral is located, including Inventory which is in the possession, custody or control of a third-party, to the extent such Collateral is to be eligible hereunder, (iii) delivering to Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent may specify, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (iv) entering into warehousing, lockbox and other custodial arrangements

satisfactory to Agent, and (v) executing and delivering financing statements, control agreements, instruments of pledge, mortgages, notices and assignments, in each case in form and substance satisfactory to Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest and Lien under the Uniform Commercial Code or other Applicable Law. By its signature hereto, each Borrower hereby authorizes Agent to file against such Borrower, one or more financing, continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Agent (which statements may have a description of collateral which is broader than that set forth herein). All charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrowers' Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for its benefit and for the ratable benefit of Lenders immediately upon demand.

4.3. Disposition of Collateral. No Borrower, nor any of their respective Subsidiaries, shall make any disposition of assets whether by sale, lease, transfer, or otherwise except Permitted Dispositions.

4.4. Preservation of Collateral. Following the occurrence of a Default or Event of Default, in addition to the rights and remedies set forth in Section 11.1, Agent: (a) may at any time take such steps as Agent deems necessary to protect Agent's interest in and to preserve the Collateral, including the hiring of such security guards or the placing of other security protection measures as Agent may deem appropriate; (b) may employ and maintain at any of any Borrower's premises a custodian who shall have full authority to do all acts necessary to protect Agent's interests in the Collateral; (c) may lease warehouse facilities to which Agent may move all or part of the Collateral; (d) may use any Borrower's owned or leased lifts, hoists, trucks and other facilities or equipment for handling or removing the Collateral; and (e) shall have, and is hereby granted, a right of ingress and egress to the places where the Collateral is located, and may proceed over and through any of Borrower's owned or leased property. Each Borrower shall cooperate fully with all of Agent's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Agent may direct. All of Agent's expenses of preserving the Collateral, including any expenses relating to the bonding of a custodian, shall be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations.

4.5. Ownership of Collateral.

(a) With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (i) each Borrower shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of the its respective Collateral to Agent; and, except for Permitted Encumbrances the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (ii) each document and agreement executed by each Borrower or delivered to Agent or any Lender in connection with this Agreement shall be true and correct in all respects; (iii) all signatures and endorsements of each Borrower that appear on such documents and agreements shall be genuine and each Borrower shall have full capacity to execute same; and (iv) Schedule 4.5(a) hereto sets forth a correct and complete list as of the Closing Date of the location, by state and street address, of all Real Property, together with the names and addresses of any landlords.

(b) (i) Schedule 4.5(b)(i) hereto contains a correct and complete list, as of the Closing Date, of the legal names and addresses of each third-party warehouse or other third-party processing location at which Inventory of any Borrower with a value in excess of \$50,000 is stored or processed; (ii) there is no location at which any Borrower has any Equipment or Inventory (except for Inventory in transit and Inventory with a value of less than \$50,000) other than those locations listed on Schedule 4.5(a) or Schedule 4.5(b)(i); (iii) none of the receipts received by any Borrower from any warehouse states that the goods covered thereby are to be delivered to bearer or to the order of a named Person or to a named Person and such named Person's assigns; and (iv) Schedule 4.5(b)(iv) hereto sets forth a correct and complete list as of the Closing Date of each place of business of each Borrower and each of their respective Subsidiaries not listed on Schedule 4.5(a) or Schedule 4.5(b)(i).

4.6. Defense of Agent's and Lenders' Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. During such period no Borrower shall, without Agent's prior written consent, pledge, sell (except Permitted Dispositions), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Each Borrower shall defend Agent's interests in the Collateral against any and all Persons whatsoever. At any time following an Event of Default and demand by Agent for payment of all Obligations, Agent shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including: labels, stationery, documents, instruments and advertising materials. If Agent exercises this right to take possession of the Collateral, Borrowers shall, upon demand, assemble it in the best manner possible and make it available to Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other Applicable Law. Each Borrower shall, and Agent may, at its option, instruct all carriers, forwarders, warehousemen or others receiving or holding documents of title or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into any Borrower's possession, they, and each of them, shall be held by such Borrower in trust as Agent's trustee, and such Borrower will immediately deliver them to Agent in their original form together with any necessary endorsement.

4.7. Books and Records. Each Borrower shall (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Borrowers.

4.8. Deleted.

4.9. Compliance with Laws. Each Borrower shall comply with all Applicable Laws with respect to the Collateral or any part thereof or to the operation of such Borrower's business the non-compliance with which could reasonably be expected to have a Material Adverse Effect. The assets of Borrowers at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets of Borrowers so that such insurance shall remain in full force and effect.

4.10. Inspection of Premises. At all reasonable times Agent and each Lender shall have full access to and the right to audit, appraise, check, inspect and make abstracts and copies from each Borrower's books, records, audits, correspondence and all other papers relating to the Collateral and the operation of each Borrower's business. Agent, any Lender and their agents may enter upon any premises of any Borrower at any time during business hours and at any other reasonable time, and from time to time, for the purpose of auditing, inspecting or appraising the Collateral and any and all records pertaining thereto and the operation of such Borrower's business; provided however, that Agent may:

(a) charge Borrowers for only two (2) complete field examinations during each fiscal year, provided further that, field examinations initiated: (i) prior to the Closing Date, (ii) during a Cash Dominion Period, (iii) in connection with a Permitted Acquisition, or (iv) during the continuance of an Event of Default, shall be charged to Borrowers and not be subject to the foregoing limitation,

(b) charge Borrowers for only one (1) appraisal of Borrowers' Inventory during each fiscal year, provided further that, appraisals initiated: (i) prior to the Closing Date, (ii) during a Cash Dominion Period, (iii) in connection with a Permitted Acquisition, or (iv) during the continuance of an Event of Default, shall be charged to Borrowers and not be subject to the foregoing limitation,

(c) charge Borrowers for such other appraisals of the Collateral as Agent elects in its sole discretion during the continuation of an Event of Default or as are necessary to comply with Applicable Law, and

(d) charge the foregoing costs to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan.

4.11. Insurance. Schedule 4.11 sets forth a list of all insurance maintained by Borrowers and their respective Subsidiaries on the Closing Date. The assets and properties of each Borrower and their respective Subsidiaries at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets and properties of each such Borrower and its respective Subsidiaries so that such insurance shall remain in full force and effect. Each Borrower shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At each Borrower's own cost and expense in amounts and with carriers acceptable to Agent, each Borrower shall and shall cause each of its respective Subsidiaries to (a) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to its including business interruption insurance; (b)

maintain a bond or crime insurance in such amounts as is customary in the case of companies engaged in businesses similar to it insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of it either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which it is engaged in business; (e) furnish Agent with (i) certificates of insurance (or if requested by Agent, copies of all policies) and evidence of the maintenance of the foregoing coverage by the renewal thereof at least five (5) days before any expiration date, and (ii) appropriate loss payable endorsements in form and substance satisfactory to Agent, naming Agent as an additional insured and loss payee as its interests may appear with respect to all insurance coverage referred to in clauses (a), and (c) above, and providing (A) that all proceeds thereunder shall be payable to Agent, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least thirty (30) days' prior written notice (or ten (10) days in the case of termination due to non-payment of premiums) is given to Agent. In the event of any loss thereunder, the carriers named therein hereby are directed by Agent and the applicable Borrower to make payment for such loss to Agent and not to such Borrower and Agent jointly.

During the continuation of an Event of Default, (i) if any insurance losses are paid by check, draft or other instrument payable to any Borrower and Agent jointly, Agent may endorse such Borrower's name thereon and do such other things as Agent may deem advisable to reduce the same to cash; (ii) Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a) and (b) above, and (iii) Agent shall apply all loss recoveries to the Obligations in accordance with Section 11.6. Any proceeds received in excess of the Obligations shall be paid by Agent to Borrowers or applied as may be otherwise required by law.

Subject to the fulfillment of the conditions set forth below, Agent shall remit to Borrowing Agent insurance proceeds received by Agent during any calendar year under insurance policies procured and maintained by Borrowers which insure Borrowers' insurable properties to the extent such insurance proceeds do not exceed \$2,000,000 in the aggregate during such calendar year. In the event Borrowing Agent have previously received (or, after giving effect to any proposed remittance by Agent to Borrowing Agent would receive) insurance proceeds which exceed \$2,000,000 in the aggregate during any calendar year, then Agent may at its option either (I) remit such excess insurance proceeds to Borrowing Agent, or (II) apply the proceeds to the Revolving Advances subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof. If any loss relates to Collateral that constitutes Eligible Equipment, there shall be a reduction in the Amortizing Tranche equal to the Unamortized Portion of such Eligible Equipment, provided that, the Agent may at its option, upon request by Borrowing Agent, re-instate such Unamortized Portion upon receipt of an appraisal of any replacement Equipment and such other evidence as Agent may reasonably require to support such request.

The agreement of Agent to remit insurance proceeds in the manner above provided shall be subject in each instance to satisfaction of each of the following conditions: (x) no Event of Default or Default shall then have occurred and be continuing, and (y) Borrowers shall use such insurance proceeds to repair, replace or restore the insurable property which was the subject of the insurable loss and for no other purpose.

4.12. Failure to Pay Insurance. If any Borrower fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of such Borrower, and charge Borrowers' Account therefor as a Revolving Advance maintained as a Domestic Rate Loan and such expenses so paid shall be part of the Obligations.

4.13. Payment of Taxes. Each Borrower will and will cause each of its respective Subsidiaries to pay, when due, all taxes, assessments and other Charges lawfully levied or assessed upon it or any of the Collateral including real and personal property taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes. If any tax by any Governmental Body is or may be imposed on or as a result of any transaction between any Borrower and Agent or any Lender which Agent or any Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Agent's or any Lender's opinion, may possibly create a valid Lien on the Collateral, Agent may without notice to Borrowers pay the taxes, assessments or other Charges and each Borrower hereby indemnifies and holds Agent and each Lender harmless in respect thereof. Agent will not pay any taxes, assessments or Charges to the extent that any applicable Borrower has Properly Contested those taxes, assessments or Charges. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations and, until Borrowers shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Borrowers' credit and Agent shall retain its security interest in and Lien on any and all Collateral held by Agent.

4.14. Payment of Leasehold Obligations. Each Borrower shall and shall cause each of its respective Subsidiaries at all times to pay, when and as due, its rental obligations under all leases under which it is a tenant, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect and, at Agent's request will provide evidence of having done so.

4.15. Receivables.

(a) Nature of Receivables. Each of the Receivables shall be a bona fide and valid account representing a bona fide indebtedness incurred by the Customer therein named, for a fixed sum as set forth in the invoice relating thereto (provided immaterial or unintentional invoice errors shall not be deemed to be a breach hereof) with respect to an absolute sale or lease and delivery of goods upon stated terms of a Borrower, or work, labor or services theretofore rendered by a Borrower as of the date each Receivable is created. Same shall be due and owing in accordance with the applicable Borrower's standard terms of sale without dispute, setoff or

counterclaim except as may be stated on the accounts receivable schedules delivered by Borrowers to Agent.

(b) Solvency of Customers. Each Customer, to the best of each Borrower's knowledge, as of the date each Receivable is created, is and will be able to pay all Receivables on which the Customer is obligated in full when due or with respect to such Customers of any Borrower who are not solvent such Borrower has set up on its books and in its financial records bad debt reserves adequate to cover such Receivables.

(c) Location of Borrowers. Borrowers' chief executive office is located at 101 Bullitt Lane, Louisville, Kentucky 40222. Until written notice is given to Agent by Borrowing Agent of any other office at which any Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office.

(d) Collection of Receivables. Subject to Agent's rights under Section 4.15(e), during a Cash Dominion Period, each Borrower will, at such Borrower's sole cost and expense, but on Agent's behalf and for Agent's account, collect in trust for Agent all amounts received on Receivables (other than Excluded Receivables), and shall not commingle such collections with any Borrower's funds or use the same except to pay Obligations. Each Borrower shall deposit in the Blocked Accounts or Collection Accounts, or, upon request by Agent, deliver to Agent, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness, other than those arising from Excluded Receivables.

(e) Notification of Assignment of Receivables. At any time following the occurrence and during the continuance of an Event of Default, Agent shall have the right to send notice of the assignment of, and Agent's security interest in and Lien on, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan and added to the Obligations.

(f) Power of Agent to Act on Borrowers' Behalf. Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent or any Borrower any and all checks, drafts and other instruments for the payment of money relating to the Receivables in connection with the collection of such Receivables, and each Borrower hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Each Borrower hereby constitutes Agent or Agent's designee as such Borrower's attorney with power, at any time following the occurrence and during the continuance of an Event of Default, (i) to endorse such Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign such Borrower's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign such Borrower's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Agent to preserve, protect, or perfect Agent's interest in the

Collateral and to file same; (v) to demand payment of the Receivables; (vi) to enforce payment of the Receivables by legal proceedings or otherwise; (vii) to exercise all of such Borrower's rights and remedies with respect to the collection of the Receivables and any other Collateral; (viii) to settle, adjust, compromise, extend or renew the Receivables; (ix) to settle, adjust or compromise any legal proceedings brought to collect Receivables; (x) to prepare, file and sign such Borrower's name on a proof of claim in bankruptcy or similar document against any Customer; (xi) to prepare, file and sign such Borrower's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence (as determined by a court of competent jurisdiction in a final non-appealable judgment); this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Agent shall have the right at any time following the occurrence of an Event of Default or Default, to change the address for delivery of mail addressed to any Borrower to such address as Agent may designate and to receive, open and dispose of all mail addressed to any Borrower.

(g) No Liability. Neither Agent nor any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom, except to the extent caused by the gross negligence or willful misconduct of Agent or any Lender, respectively. Following the occurrence of an Event of Default or Default Agent may, without notice or consent from any Borrower, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Agent is authorized and empowered to accept following the occurrence of an Event of Default or Default, the return of the goods represented by any of the Receivables, without notice to or consent by any Borrower, all without discharging or in any way affecting any Borrower's liability hereunder.

(h) Establishment of a Lockbox Account, Dominion Account.

(i) All of Borrowers' cash, cash equivalents, and the proceeds of all Collateral shall be deposited directly into either: (a) a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") established at a bank or banks (each such bank, a "Blocked Account Bank") pursuant to an arrangement with such Blocked Account Bank as may be selected by Borrowing Agent and be reasonably acceptable to Agent (which arrangement shall permit Borrowers to access accounts absent a Cash Dominion Period), or (b) separate lockbox depository accounts ("Collection Accounts") established at the Agent for the deposit of such cash, Cash Equivalents, and proceeds; provided that, all disbursements shall be made from separate disbursement accounts established with Agent; provided further that Borrowers may maintain separate payroll and other employee-related accounts at other institutions to the extent desirable to accommodate their employees. Collection Accounts shall be used solely for collections.

(ii) Each applicable Borrower, Agent and each Blocked Account Bank shall enter into a deposit account control agreement in form and substance reasonably satisfactory to Agent (each, a “Blocked Account Agreement”) granting Agent exclusive control over the Blocked Accounts and directing such Blocked Account Bank to transfer such funds deposited therein to Agent without offset or deduction upon written notice from Agent (each an “Account Control Notice”), either to any account maintained by Agent at said Blocked Account Bank or by wire transfer to appropriate account(s) of Agent. Neither Agent nor any Lender assumes any responsibility for such blocked account arrangement, including any claim of accord and satisfaction or release with respect to deposits accepted by any Blocked Account Bank thereunder. Each Blocked Account Agreement shall require that the applicable Blocked Account Bank provide account statements and such other account information as is reasonably requested by Agent from time to time.

(iii) Agent shall only be entitled to give an Account Control Notice to each Blocked Account Bank and to exercise exclusive control over all Blocked Accounts and Collection Accounts during a Cash Dominion Period. Upon the issuance of an Account Control Notice by Agent during a Cash Dominion Period, all funds then held and thereafter deposited in Blocked Accounts and Collection Accounts shall immediately become subject to the exclusive control of Agent and property of Agent and applied to the Obligations in accordance with the terms hereof. Agent may maintain the foregoing in effect notwithstanding the waiver or cure of the event or circumstance which caused the Triggering Event; provided that, upon a Satisfaction Event, Agent shall, at the request of any Borrowing Agent, promptly rescind each Account Control Notice, permit Borrowers access to funds on deposit in the Blocked Accounts and Collection Accounts, and cease the daily application of collections to the Obligations until a subsequent Triggering Event occurs.

(iv) Upon the occurrence of an Event of Default, Borrowers shall cause their respective Foreign Subsidiaries to deposit their cash and cash equivalents in the Collection Accounts for application to the Obligations to the extent such Foreign Subsidiaries’ combined cash and cash equivalents are in excess of \$2,500,000 in the aggregate upon such occurrence. On the sixth (6th) Business Day of each calendar month during the continuation of such Event of Default, Borrowers shall cause their respective Foreign Subsidiaries to deposit their cash and cash equivalents in the Collection Accounts for application to the Obligations to the extent such Foreign Subsidiaries’ combined cash and cash equivalents are in excess of \$2,500,000 in the aggregate on the first (1st) Business Day of each such month.

(v) As of the Closing Date, set forth on Schedule 4.15(h) are all of the deposit accounts and securities accounts of Holdings and its Subsidiaries, including, with respect to each bank or securities intermediary (i) the name and address of such Person, and (ii) the account numbers of the deposit accounts and securities accounts maintained with such Person.

(i) Adjustments. No Borrower will, without Agent’s consent, compromise or adjust any material amount of the Receivables (or extend the time for payment thereof) or accept any material returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of such Borrower.

(j) United States Government Receivables.

(i) Existing Contracts. As of the Closing Date, all non-classified contracts of a Borrower with the United States, or any department, agency or instrumentality of any of them, are set forth on Schedule 4.15(j). None of such existing contracts have been assigned in whole or part to any Person. None of such existing contracts nor future contracts with the United States, or any department, agency or instrumentality of it, nor, in any case, the right to the payment of money thereunder, shall be assigned in whole or part to any Person other than Agent.

(ii) Contract Assignments. In the event Borrowing Agent requests that any amounts payable under any contract with the United States, or any department, agency or instrumentality of it, constitute Eligible Governmental Receivables, the applicable Borrower shall deliver the portion of such contract which identifies the parties thereto, the contract number, the date of the contract, and the identity and contact information for the contracting officer, together with an effective assignment thereof executed by the applicable Borrower in the form attached hereto as Exhibit 4.15(j) (the “US Assignment”), which will assign the right to payment of any Receivable thereunder to Agent. To the extent any such contract is modified in any material respect, Borrowing Agent shall deliver to Agent notice of such modification and the terms of such modification to the extent necessary for the US Assignment to remain accurate, together with a new US Assignment of such contract, if necessary. Agent may (I) elect to complete each US Assignment and deliver it to the applicable contracting officer for acknowledgment and acceptance by such contracting officer and any other Person necessary to comply with the Federal Assignment of Claims Act, and (II) take such other actions as may be required under the Federal Assignment of Claims Act to effect the assignment of such Receivable in accordance with the Federal Assignment of Claims Act, upon the occurrence of any one of the following: (x) a Default or Event of Default, (y) a Triggering Event, or (z) after applying the Receivables Advance Rate thereto, Eligible Government Receivables constitute greater than 25% of the Formula Amount. In such event, Agent may, at any time upon notice to Borrowing Agent, change the payment instructions for all such Receivables assigned to Agent from any Borrower to Agent and each Borrower irrevocably designates and appoints Agent (and all persons designated by Agent) as such Borrower’s true and lawful attorney in fact to (A) take any action as may be necessary or desirable to complete any such US Assignment on behalf of such Borrower and to direct the payment of the proceeds thereof; and (B) to execute and deliver the US Assignment on behalf of such Borrower.

(iii) Further Assurances. Upon the request of Agent, Borrowers shall take all reasonable steps necessary to protect Agent’s interest in any Eligible Government Receivable under the Federal Assignment of Claims Act and all other applicable state or local statutes or ordinances and deliver to Agent appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between any Borrower and the United States, or any department, agency or instrumentality of it.

(iv) Central Contractor Registration. No Borrower shall change its registration in the United States Central Contractor Registration database or any replacement registration system established by the United States for the purpose of registering government contractors and accepting payment instructions with respect to Receivables due from the United

States, or any department, agency or instrumentality of it (the “CCR”). Each registered Borrower shall annually update its registration in the CCR and take all other steps necessary to maintain an effective registration with payment instructions for all such Receivables to the Collection Accounts only. In the event any Borrower changes its registration such that such Receivables are not paid directly and solely to the Collection Accounts, Agent may exercise the power of attorney granted pursuant to Section 4.15(j)(ii) to alter such Borrower’s registration with the CCR as Agent deems appropriate in its sole discretion.

4.16. Inventory. To the extent Inventory held for sale or lease has been produced by any Borrower, it has been and will be produced by such Borrower in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

4.17. Maintenance of Equipment. The Equipment shall be maintained in good operating condition and repair (reasonable wear and tear excepted) and all necessary replacements of and repairs thereto shall be made so that the value and operating efficiency of the Equipment shall be maintained and preserved (reasonable wear and tear excepted). Each Borrower shall have the right to sell Equipment to the extent such sale is a Permitted Disposition.

4.18. Exculpation of Liability. Nothing herein contained shall be construed to constitute Agent or any Lender as any Borrower’s agent for any purpose whatsoever, nor shall Agent or any Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof. Neither Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any of any Borrower’s obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall be responsible in any way for the performance by any Borrower of any of the terms and conditions thereof.

4.19. Environmental Matters.

(a) Each Borrower shall and shall cause each of its respective Subsidiaries to ensure that the Real Property and all operations and businesses conducted thereon remains in compliance with all Environmental Laws and they shall not place or permit to be placed any Hazardous Substances on any Real Property except as permitted by Applicable Law or appropriate governmental authorities.

(b) Each Borrower shall and shall cause each of its respective Subsidiaries to establish and maintain a system to assure and monitor continued compliance with all applicable Environmental Laws which system shall include periodic reviews of such compliance.

(c) Each Borrower shall and shall cause each of its respective Subsidiaries to (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws. Each Borrower shall and shall cause each of its respective Subsidiaries to use their best efforts to obtain certificates of disposal, such as hazardous waste manifest receipts, from all treatment, transport, storage or

disposal facilities or operators employed by it in connection with the transport or disposal of any Hazardous Waste generated at the Real Property.

(d) In the event any Borrower or any of their respective Subsidiaries obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or any interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrowing Agent shall, within fifteen (15) Business Days, give written notice of same to Agent detailing facts and circumstances of which any Borrower is aware giving rise to the Hazardous Discharge or Environmental Complaint. Such information is to be provided to allow Agent to protect its security interest in and Lien on the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

(e) Borrowing Agent shall promptly forward to Agent copies of any request for information, notification of potential liability, demand letter relating to potential responsibility with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by any Borrower or any of their respective Subsidiaries to dispose of Hazardous Substances and shall continue to forward copies of correspondence between it and the Authority regarding such claims to Agent until the claim is settled. Borrowing Agent shall promptly forward to Agent copies of all documents and reports concerning a Hazardous Discharge at the Real Property that any any Borrower or any of their respective Subsidiaries are required to file under any Environmental Laws. Such information is to be provided solely to allow Agent to protect Agent's security interest in and Lien on the Real Property and the Collateral.

(f) Borrowers shall and shall cause each of their respective Subsidiaries to respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral or Real Property to any Lien. If any of them shall fail to respond promptly to any Hazardous Discharge or Environmental Complaint or any of them shall fail to comply in any material respect with any of the requirements of any Environmental Laws, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent's interest in the Collateral: (A) give such notices or (B) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Agent (or such third parties as directed by Agent) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Agent and Lenders (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date

expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances shall be paid upon demand by Borrowers, and until paid shall be added to and become a part of the Obligations secured by the Liens created by the terms of this Agreement or any other agreement between Agent, any Lender and any Borrower.

(g) Promptly upon the written request of Agent from time to time, Borrowers shall provide Agent, at Borrowers' expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Agent, to assess with a reasonable degree of certainty the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Agent. If such estimates, individually or in the aggregate, exceed \$100,000, Agent shall have the right to require Borrowers to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of these costs and expenses.

(h) Borrowers shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by Agent or Lenders under or on account of any Environmental Laws, including the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, including any loss of value of the Real Property as a result of the foregoing except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Agent or any Lender. Borrowers' obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Borrowers' obligation and the indemnifications hereunder shall survive the termination of this Agreement.

4.20. Financing Statements. Except as respects the financing statements filed by Agent and the financing statements described on Schedule 1.2(a), no financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

V REPRESENTATIONS AND WARRANTIES.

Each Borrower represents and warrants on behalf of itself and each of its respective Subsidiaries, to the extent applicable, as follows:

5.1. Authority. Each Borrower has full power, authority and legal right to enter into this Agreement and the Other Documents and to perform all its respective Obligations hereunder and thereunder. This Agreement and the Other Documents have been duly executed and delivered by each Borrower, and this Agreement and the Other Documents constitute the legal, valid and binding obligation of such Borrower enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or

similar laws affecting creditors' rights generally. The execution, delivery and performance of this Agreement and of the Other Documents (a) are within such Borrower's corporate or limited liability company powers, have been duly authorized by all necessary corporate or company action, are not in contravention of law or the terms of such Borrower's by-laws or certificate or articles of incorporation, or operating agreement or certificate of formation, or other applicable documents relating to such Borrower's formation or to the conduct of such Borrower's business or of any material agreement or undertaking to which such Borrower is a party or by which such Borrower is bound, (b) will not conflict with or violate any law or regulation, or any judgment, order or decree of any Governmental Body, (c) will not require the Consent of any Governmental Body or any other Person, except those Consents set forth on Schedule 5.1 hereto, all of which will have been duly obtained, made or compiled prior to the Closing Date and which are in full force and effect and (d) will not conflict with, nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of such Borrower under the provisions of any agreement, charter document, instrument, by-law, operating agreement, or other instrument to which such Borrower is a party or by which it or its property is a party or by which it may be bound.

5.2. Formation, Qualification, Equity Interests, Subsidiaries.

(a) Each Borrower is duly incorporated or organized and in good standing under the laws of the jurisdiction listed on Schedule 5.2(a) and is qualified to do business and is in good standing in the jurisdictions listed on Schedule 5.2(a) which constitute all jurisdictions in which qualification and good standing are necessary for such Borrower to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect on such Borrower. Each Borrower has delivered to Agent true and complete copies of its certificate of incorporation and by-laws or certificate of formation and operating agreement and will promptly notify Agent of any material amendment or changes thereto.

(b) Set forth on Schedule 5.2(b), is a complete and accurate description, as of the Closing Date, of the authorized Equity Interests of each Borrower (other than Holdings) and their respective Subsidiaries, by class, and, as of the Closing Date, a description of the number of shares of each such class that are issued and outstanding. Other than as described on Schedule 5.2(b), there are no subscriptions, options, warrants, or calls relating to any Equity Interests of each Borrower (other than Holdings) or any of their respective Subsidiaries, including any right of conversion or exchange under any outstanding security or other instrument. Other than as described on Schedule 5.2(b), as of the Closing Date, no Borrower is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any Equity Interest or any security convertible into or exchangeable for any of its Equity Interests.

(c) As of the Closing Date, the only Subsidiaries of each Borrower are listed on Schedule 5.2(b).

5.3. Survival of Representations and Warranties. All representations and warranties of such Borrower contained in this Agreement and the Other Documents shall be true at the time of such Borrower's execution of this Agreement and the Other Documents, and shall survive the

execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4. Tax Returns. Each Borrower's federal tax identification number is set forth on Schedule 5.4. Each Borrower and its respective Subsidiaries has filed all federal, state and local tax returns and other reports each is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable. The provision for taxes on the books of each Borrower and its respective Subsidiaries is adequate for all years not closed by applicable statutes, and for its current fiscal year, and no Borrower has any knowledge of any material deficiency or additional assessment in connection therewith not provided for on such books.

5.5. Financial Statements.

(a) The twelve-month cash flow projections for the period ending December 31, 2011, of Holdings and its Subsidiaries on a Consolidated Basis and their projected balance sheets as of the Closing Date, copies of which are annexed hereto as Exhibit 5.5(a) (the "Projections") were prepared by a Responsible Officer, are based on underlying assumptions which provide a reasonable basis for the projections contained therein and reflect Borrowers' judgment based on present circumstances of the most likely set of conditions and course of action for the projected period.

(b) The consolidated and consolidating balance sheets of Holdings and its Subsidiaries on a Consolidated Basis and such other Persons described therein (including the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship existed) as of December 31, 2010, and the related statements of income, changes in stockholder's equity, and changes in cash flow for the period ended on such date, all accompanied by reports thereon containing opinions without qualification by independent certified public accountants, copies of which have been delivered to Agent, have been prepared in accordance with GAAP, consistently applied (except for changes in application in which such accountants concur and present fairly the financial position of Holdings and its Subsidiaries at such date and the results of their operations for such period. Since December 31, 2010, there has been no change in the condition, financial or otherwise, of Holdings or its Subsidiaries as shown on the consolidated balance sheet as of such date and no change in the aggregate value of machinery, equipment and Real Property owned by Holdings and its Subsidiaries, except changes in the Ordinary Course of Business, none of which individually or in the aggregate has been materially adverse.

5.6. Entity Names. No Borrower has been known by any other corporate name in the past five years and does not sell Inventory under any other name except as set forth on Schedule 5.6, nor has any Borrower been the surviving corporation or company of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years.

5.7. O.S.H.A. and Environmental Compliance.

(a) Except as set forth on Schedule 5.7(a), each Borrower and its respective Subsidiaries have duly complied with, and its facilities, business, assets, property, leaseholds,

Real Property and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws; there have been no outstanding citations, notices or orders of non-compliance issued to any Borrower or their respective Subsidiaries or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations.

(b) Each Borrower and its respective Subsidiaries have been issued all required federal, state and local licenses, certificates or permits relating to all applicable Environmental Laws.

(c) (i) There are no visible signs of releases, spills, discharges, leaks or disposal (collectively referred to as “Releases”) of Hazardous Substances at, upon, under or within any Real Property; (ii) there are no underground storage tanks or polychlorinated biphenyls on the Real Property; (iii) the Real Property has never been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) no Hazardous Substances are present on the Real Property, excepting such quantities as are handled in accordance with all applicable manufacturer’s instructions and governmental regulations and in proper storage containers and as are necessary for the operation of the commercial business of any Borrower or their respective Subsidiaries or of their tenants.

5.8. Solvency; No Litigation, Violation, Indebtedness or Default.

(a) Except as set forth on Schedule 5.8(a), each Borrower is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and all businesses in which it is about to engage, and (i) as of the Closing Date, the fair present saleable value of its assets, calculated on a going concern basis, is in excess of the amount of its liabilities and (ii) subsequent to the Closing Date, the fair saleable value of its assets (calculated on a going concern basis) will be in excess of the amount of its liabilities.

(b) Except as disclosed in Schedule 5.8(b), no Borrower nor any of its respective Subsidiaries has (i) any pending or threatened litigation, arbitration, actions or proceedings which involve the possibility of having a Material Adverse Effect, and (ii) any liabilities or indebtedness for borrowed money other than the Obligations.

(c) No Borrower nor any of its respective Subsidiaries is in violation of any applicable statute, law, rule, regulation or ordinance in any respect which could reasonably be expected to have a Material Adverse Effect, nor is any Borrower or any of their respective Subsidiaries in violation of any order of any court, Governmental Body or arbitration board or tribunal.

(d) No Borrower nor any member of the Controlled Group maintains or contributes to any Plan other than (i) as of the Closing Date, those listed on Schedule 5.8(d) hereto and (ii) thereafter, as permitted under this Agreement. Except as set forth on Schedule 5.8(d), (i) no Plan has incurred any “accumulated funding deficiency,” as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, and each Borrower and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA in respect of each Plan; (ii) each Plan which is intended to be a

qualified plan under Section 401(a) of the Code as currently in effect has received a determination letter from the Internal Revenue Service indicating that the Plan document satisfies all requirements to be qualified under Section 401(a) of the Code and, to Borrowers' knowledge, the trust related thereto is exempt from federal income tax under Section 501(a) of the Code; (iii) neither any Borrower nor any member of the Controlled Group has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid; (iv) no Plan has been terminated by the plan administrator thereof nor by the PBGC, and there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Plan; (v) at this time, the current value of the assets of each Plan exceeds the present value of the accrued benefits and other liabilities of such Plan and neither any Borrower nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities; (vi) neither any Borrower nor any member of the Controlled Group has, in any material respect, breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan; (vii) neither any Borrower nor any member of a Controlled Group has incurred any liability for any excise tax arising under Section 4972 or 4980B of the Code, and no fact exists which could give rise to any such liability; (viii) neither any Borrower nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a "prohibited transaction" described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA; (ix) each Borrower and each member of the Controlled Group has made all contributions due and payable with respect to each Plan; (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period has not been waived; (xi) neither any Borrower nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of any Borrower and any member of the Controlled Group; (xii) neither any Borrower nor any member of the Controlled Group maintains or contributes to any Plan which provides health, accident or life insurance benefits to former employees, their spouses or dependents, other than in accordance with Section 4980B of the Code; (xiii) neither any Borrower nor any member of the Controlled Group has withdrawn, completely or partially, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980 and there exists no fact which would reasonably be expected to result in any such liability; and (xiv) no Plan fiduciary (as defined in Section 3(21) of ERISA) has any liability for breach of fiduciary duty or for any failure in connection with the administration or investment of the assets of a Plan.

5.9. Patents, Trademarks, Copyrights and Licenses. All patents, patent applications, trademarks, trademark applications, service marks, service mark applications, copyrights, copyright applications, design rights, tradenames, assumed names, trade secrets and licenses owned or utilized by any Borrower and their respective Subsidiaries are set forth on Schedule 5.9, are valid and have been duly registered or filed with all appropriate Governmental Bodies and constitute all of the intellectual property rights which are necessary for the operation of its business; there is no objection to or pending challenge to the validity of any such patent, trademark, copyright, design rights, tradename, trade secret or license, and no Borrower is aware of any grounds for any challenge, except as set forth in Schedule 5.9. Each patent, patent application, patent license, trademark, trademark application, trademark license, service mark, service mark application, service mark license, design rights, copyright, copyright application

and copyright license owned or held by any Borrower and all trade secrets used by any Borrower consist of original material or property developed by such Borrower or was lawfully acquired by such Borrower from the proper and lawful owner thereof. Except as otherwise set forth in Schedule 5.9 and except where the failure to have such codes or escrow agreement would not be likely to have a Material Adverse Effect, with respect to all software used by any Borrower, such Borrower is in possession of all source and object codes related to each piece of software or is the beneficiary of a source code escrow agreement, each such source code escrow agreement being listed on Schedule 5.9.

5.10. Licenses and Permits. Except as set forth in Schedule 5.10, each Borrower and its respective Subsidiaries (a) is in compliance with and (b) has procured and is now in possession of, all material licenses or permits required by any Applicable Law for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to procure such licenses or permits could have a Material Adverse Effect. Schedule 5.10 sets forth a listing of all licenses and permits held by any Borrower and their respective Subsidiaries which are material to the operation of their business.

5.11. Default of Indebtedness. No Borrower nor any of its respective Subsidiaries is in default in the payment of the principal of or interest on any Indebtedness or under any instrument or agreement under or subject to which any Indebtedness has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

5.12. No Contract Defaults. No Borrower nor any of its respective Subsidiaries is in default in the payment or performance of any of Material Contract. Except with respect to those Material Contracts addressed by Section 4.15(j)(ii), Borrowing Agent has heretofore delivered to Agent true and complete copies of all Material Contracts to which a Borrower or any of its respective Subsidiaries is a party or to which it or any of its properties is subject. All Material Contracts are set forth on Schedule 5.12 (as it may be updated from time to time), are in full force and effect and no notice of default or termination has been delivered or threatened with respect thereto.

5.13. No Burdensome Restrictions. No Borrower nor any of its respective Subsidiaries is party to any contract or agreement the performance of which could have a Material Adverse Effect. No Borrower nor any of its respective Subsidiaries has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien which is not a Permitted Encumbrance.

5.14. No Labor Disputes. No Borrower nor any of its respective Subsidiaries is involved in any labor dispute; there are no strikes or walkouts or union organization of any its employees threatened or in existence and no labor contract is scheduled to expire during the Term other than as set forth on Schedule 5.14 hereto.

5.15. Margin Regulations. No Borrower nor any of its respective Subsidiaries is engaged, nor will it engage, principally or as one of its important activities, in the business of

extending credit for the purpose of “purchasing” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Advance will be used for “purchasing” or “carrying” “margin stock” as defined in Regulation U of such Board of Governors.

5.16. Investment Company Act. No Borrower nor any of its respective Subsidiaries is an “investment company” registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.17. Disclosure. No representation or warranty made by any Borrower in this Agreement or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to any Borrower or which reasonably should be known to such Borrower which such Borrower has not disclosed to Agent in writing with respect to the transactions contemplated by this Agreement which could reasonably be expected to have a Material Adverse Effect.

5.18. Conflicting Agreements. No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on any Borrower or any of its respective Subsidiaries or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.19. Application of Certain Laws and Regulations. Neither any Borrower nor any Subsidiary of any Borrower is subject to any law, statute, rule or regulation which regulates the incurrence of any Indebtedness, including laws, statutes, rules or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

5.20. Business and Property of Borrowers. Upon and after the Closing Date, Borrowers and their respective Subsidiaries shall not engage in any business substantially different from the business each engaged in on the Closing Date and activities necessary to conduct the foregoing. On the Closing Date, each Borrower and its respective Subsidiaries will own all the property and possess all of the rights and Consents necessary for the conduct of its business.

5.21. Section 20 Subsidiaries. Borrowers and their respective Subsidiaries do not intend to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

5.22. Anti-Terrorism Laws.

(a) General. Neither any Borrower nor any Affiliate of any Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Executive Order No. 13224. Neither any Borrower nor any Affiliate of any Borrower or their respective agents acting or benefiting in any capacity in connection with the Advances or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a Person or entity with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a Person or entity who is affiliated or associated with a Person or entity listed above.

(c) Transactions. Neither any Borrower nor to the knowledge of any Borrower, any of its agents acting in any capacity in connection with the Advances or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

5.23. Trading with the Enemy. No Borrower has engaged, nor does it intend to engage, in any business or activity prohibited by the Trading with the Enemy Act.

VI AFFIRMATIVE COVENANTS.

Each Borrower shall, until payment in full of the Obligations and termination of this Agreement:

6.1. Payment of Fees. Pay to Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Collection Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge all such fees and expenses to Borrowers' Account as a Revolving Advance maintained as a Domestic Rate Loan.

6.2. Conduct of Business and Maintenance of Existence and Assets. (a) Conduct continuously and operate actively its business according to good business practices and maintain

all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), including all licenses, patents, copyrights, design rights, tradenames, trade secrets and trademarks and take all actions necessary to enforce and protect the validity of any intellectual property right or other right included in the Collateral; (b) keep in full force and effect its existence and comply in all material respects with Applicable Law governing the conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States or any political subdivision thereof.

6.3. Violations. Promptly notify Agent in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to any Borrower which could reasonably be expected to have a Material Adverse Effect.

6.4. Government Receivables. Subject to Section 4.15(j)(ii), take all steps necessary to protect Agent's interest in the Collateral under the Federal Assignment of Claims Act, the Uniform Commercial Code and all other applicable state or local statutes or ordinances and deliver to Agent appropriately endorsed, any instrument or chattel paper connected with any Receivable arising out of contracts between any Borrower and the United States, any state or any department, agency or instrumentality of any of them.

6.5. Fixed Charge Coverage Ratio. Cause to be maintained a Fixed Charge Coverage Ratio of not less than 1.15 to 1.00; provided that testing of compliance with the foregoing Fixed Charge Coverage Ratio requirement shall not occur until a Triggering Event. Upon a Triggering Event, the Fixed Charge Coverage Ratio shall be immediately calculated and tested for the twelve (12) month period that ended as of the most recent month-end for which financial statements have been provided under Section 9.9 (or which are then past-due in the event such statements have not been timely provided). Testing shall continue as of each month-end thereafter on a historical rolling twelve (12) month basis until a Satisfaction Event occurs. The amount of Unfinanced Capital Expenditures included in the calculation of the Fixed Charge Coverage Ratio shall be reduced by the amount of any net cash proceeds received by the Borrowers on account of the sale of the Real Estate and Equipment of Marion and Kenton for the fiscal quarter during which such net proceeds are received and for each of the three (3) fiscal quarters thereafter. Such reduction shall not reduce Unfinanced Capital Expenditures to an amount less than \$0.00.

6.6. Execution of Supplemental Instruments. Execute and deliver to Agent from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Agent may request, in order that the full intent of this Agreement may be carried into effect.

6.7. Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so could not reasonably be expected to have a Material Adverse

Effect or when the amount or validity thereof is currently being Properly Contested, subject at all times to any applicable subordination arrangement in favor of Lenders.

6.8. Standards of Financial Statements. Cause all financial statements referred to in Sections 9.7, 9.8, 9.9, 9.10, 9.11, 9.12 and 9.13 as to which GAAP is applicable to be complete and correct in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

VII NEGATIVE COVENANTS.

No Borrower shall, nor shall any Borrower permit any of its Subsidiaries to, until satisfaction in full of the Obligations and termination of this Agreement:

7.1. Merger, Consolidation, Acquisition and Sale of Assets.

(a) Other than a Permitted Acquisition, enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or Equity Interests of any Person or permit any other Person to consolidate with or merge with it, provided that the merger of one (1) or more Borrowers into or with a Borrower shall be permitted so long as: (i) Agent is provided prior written notice of such merger, (ii) Borrowing Agent delivers to Agent such documentation as Agent shall reasonably request with respect to such merger, and (iii) the surviving Borrower delivers such assumption or other agreements with respect to the Obligations and Liens on the Collateral as Agent shall reasonably require, if any.

(b) Other than Permitted Dispositions, sell, lease, transfer or otherwise dispose of any of its properties or assets, including its Equity Interests in any Subsidiary.

7.2. Creation of Liens. Other than Permitted Encumbrances, create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired.

7.3. Guarantees. Become liable upon the obligations or liabilities of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Agent or Lenders) except (a) as disclosed on Schedule 7.3, (b) guarantees made in the Ordinary Course of Business up to an aggregate amount of \$250,000 for Holdings and its Subsidiaries on a Consolidated Basis, and (c) the endorsement of checks in the Ordinary Course of Business.

7.4. Investments. Other than Permitted Investments, purchase or acquire obligations or Equity Interests of, or any other interest in, any Person.

7.5. Loans. Make, or permit to be outstanding, any advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except with respect to (a) the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business, (b) loans to its employees in the Ordinary Course of Business not to exceed the aggregate amount of \$250,000 at any time outstanding for Holdings and its Subsidiaries on a

Consolidated Basis, (c) advances constituting Permitted Investments, (d) Intercompany Obligations between Borrowers, and (e) the Mexican Loan.

7.6. Deleted.

7.7. Dividends. Declare, pay or make any dividend or distribution on any shares of the Equity Interests of Holdings (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any Equity Interests, or of any options to purchase or acquire any such Equity Interests of Holdings, except that Holdings shall be permitted to expend up to \$15,000,000 during any twelve (12) month period for the redemption or repurchase of its Equity Interests and for the payment of dividends and distributions, provided that, (i) after giving effect to the payment of any of the foregoing there shall not exist any Event of Default or Default, (ii) a notice of termination with regard to this Agreement shall not be outstanding, (iii) Undrawn Availability is at least \$8,000,000 plus the Undrawn Test Adjustment before and immediately after giving effect to each such payment, (iv) the proforma Fixed Charge Coverage Ratio is at least 1.25 to 1.00 for the twelve (12) month period ending on the last day of the month prior to the month of the proposed payment, after giving effect to such payment, as evidenced by a proforma Compliance Certificate delivered by the Borrowing Agent, and (v) each such payment may be made only after Agent shall have received a Compliance Certificate for such immediately prior fiscal quarter. All calculations and projections to be made pursuant to this Section shall be subject to the Agent's approval and provided to the Agent prior to the making of the applicable payment.

7.8. Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (a) Indebtedness to Agent or Lenders, (b) Indebtedness (other than the Obligations) not in excess of \$5,000,000 outstanding at any time incurred for Capital Expenditures, (c) Indebtedness permitted under Section 7.3, (d) Indebtedness included within the Purchase Price for a Permitted Acquisition, (e) Intercompany Obligations between Borrowers, and (f) the Mexican Loan.

7.9. Nature of Business. Substantially change the nature of the business in which it is presently engaged, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the Ordinary Course of Business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted.

7.10. Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise enter into any transaction or deal with, any Affiliate, except: (a) transactions disclosed to the Agent, which are in the Ordinary Course of Business, on an arm's-length basis on terms and conditions no less favorable than terms and conditions which would have been obtainable from a Person other than an Affiliate, (b) transactions and Intercompany Obligations between Borrowers, (c) Permitted Investments, (d) transfers of cash or cash equivalents not in excess of \$1,500,000 in the aggregate during any fiscal year to Sypris Europe ApS; provided that no such transfer shall be made if (i) a Default or Event of Default is continuing at the time of the proposed transfer, or (ii) the balance of cash and cash equivalents of Sypris Europe ApS exceeds \$500,000 at the time of the proposed transfer or

would exceed such amount as a result of any such transfer, and (e) the Mexican Loan; provided that, notwithstanding anything to the contrary herein, the payment of any principal, interest or taxes with respect thereto shall be subject to: (i) no Default or Event of Default is continuing at the time of payment or after giving effect thereto, (ii) with respect to principal, such payments are made directly from, and immediately after receipt of, cash distributions received by Technologies from either Sypris Technologies Mexico S. de R.L. de C.V. or Sypris Technologies Toluca, S.A. de C.V., and (iii) with respect to interest and taxes, such payments shall be made on or about June 30 and December 30 of each calendar year and shall not exceed the lesser of (A) the amount actually due on each such date, or (B) the aggregate amount of the cash payments received by Technologies from Sypris Technologies Mexico S. de R.L. de C.V. and Sypris Technologies Toluca, S.A. de C.V. for allocated overhead expenses during the calendar month which the payment is to be made and the five (5) calendar months prior thereto.

7.11. Leases. Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.8(b)) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed \$5,000,000 in any one (1) fiscal year in the aggregate for Holdings and its Subsidiaries on a Consolidated Basis.

7.12. Subsidiaries.

(a) Form any Subsidiary unless (a) (i) in the case of a Domestic Subsidiary, it expressly joins in this Agreement as a borrower or guarantor and becomes jointly and severally liable for the Obligations, or (ii) in the case of a Foreign Subsidiary, 65% of the Equity Interests of such Foreign Subsidiary are pledged as Collateral, and (b) Agent shall have received all documents, including legal opinions, it may reasonably require to establish compliance with each of the foregoing conditions.

(b) Enter into any partnership, joint venture or similar arrangement.

7.13. Fiscal Year and Accounting Changes. Change its fiscal year from December 31 or make any change (i) in accounting treatment and reporting practices except as required by GAAP or (ii) in tax reporting treatment except as required by law.

7.14. Pledge of Credit. Now or hereafter pledge Agent's or any Lender's credit on any purchases or for any purpose whatsoever or use any portion of any Advance in or for any business other than such Borrower's business as conducted on the date of this Agreement.

7.15. Amendment of Articles of Incorporation, By-Laws, Certificate of Formation, Operating Agreement; Change of Name.

(a) Amend, modify or waive any material term or material provision of its Articles of Incorporation, By-Laws, Certificate of Formation, or Operating Agreement.

(b) Change its name, FEIN, organizational identification number, jurisdiction of organization, or organizational identity or status.

7.16. Compliance with ERISA. (i) (x) Maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of

the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d) or any other Plan for which Agent has provided its prior written consent, (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt “prohibited transaction”, as that term is defined in section 406 of ERISA and Section 4975 of the Code, (iii) incur, or permit any member of the Controlled Group to incur, any “accumulated funding deficiency”, as that term is defined in Section 302 of ERISA or Section 412 of the Code, (iv) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could result in any liability of any Borrower, any of their respective Subsidiaries, or any member of the Controlled Group or the imposition of a lien on the property of any Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (vii) fail promptly to notify Agent of the occurrence of any Termination Event, (viii) fail to comply, or permit a member of the Controlled Group to fail to comply, with the requirements of ERISA or the Code or other Applicable Laws in respect of any Plan, (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or the Code or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan.

7.17. Prepayment of Indebtedness. Except to the extent permitted by Section 15.4(a), at any time, directly or indirectly, prepay Indebtedness (other than to Agent or Lenders), or repurchase, redeem, retire or otherwise acquire Indebtedness by an amount in excess of \$500,000 in the aggregate during any fiscal year.

7.18. Anti-Terrorism Laws. No Borrower shall, until satisfaction in full of the Obligations and termination of this Agreement, nor shall it permit any Affiliate or agent to:

(a) Conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person.

(b) Deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

(c) Engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other Anti-Terrorism Law. Borrowing Agent shall deliver to Lenders any certification or other evidence requested from time to time by any Lender in its sole discretion, confirming compliance with this Section.

7.19. Membership/Partnership Interests. Elect to treat or permit any of its Subsidiaries to (x) treat its limited liability company membership interests or partnership interests, as the case may be, as securities as contemplated by the definition of “security” in Section 8-102(15) and by Section 8-103 of Article 8 of Uniform Commercial Code or (y) certificate its limited liability company membership interests or partnership interests, as the case may be.

7.20. Trading with the Enemy Act. Engage in any business or activity in violation of the Trading with the Enemy Act.

VIII CONDITIONS PRECEDENT.

8.1. Conditions to Initial Advances. The agreement of Lender to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Agent, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) Note. Agent shall have received the Note duly executed and delivered by an authorized officer of each Borrower;

(b) Filings, Registrations and Recordings. Each document (including any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by the Agent to be filed, registered or recorded in order to create, in favor of Agent, a perfected security interest in or Lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Agent shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Corporate Proceedings of Borrowers. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the board of directors or managers of each Borrower authorizing (i) the execution, delivery and performance of this Agreement and the Other Documents, and (ii) the granting by each Borrower of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of each Borrower as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(d) Incumbency Certificates of Borrowers. Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Borrower, dated the Closing Date, as to the incumbency and signature of the officers of each Borrower executing this Agreement, the Other Documents, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(e) Certificates. Agent shall have received a copy of the Articles or Certificate of Incorporation or Formation (or equivalent formation document for each Foreign Subsidiary) of each Borrower and its respective Subsidiaries, and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation or formation, as applicable, together with copies of the By-Laws or Operating Agreement (or equivalent governing document for each Foreign Subsidiary) of each Borrower and its respective Subsidiaries certified as accurate and complete by the Secretary or Assistant Secretary of each such Borrower;

(f) Good Standing Certificates. Agent shall have received good standing certificates for each Borrower dated not more than thirty (30) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of the jurisdiction of incorporation or formation, as applicable, of each such Borrower and each jurisdiction where the conduct of each its business activities or the ownership of its properties necessitates qualification;

(g) Legal Opinions. Agent shall have received the executed legal opinions of the Borrowers' counsel in form and substance reasonably satisfactory to Agent which shall cover such matters incident to the transactions contemplated by this Agreement and the Other Documents, and each Borrower hereby authorizes and directs such counsel to deliver such opinions to Agent;

(h) No Litigation. (i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or threatened against any Borrower or against the officers or directors of any Borrower (A) in connection with this Agreement, the Other Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, have a Material Adverse Effect; and (ii) no injunction, writ, restraining order or other order of any nature materially adverse to any Borrower or the conduct of its business or inconsistent with the due consummation of this Agreement shall have been issued by any Governmental Body;

(i) Collateral Examination. Agent shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Agent, of the Receivables, Inventory, Mortgaged Real Property, and Equipment of each Borrower and all books and records in connection therewith;

(j) Fees. Agent shall have received all fees payable on or prior to the Closing Date hereunder, including pursuant to Article III;

(k) Insurance. Agent shall have received in form and substance satisfactory to Agent, certified copies of Borrowers' casualty insurance policies, together with loss payee endorsements naming Agent as loss payee, and certified copies of Borrowers' liability insurance policies, together with endorsements naming Agent as a co-insured;

(l) Title Insurance. Agent shall have received fully paid mortgagee title insurance policies (or binding commitments to issue title insurance policies, marked to Agent's satisfaction to evidence the form of such policies to be delivered with respect to the Mortgages), in standard ALTA form, issued by a title insurance company satisfactory to Agent, each in an amount equal to not less than the fair market value of the Mortgaged Real Property, insuring the Mortgages create a valid Lien on the Mortgaged Real Property with no exceptions which Agent shall not have approved in writing and no survey exceptions;

(m) Environmental Reports. Agent shall have received all environmental studies and reports prepared by independent environmental engineering firms with respect to all Mortgaged Real Property;

(n) Payment Instructions. Agent shall have received written instructions from Borrowing Agent directing the application of proceeds of the initial Advances made pursuant to this Agreement;

(o) Blocked Accounts. Agent shall have received duly executed agreements establishing Blocked Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

(p) Consents. Agent shall have received any and all Consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Other Documents; and, Agent shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral;

(q) No Adverse Material Change. Since December 31, 2010, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect;

(r) Representations True. No representations made or information supplied to Agent shall have been proven to be inaccurate or misleading in any material respect;

(s) Collateral Access Agreements. Agent shall have received Collateral Access Agreements satisfactory to Agent;

(t) Surveys. Agent shall have received in form and substance satisfactory to Agent, ALTA surveys for the Mortgaged Real Property prepared and certified to Agent, applicable title insurance company, and the applicable title insurance agency by a surveyor acceptable to Agent including such Table A items as Agent shall reasonably request

(u) Other Documents. Agent shall have received the executed Other Documents, all in form and substance satisfactory to Agent;

(v) Flood Certificates. Agent shall have received an independent flood plain certificate indicating that the Mortgaged Real Property and improvements are not located in a flood hazard area, or if in such an area, evidence of flood insurance acceptable to Agent;

(w) Contract Review. Agent shall have reviewed all Material Contracts of Borrowers including leases, union contracts, labor contracts, vendor supply contracts, license agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all respects to Agent;

(x) Closing Certificate. Agent shall have received a closing certificate signed by a Responsible Officer dated as of Closing Date, stating that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, (ii) Borrowers are on such date in compliance with all the terms and provisions set forth in this Agreement and the Other Documents, and (iii) on such date all conditions to the initial Advance are satisfied and no Default or Event of Default has occurred or is continuing;

(y) Borrowing Base. Agent shall have received evidence from Borrowers in the form of a Borrowing Base Certificate that the aggregate amount of Eligible Receivables and Eligible Inventory is sufficient in value and amount to support Advances in the amount requested by Borrowers on the Closing Date;

(z) Undrawn Availability. After giving effect to the initial Advances hereunder, Borrowers shall have Undrawn Availability of at least \$10,000,000;

(aa) Compliance with Laws. Agent shall be reasonably satisfied that each Borrower is in compliance with all Applicable Law, including those with respect to the Federal Occupational Safety and Health Act, the Environmental Protection Act, ERISA and the Trading with the Enemy Act; and

(bb) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Agreement shall be satisfactory in form and substance to Agent and its counsel.

8.2. Conditions to Each Advance. The agreement of Lenders to make any Advance requested to be made on any date (including the initial Advance), is subject to the satisfaction of the following conditions precedent as of the date such Advance is made:

(a) Representations and Warranties. Each of the representations and warranties made by any Borrower in or pursuant to this Agreement, the Other Documents and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement, the Other Documents or any related agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date;

(b) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date; provided, however that Agent, in its sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances. In the case of any type of Advance requested to be made, after giving effect thereto, the aggregate amount of such type of Advance shall not exceed the maximum amount of such type of Advance permitted under this Agreement.

Each request for an Advance by any Borrower hereunder shall constitute a representation and warranty by each Borrower as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

IX INFORMATION AS TO BORROWERS.

Each Borrower shall, or shall cause Borrowing Agent on its behalf to, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1. Disclosure of Material Matters. Immediately upon learning thereof, report to Agent all matters materially affecting the value, enforceability or collectability of any portion of the Collateral, including any Borrower's reclamation or repossession of, or the return to any Borrower of, a material amount of goods or claims or disputes asserted by any Customer or other obligor.

9.2. Schedules. Deliver to Agent on or before the second (2nd) Business Day of each week as and for the prior week, a report of sales, credits and collections (which shall be calculated as of the last day of the prior week and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement). Deliver to Agent on or before the fifteenth (15th) day of each month as and for the prior month (a) accounts receivable agings inclusive of reconciliations to the general ledger, (b) accounts payable schedules inclusive of reconciliations to the general ledger, (c) Inventory reports, and (d) a Borrowing Base Certificate in form and substance satisfactory to Agent (which shall be calculated as of the last day of the prior month, and which shall not be binding upon Agent or restrictive of Agent's rights under this Agreement). In addition, Borrower will deliver to Agent at such intervals as Agent may require: (i) confirmatory assignment schedules, (ii) copies of Customer's invoices, (iii) evidence of shipment or delivery, and (iv) such further schedules, documents and/or information regarding the Collateral as Agent may require including trial balances and test verifications. Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Agent and executed by a Responsible Officer and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and Borrowers' failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3. Environmental Reports. Furnish Agent, concurrently with the delivery of the financial statements referred to in Sections 9.7, 9.8 and 9.9, with a Compliance Certificate signed by a Responsible Officer stating, to his actual knowledge, that except with respect to matters disclosed to Agent on or before the Closing Date, each Borrower and its respective Subsidiaries are in compliance in all material respects with all federal, state and local Environmental Laws. To the extent any of them are not in such compliance, the certificate shall set forth with specificity all areas of non-compliance and the proposed action each will implement in order to achieve full compliance.

9.4. Litigation. Promptly notify Agent in writing of any claim, litigation, suit or administrative proceeding affecting any Borrower or any of their respective Subsidiaries, which in any such case materially affects the Collateral or which could reasonably be expected to have a Material Adverse Effect, whether or not the claim is covered by insurance.

9.5. Material Occurrences. Promptly notify Agent in writing upon the occurrence of (a) any Event of Default or Default; (b) any event, development or circumstance whereby any financial statements or other reports furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of any Borrower as of the date of such statements; (c) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as

provided in Section 4971 of the Code, could subject any Borrower, or any of their respective Subsidiaries, to a tax imposed by Section 4971 of the Code; (d) each and every default by any Borrower, or any of their respective Subsidiaries, which might result in the acceleration of the maturity of any Indebtedness, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; (e) any material modification to a Material Contract, including the terms thereof, except to the extent limited by Section 4.15(j)(ii), and (f) any other development in the business or affairs of any Borrower, or any of their respective Subsidiaries, which could reasonably be expected to have a Material Adverse Effect; in each case describing the nature thereof and the action each proposes to take with respect thereto.

9.6. Government Receivables. Furnish Agent with any material correspondence or amendments related to any contracts between Borrower and any Governmental Body, subject to Applicable Law.

9.7. Annual Financial Statements. Furnish Agent within one hundred and twenty (120) days after the end of each fiscal year of Holdings, financial statements of Holdings and its Subsidiaries on a Consolidated Basis including, but not limited to, statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, together with consolidating schedules for each Subsidiary of Holdings, all prepared in accordance with GAAP applied on a basis consistent with prior practices, and in reasonable detail and reported upon without qualification by an independent certified public accounting firm selected by Borrower and satisfactory to Agent, provided, that Borrowers shall be deemed to have delivered the foregoing to Agent if it has been filed with the Securities and Exchange Commission and is available on the EDGAR site at www.sec.gov or any successor government site that is freely and readily available to Agent without charge, or has been made available on Borrowers' website www.sypris.com or any successor site designated by Borrowing Agent, and the delivery date therefor shall be deemed to be the first (1st) day on which it is available to Agent on one of such websites. Borrowing Agent shall separately furnish Agent with a Compliance Certificate within one hundred and twenty (120) days after the end of each fiscal year of Holdings.

9.8. Quarterly Financial Statements. Furnish Agent within forty-five (45) days after the end of each fiscal quarter, for Holdings and its Subsidiaries on a Consolidated Basis, an unaudited balance sheet and unaudited statements of income and stockholders' equity and cash flow reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, together with consolidating schedules for each Subsidiary of Holdings, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year-end adjustments that individually and in the aggregate are not material to the business of Holdings and its Subsidiaries, provided, that Borrowers shall be deemed to have delivered the foregoing to Agent if it has been filed with the Securities and Exchange Commission and is available on the EDGAR site at www.sec.gov or any successor government site that is freely and readily available to Agent without charge, or has been made available on Borrowers' website www.sypris.com or any successor site designated by Borrowing Agent, and the delivery date therefor shall be deemed to be the first (1st) day on which it is available to Agent on one of such websites. Borrowing Agent shall separately furnish

Agent with a Compliance Certificate within forty-five (45) days after the end of each fiscal quarter.

9.9. Monthly Financial Statements. Furnish Agent within thirty (30) days after the end of each month, for Holdings and its Subsidiaries on a Consolidated Basis, an unaudited balance sheet and unaudited statements of income and stockholders' equity and cash flow reflecting results of operations from the beginning of the fiscal year to the end of such month and for such month, prepared on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year-end adjustments that individually and in the aggregate are not material to the business of Holdings and its Subsidiaries. During a Cash Dominion Period, the reports shall be accompanied by a Compliance Certificate.

9.10. Other Reports. Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with copies of (a) such financial statements, reports and returns as each Borrower shall send to its stockholders or members, (b) all press releases and all statements concerning material changes or developments in the business of any Borrower, or any of their respective Subsidiaries, made available by any Borrower, or any of their respective Subsidiaries, to the public or any other creditor, and (c) copies of all reports and registration statements filed with the SEC or any national or foreign securities exchange or the National Association of Securities Dealers, Inc. provided, that Borrowers shall be deemed to have delivered the foregoing to Agent if it has been filed with the Securities and Exchange Commission and is available on the EDGAR site at www.sec.gov or any successor government site that is freely and readily available to Agent without charge, or has been made available on Borrowers' website www.sypris.com or any successor site designated by Borrowing Agent, and the delivery date therefor shall be deemed to be the first (1st) day on which it is available to Agent on one of such websites.

9.11. Additional Information. Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent to determine whether the terms, covenants, provisions and conditions of this Agreement and the Note have been complied with by Borrowers including, without the necessity of any request by Agent, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of any Borrower's opening of any new office or place of business or any Borrower's closing of any existing office or place of business, and (c) promptly upon any Borrower's learning thereof, notice of any labor dispute to which any Borrower may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any Borrower is a party or by which any Borrower is bound.

9.12. Projected Operating Budget. Furnish Agent no later than forty-five (45) days after the beginning of each fiscal year commencing with fiscal year 2012, a month-by-month projected operating budget and cash flow of Holdings and its Subsidiaries on a Consolidated Basis, together with consolidating schedules for each Subsidiary of Holdings, for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by a Responsible Officer to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such a

Responsible Officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

9.13. Variations From Operating Budget. Furnish Agent upon its reasonable request, a written report summarizing all material variances from budgets submitted by Borrowers pursuant to Section 9.12 and a discussion and analysis by management with respect to such variances.

9.14. Notice of Suits, Adverse Events. Furnish Agent with prompt written notice of (i) any lapse or other termination of any Consent issued to any Borrower, or any of their respective Subsidiaries, by any Governmental Body or any other Person that is material to the operation of any Borrower's business, (ii) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (iii) copies of any periodic or special reports filed by any Borrower with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of any Borrower, or any of their respective Subsidiaries, or if copies thereof are requested by Agent, and (iv) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to any Borrower, or any of their respective Subsidiaries.

9.15. ERISA Notices and Requests. Furnish Agent with immediate written notice in the event that (i) any Borrower or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which such Borrower or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (ii) any Borrower or any member of the Controlled Group knows or has reason to know that a prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement describing such transaction and the action which such Borrower or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (iii) a funding waiver request has been filed with respect to any Plan together with all communications received by any Borrower or any member of the Controlled Group with respect to such request, (iv) any increase in the benefits of any existing Plan or the establishment of any new Plan or the commencement of contributions to any Plan to which any Borrower or any member of the Controlled Group was not previously contributing shall occur, (v) any Borrower or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Plan or to have a trustee appointed to administer a Plan, together with copies of each such notice, (vi) any Borrower or any member of the Controlled Group shall receive any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (vii) any Borrower or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (viii) any Borrower or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; or (ix) any Borrower or any member of the Controlled Group knows that (a) a Multiemployer Plan has been terminated, (b) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a Multiemployer Plan, or (c) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16. Additional Documents. Execute and deliver to Agent, upon request, such documents and agreements as Agent may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

9.17. Availability Calculation. Furnish Agent, no later than the fifth (5th) Business Day of each fiscal quarter, an Availability Calculation for the prior fiscal quarter.

X EVENTS OF DEFAULT.

The occurrence of any one or more of the following events shall constitute an “Event of Default”:

10.1. Nonpayment. (a) Failure to pay any principal or interest on the Obligations when due, whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment, or (b) failure to pay any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document;

10.2. Breach of Representation. Any representation or warranty made or deemed made in this Agreement, any Other Document or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

10.3. Financial Information. Failure by any Borrower to (a)(i) furnish financial information when due, or (ii) when requested which is unremedied for a period of five (5) days of such request, or (b) permit the inspection of its books or records in accordance with this Agreement;

10.4. Judicial Actions. Issuance of a notice of Lien, levy, assessment, injunction or attachment against any Borrower’s, or any of their respective Subsidiary’s Inventory or Receivables or against a material portion of any Borrower’s, or any of their respective Subsidiary’s other property which is not stayed or lifted within thirty (30) days;

10.5. Noncompliance. Except as otherwise provided for in Sections 10.1, 10.3 and 10.5(ii), (i) failure or neglect of any Borrower, or any of their respective Subsidiaries, to perform, keep or observe any term, provision, condition, covenant herein contained, or contained in any Other Document or any other agreement or arrangement, now or hereafter entered into between any Borrower, or any of their respective Subsidiaries, and Agent or any Lender, or (ii) failure or neglect of any of the foregoing to perform, keep or observe any term, provision, condition or covenant, contained in Sections 4.6, 4.7, 4.9, 6.1, 6.3, 6.4, 9.4 or 9.6 which is not cured within thirty (30) days from the occurrence of such failure or neglect;

10.6. Judgments. Any judgment or judgments for the payment of money shall be rendered against any Borrower, or any of their respective Subsidiaries unless: (a) (i) such judgment or judgments are less than \$500,000 in the aggregate, (ii) enforcement of each such judgment is stayed, (iii) each such judgment is being contested in good faith, and (iv) reserves satisfactory to Agent are established by Borrower or each such judgment is covered by valid

insurance satisfactory to Agent, or (b) such judgment or judgments are less than \$500,000 in the aggregate and are satisfied within thirty (30) days after entry thereof;

10.7. Bankruptcy. Any Borrower, or any of their respective Subsidiaries shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

10.8. Inability to Pay. Any Borrower, or any of their respective Subsidiaries shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business;

10.9. Deleted.

10.10. Material Adverse Effect. Any circumstance which in Agent's reasonable opinion has a Material Adverse Effect;

10.11. Lien Priority. Any Lien created hereunder or provided for hereby or under any Other Document for any reason ceases to be or is not a valid and perfected Lien having a first priority interest and such circumstance is not cured to the reasonable satisfaction of Agent within ten (10) days after written notice thereof is given to Borrowing Agent;

10.12. Cross Default. A default of the obligations of any Borrower or any of their respective Subsidiaries under any other Indebtedness or Material Contract which default is not cured within any applicable grace period;

10.13. Change of Control. Any Change of Control shall occur;

10.14. Invalidity. Any material provision of this Agreement or any Other Document shall, for any reason, cease to be valid and binding on any Person party thereto and such circumstance is not cured to the reasonable satisfaction of Agent within ten (10) days after written notice thereof is given to Borrowing Agent, or any Person shall claim any such provision is not valid or binding upon it in writing to Agent or any Lender;

10.15. Deleted.

10.16. Seizures. Any portion of the Collateral shall be seized or taken by a Governmental Body, or any Borrower, or any of their respective Subsidiaries or the title and rights of any of the foregoing shall have become the subject matter of claim, litigation, suit or other proceeding which might, in the opinion of Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

10.17. Operations. The operations of Borrowers and all of their respective Subsidiary's manufacturing facilities are interrupted at any time for more than seven (7) consecutive days, unless it shall (i) be entitled to receive for such period of interruption, proceeds of business interruption insurance which in Agent's opinion are sufficient to satisfy its cash needs during such period, and (ii) receive such proceeds in the amount described in clause (i) beginning not later than thirty (30) days following the initial date of any such interruption; provided, however, that notwithstanding the provisions of clauses (i) and (ii) of this Section, an Event of Default shall be deemed to have occurred if it shall be receiving the proceeds of business interruption insurance for a period in excess of thirty (30) consecutive days; or

10.18. Pension Plans. An event or condition specified in Sections 7.16 or 9.15 shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, any Borrower, or any of their respective Subsidiaries, or any member of the Controlled Group shall incur, or in the opinion of Agent be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which, in the reasonable judgment of Agent, would have a Material Adverse Effect.

XI LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT.

11.1. Rights and Remedies.

(a) Upon the occurrence of (i) an Event of Default pursuant to Section 10.7, all Obligations shall be immediately due and payable and this Agreement and the obligation of Lenders to make Advances shall be deemed terminated; and, (ii) any of the other Events of Default and at any time thereafter, at the option of Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances. Upon the occurrence of any Event of Default, Agent shall have the right to exercise any and all rights and remedies provided for herein, under the Other Documents, under the Uniform Commercial Code and at law or equity generally, including the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. Agent may enter any of any Borrower's premises or other premises without legal process and without incurring liability to any Borrower therefor, and Agent may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Agent may deem advisable and Agent may require Borrowers to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as Agent may elect. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Agent shall give Borrowers reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Borrowing Agent at least ten (10) days prior to such sale or sales is reasonable notification. At any public sale Agent or any Lender may bid for and become the purchaser, and Agent, any Lender or any other purchaser at any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and all such claims, rights and equities are hereby expressly waived and released by

each Borrower. In connection with the exercise of the foregoing remedies, including the sale of Inventory, Agent is granted a perpetual nonrevocable, royalty free, nonexclusive license and Agent is granted permission to use all of each Borrower's (a) trademarks, trade styles, trade names, patents, patent applications, copyrights, service marks, licenses, franchises and other proprietary rights which are used or useful in connection with Inventory for the purpose of marketing, advertising for sale and selling or otherwise disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The cash proceeds realized from the sale of any Collateral shall be applied to the Obligations in the order set forth in Section 11.6. Noncash proceeds will only be applied to the Obligations as they are converted into cash. If any deficiency shall arise, Borrowers shall remain liable to Agent and Lenders therefor. Each Borrower waives any right to require a marshalling of assets.

(b) To the extent that Applicable Law imposes duties on the Agent to exercise remedies in a commercially reasonable manner, each Borrower acknowledges and agrees that it is not commercially unreasonable for the Agent (i) to fail to incur expenses reasonably deemed significant by the Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as any Borrower, for expressions of interest in acquiring all or any portion of such Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure the Agent against risks of loss, collection or disposition of Collateral or to provide to the Agent a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by the Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Agent in the collection or disposition of any of the Collateral. Each Borrower acknowledges that the purpose of this Section 11.1(b) is to provide non-exhaustive indications of what actions or omissions by the Agent would not be commercially unreasonable in the Agent's exercise of remedies against the Collateral and that other actions or omissions by the Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 11.1(b). Without limitation upon the foregoing, nothing contained in this Section 11.1(b) shall be construed to grant any rights to any Borrower or to impose any duties on Agent that would not have been granted or imposed by this Agreement or by Applicable Law in the absence of this Section 11.1(b).

11.2. Agent's Discretion. Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Agent's or Lenders' rights hereunder.

11.3. Setoff. Subject to Section 14.12, in addition to any other rights which Agent or any Lender may have under Applicable Law, upon the occurrence of an Event of Default hereunder, Agent and such Lender shall have a right, immediately and without notice of any kind, to apply any Borrower's property held by Agent and such Lender to reduce the Obligations.

11.4. Rights and Remedies not Exclusive. The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any rights or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5. Appointment of Receiver.

(a) Upon the occurrence of an Event of Default, Agent shall be entitled to the immediate appointment of a receiver for all or part of the Collateral, whether such receivership is incidental to a proposed sale of the Collateral or otherwise. In such event, Agent may take proceedings in any court of competent jurisdiction for the appointment of a receiver of the Collateral or of any part thereof or may, to the extent permitted by Applicable Law, by instrument in writing appoint any Person to be a receiver of the Collateral or of any part thereof and may remove any receiver so appointed by Agent and appoint another in that Person's stead. Any such receiver appointed by instrument in writing shall, to the extent permitted by Applicable Law, have all of the rights, remedies, benefits and powers of Agent under this Agreement and, without limiting the generality of the foregoing, any such receiver (or Agent) shall have the power to, to the full extent permitted by Applicable Law:

(i) take possession of the Collateral or any part thereof;

(ii) carry on or concur in carrying on all or any part or parts of the business of the Borrowers relating to the Collateral;

(iii) file such proofs of claim and other documents as may be necessary or advisable in order to have such receiver's claim lodged in any bankruptcy, winding-up or other judicial proceedings relative to the Borrowers;

(iv) borrow money required for the seizure, repossession, retaking, repair, insurance, maintenance, preservation, protection, collection, preparation for disposition, disposition or realization of the Collateral or any part thereof and for the enforcement of this Agreement or for the carrying on of the business of the Borrowers on the security of the Collateral in priority to the security interest created under this Agreement; and

(v) sell, lease or otherwise dispose of, or concur in the sale, lease or other disposition of, the whole or any part of the Collateral at public auction, by public tender or by private sale, lease or other disposition, either for cash or upon credit, at such time and upon

such terms and conditions as the receiver may determine.

Any such receiver shall for all purposes be deemed to be the agent of the Borrowers. Agent may from time to time fix a commercially reasonable remuneration of such receiver. Agent shall not in any way be responsible for any misconduct or negligence of any such receiver. Each Borrower hereby consents to the appointment of any such a receiver without bond, to the full extent permitted by Applicable Law.

11.6. Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of the Agent in connection with enforcing its rights and the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of this Agreement;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including reasonable attorneys' fees) of each of the Lenders to the extent owing to such Lender pursuant to the terms of this Agreement;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations (including the payment or cash collateralization of any outstanding Letters of Credit);

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Agent in a cash collateral account and applied (A) first, to reimburse the Issuer from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other

obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 11.6.

XII WAIVERS AND JUDICIAL PROCEEDINGS.

12.1. Waiver of Notice. Each Borrower hereby waives notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

12.2. Delay. No delay or omission on Agent's or any Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any Default or Event of Default.

12.3. Jury Waiver. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER DOCUMENT, OR (B) IN ANY WAY CONNECTED WITH OR RELATED TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER DOCUMENT IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

XIII EFFECTIVE DATE AND TERMINATION.

13.1. Term. This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Borrower, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until May 12, 2016 (the "Term") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ninety (90) days' prior written notice and payment in full of the Obligations, including any fees due upon early termination. Such notice shall be irrevocable.

13.2. Termination. The termination of the Agreement shall not affect any Borrower's, Agent's or any Lender's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully and indefeasibly paid, disposed of, concluded or liquidated. The security interests, Liens and rights granted to Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrowers' Account may from time to time be temporarily in a zero or credit position, until all of the Obligations of each Borrower have been indefeasibly paid and performed in full after

the termination of this Agreement or each Borrower has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders with respect thereto. Accordingly, each Borrower waives any rights which it may have under the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and Agent shall not be required to send such termination statements to each Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations have been indefeasibly paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations are indefeasibly paid and performed in full.

XIV REGARDING AGENT.

14.1. Appointment. Each Lender hereby designates PNC to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in the Fee Letter), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or Applicable Law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2. Nature of Duties. Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment), or (ii) responsible in any manner for any recitals, statements, representations or warranties made by any Borrower or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of any Borrower to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of any Borrower. The duties of Agent as respects the Advances to Borrowers shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and

nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3. Lack of Reliance on Agent and Resignation. Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of each Borrower in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of each Borrower. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by any Borrower pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectability or sufficiency of this Agreement or any Other Document, or of the financial condition of any Borrower, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Note, the Other Documents or the financial condition of any Borrower, or the existence of any Event of Default or any Default.

Agent may resign on sixty (60) days' written notice to each of Lenders and Borrowing Agent and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrowers.

Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4. Certain Rights of Agent. If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5. Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order or other document or telephone message believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-

fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6. Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or Borrowing Agent referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a “notice of default”. In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders. Each Lender agrees with Agent that its obligation to make or participate in Advances pursuant to a Deemed Credit Request is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence of any Default or Event of Default or the failure of any condition precedent.

14.7. Indemnification. To the extent Agent is not reimbursed and indemnified by Borrowers, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent’s gross (not mere) negligence or willful misconduct (as determined by a court of competent jurisdiction in a final non-appealable judgment).

14.8. Agent in its Individual Capacity. With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term “Lender” or any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with any Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from any Borrower for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9. Delivery of Documents. To the extent Agent receives financial statements required under Sections 9.7, 9.8, 9.9, 9.12 and 9.13 or Borrowing Base Certificates from any Borrower pursuant to the terms of this Agreement which any Borrower is not obligated to deliver to each Lender, Agent will promptly furnish such documents and information to Lenders.

14.10. Borrowers’ Undertaking to Agent. Without prejudice to their respective obligations to Lenders under the other provisions of this Agreement, each Borrower hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this

Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Borrower's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

14.11. No Reliance on Agent's Customer Identification Program. Each Lender acknowledges and agrees that neither such Lender, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Lender's, Affiliate's, participant's or assignee's customer identification program, or other obligations required or imposed under or pursuant to the USA PATRIOT Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the "CIP Regulations"), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with any Borrower, its Affiliates or its agents, this Agreement, the Other Documents or the transactions hereunder or contemplated hereby: (1) any identity verification procedures, (2) any record-keeping, (3) comparisons with government lists, (4) customer notices or (5) other procedures required under the CIP Regulations or such other laws.

14.12. Other Agreements. Each of the Lenders agrees that it shall not, without the express consent of Agent, and that it shall, to the extent it is lawfully entitled to do so, upon the request of Agent, set off against the Obligations, any amounts owing by such Lender to any Borrower or any deposit accounts of any Borrower now or hereafter maintained with such Lender. Anything in this Agreement to the contrary notwithstanding, each of the Lenders further agrees that it shall not, unless specifically requested to do so by Agent, take any action to protect or enforce its rights arising out of this Agreement or the Other Documents, it being the intent of Lenders that any such action to protect or enforce rights under this Agreement and the Other Documents shall be taken in concert and at the direction or with the consent of Agent or Required Lenders.

XV BORROWING AGENCY.

15.1. Borrowing Agency Provisions.

(a) Each Borrower hereby irrevocably designates Borrowing Agent to be its attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of such Borrower or Borrowers, and hereby authorizes Agent to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(b) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Neither Agent nor any Lender shall incur liability to Borrowers as a result thereof. To induce Agent and Lenders to do so and in consideration thereof, each Borrower hereby indemnifies Agent and each Lender and holds Agent and each Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Agent or any Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Agent or any Lender on any request or instruction from Borrowing Agent or any other action taken by Agent or any Lender with respect to this Section 15.1 except due to willful misconduct or gross

(not mere) negligence by the indemnified party (as determined by a court of competent jurisdiction in a final and non-appealable judgment).

(c) All Obligations shall be joint and several, and each Borrower shall make payment upon the maturity of the Obligations by acceleration or otherwise, and such obligation and liability on the part of each Borrower shall in no way be affected by any extensions, renewals and forbearance granted to Agent or any Lender to any Borrower, failure of Agent or any Lender to give any Borrower notice of borrowing or any other notice, any failure of Agent or any Lender to pursue or preserve its rights against any Borrower, the release by Agent or any Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Agent or any Lender to the other Borrowers or any Collateral for such Borrower's Obligations or the lack thereof. Each Borrower waives all suretyship defenses.

15.2. Waiver of Subrogation. Each Borrower expressly waives any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution of any other claim which such Borrower may now or hereafter have against the other Borrowers or other Person directly or contingently liable for the Obligations hereunder, or against or with respect to the other Borrowers' property (including, without limitation, any property which is Collateral for the Obligations), arising from the existence or performance of this Agreement, until termination of this Agreement and repayment in full of the Obligations.

15.3. Cross Guaranty. Without limiting the joint and several nature of the Obligations, each Borrower hereby unconditionally guaranties the full and prompt payment and performance when due, whether by acceleration or otherwise, and at all times thereafter, of any and all present and future Obligations of each other Borrower. This guaranty shall in all respects be a continuing, absolute and unconditional guaranty of payment and performance (and not of collection), and shall remain in full force and effect (notwithstanding, without limitation, the dissolution of any Borrower). Each Borrower hereby absolutely, unconditionally and irrevocably waives and agrees not to assert or take advantage of any defense based upon an election of remedies by Agent or any Lender, including an election to proceed by non-judicial rather than judicial foreclosure, which destroys or impairs any right of subrogation or the right of a Borrower to proceed against any Person for reimbursement or both.

15.4. Subordination.

(a) Each Borrower hereby covenants and agrees, on behalf of itself and each of its Subsidiaries, that the payment of the principal of and interest on and any lien or security interest for all indebtedness, intercompany charges and other sums owing and claims of any nature whatsoever owed (other than payments or remittances of employee withholding, wages, pension payments, tax payments, trust funds and similar items between Borrowers) to such Borrower or Subsidiary by any other Borrower, or any of their respective Subsidiaries (together, the "Intercompany Obligations") are hereby expressly made subordinate to: (a) all Obligations now or hereafter incurred by any Borrower under this Agreement or any of the Other Documents, (b) interest thereon (including any such interest accruing subsequent to the filing by or against any Borrower of any proceeding brought under the Bankruptcy Code, whether or not such interest is allowed as a claim pursuant to the provisions of the Bankruptcy Code), and (c) all

fees, expenses, indemnities and other amounts now or hereafter payable pursuant to or in connection with this Agreement and all Other Documents (collectively the “Senior Obligations”), and any lien on any property or asset securing the Senior Obligations. Unless Agent provides its prior written consent, no payment or prepayment of any Intercompany Obligations (whether of principal, interest or otherwise) shall be made at any time prior to the payment in full, in cash, of the Senior Obligations, provided that the Borrowers may make payments or prepayments of Intercompany Obligations owed to other Borrowers if at the time of, and immediately after giving effect to, any such payment or prepayment, no Event of Default exists and is continuing. If any default occurs under the Intercompany Obligations, no Borrower will, nor will any Borrower permit any of its Subsidiaries to, demand, accelerate, declare a default under, sue for, set off, accept, take or receive, directly or indirectly, in cash or other property or in any other manner, any payment of all or any part of the Intercompany Obligations without Agent’s prior written consent. No Borrower will, nor will Borrower permit any of its Subsidiaries to, sell, assign, pledge, encumber or otherwise dispose of any of the Intercompany Obligations owed to it.

(b) Each Borrower agrees that any right of possession it has to any Real Property (pursuant to a written lease or otherwise) shall be subject and subordinate to the rights of Agent hereunder and under any Mortgage thereon. Each Borrower which holds title to any of the Real Property hereby waives any Lien it holds on the Collateral of any other Borrower located at such Real Property and shall grant access to Agent to such Real Property and Collateral in accordance with this Agreement notwithstanding the terms of any lease or other occupancy agreement to the contrary.

XVI MISCELLANEOUS

16.1. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio applied to contracts to be performed wholly within the State of Ohio. Any judicial proceeding brought by or against any Borrower with respect to any of the Obligations, this Agreement, the Other Documents or any related agreement may be brought in any court of competent jurisdiction in the State of Ohio, United States of America, and, by execution and delivery of this Agreement, each Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Each Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrowing Agent at its address set forth in Section 16.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America, or, at the Agent’s option, by service upon Borrowing Agent which each Borrower irrevocably appoints as such Borrower’s Agent for the purpose of accepting service within the State of Ohio. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against any Borrower in the courts of any other jurisdiction. Each Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Each Borrower waives the right to remove any judicial proceeding brought against such Borrower in any state court to any federal court. Any judicial proceeding by any Borrower

against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the State of Ohio.

16.2. Entire Understanding.

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between each Borrower, Agent and each Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by each Borrower's, Agent's and each Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Each Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Borrowers may, subject to the provisions of this Section 16.2(b), from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Borrowers, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Lenders, Agent or Borrowers thereunder or the conditions, provisions or terms thereof or waiving any Event of Default thereunder, but only to the extent specified in such written agreements; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

- (i) increase the Commitment Percentage, the maximum dollar commitment of any Lender or the Maximum Revolving Advance Amount.
- (ii) extend the maturity of any Note or the due date for any amount of interest, fees, or principal payable hereunder (other than mandatory prepayments), or decrease the rate of interest or reduce any fee payable by Borrowers to Lenders pursuant to this Agreement.
- (iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 16.2.
- (iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement) having an aggregate value in excess of \$5,000,000.
- (v) change the rights and duties of Agent.
- (vi) permit any Revolving Advance to be made if after giving effect thereto the total of Revolving Advances outstanding hereunder would exceed the Formula

Amount for more than sixty (60) consecutive Business Days or exceed one hundred and five percent (105%) of the Formula Amount.

(vii) increase the Advance Rates above the Advance Rates in effect on the Closing Date.

(viii) release any Borrower.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Borrowers, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Borrowers, Agent and Lenders shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

(c) In the event that Agent requests the consent of a Lender pursuant to Section 16.2(b) and such consent is denied, then PNC may, at its option, require such Lender to assign its interest in the Advances to PNC or to another Lender or to any other Person designated by the Agent (the "Designated Lender"), for a price equal to (i) the then outstanding principal amount thereof plus (ii) accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrowers. In the event PNC elects to require any Lender to assign its interest to PNC or to the Designated Lender, PNC will so notify such Lender in writing within forty five (45) days following such Lender's denial, and such Lender will assign its interest to PNC or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, PNC or the Designated Lender, as appropriate, and Agent.

(d) Notwithstanding (a) the existence of a Default or an Event of Default, (b) that any of the other applicable conditions precedent set forth in Section 8.2 have not been satisfied or (c) any other provision of this Agreement, Agent may at its discretion and without the consent of the Required Lenders, voluntarily permit the outstanding Revolving Advances at any time to exceed the Formula Amount by up to five percent (5%) of the Formula Amount for up to sixty (60) consecutive days (the "Out-of-Formula Loans"). If Agent is willing in its sole and absolute discretion to make such Out-of-Formula Loans, such Out-of-Formula Loans shall be payable on demand and shall bear interest at the Default Rate for Revolving Advances consisting of Domestic Rate Loans; provided that, if Lenders do make Out-of-Formula Loans, neither Agent nor Lenders shall be deemed thereby to have changed the limits of Section 2.1(a). For purposes of this paragraph, the discretion granted to Agent hereunder shall not preclude involuntary overadvances that may result from time to time due to the fact that the Formula Amount was unintentionally exceeded for any reason, including, but not limited to, Collateral previously deemed to be either "Eligible Receivables" or "Eligible Inventory", as applicable, becomes ineligible, collections of Receivables applied to reduce outstanding Revolving Advances are thereafter returned for insufficient funds or overadvances are made to protect or preserve the Collateral. In the event Agent involuntarily permits the outstanding Revolving Advances to exceed the Formula Amount by more than five percent (5%), Agent shall use its efforts to have Borrowers decrease such excess in as expeditious a manner as is practicable under

the circumstances and not inconsistent with the reason for such excess. Revolving Advances made after Agent has determined the existence of involuntary overadvances shall be deemed to be involuntary overadvances and shall be decreased in accordance with the preceding sentence.

(e) In addition to (and not in substitution of) the discretionary Revolving Advances permitted above in this Section 16.2, the Agent is hereby authorized by Borrowers and the Lenders, from time to time in the Agent's sole discretion, (A) after the occurrence and during the continuation of a Default or an Event of Default, or (B) at any time that any of the other applicable conditions precedent set forth in Section 8.2 have not been satisfied, to make Revolving Advances to Borrowers on behalf of the Lenders which the Agent, in its reasonable business judgment, deems necessary or desirable (a) to preserve or protect the Collateral, or any portion thereof, (b) to enhance the likelihood of, or maximize the amount of, repayment of the Advances and other Obligations, or (c) to pay any other amount chargeable to Borrowers pursuant to the terms of this Agreement; provided, that at any time after giving effect to any such Revolving Advances the outstanding Revolving Advances do not exceed one hundred and five percent (105%) of the Formula Amount.

16.3. Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrowers, Agent, each Lender, all future holders of the Obligations and their respective successors and permitted assigns, except that no Borrower may assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Agent and each Lender.

(b) Each Borrower acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Participant"). Each Participant may exercise all rights of payment (including rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Participant were the direct holder thereof provided that Borrowers shall not be required to pay to any Participant more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Participant had such Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrowers be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both such Lender and such Participant. Each Borrower hereby grants to any Participant a continuing security interest in any deposits, moneys or other property actually or constructively held by such Participant as security for the Participant's interest in the Advances.

(c) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may sell, assign or transfer all or any part of its rights and obligations under or relating Advances under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender"), in minimum amounts of not less than \$5,000,000, pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent for recording. Upon such

execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Each Borrower hereby consents to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrowers shall execute and deliver such further documents and do such further acts and things reasonably necessary in order to effectuate the foregoing, provided that no such addition shall in any way negatively and materially affect Borrowers' rights or obligations hereunder.

(d) Any Lender, with the consent of Agent which shall not be unreasonably withheld or delayed, may directly or indirectly sell, assign or transfer all or any portion of its rights and obligations under or relating to Advances under this Agreement and the Other Documents to an entity, whether a corporation, partnership, trust, limited liability company or other entity that (i) is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and (ii) is administered, serviced or managed by the assigning Lender or an Affiliate of such Lender (a "Purchasing CLO") and together with each Participant and Purchasing Lender, each a "Transferee" and collectively the "Transferees"), pursuant to a Commitment Transfer Supplement modified as appropriate to reflect the interest being assigned ("Modified Commitment Transfer Supplement"), executed by any intermediate purchaser, the Purchasing CLO, the transferor Lender, and Agent as appropriate and delivered to Agent for recording. Upon such execution and delivery, from and after the transfer effective date determined pursuant to such Modified Commitment Transfer Supplement, (i) Purchasing CLO thereunder shall be a party hereto and, to the extent provided in such Modified Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder and (ii) the transferor Lender thereunder shall, to the extent provided in such Modified Commitment Transfer Supplement, be released from its obligations under this Agreement, the Modified Commitment Transfer Supplement creating a novation for that purpose. Such Modified Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing CLO. Each Borrower hereby consents to the addition of such Purchasing CLO. Borrowers shall execute and deliver such further documents and do such further acts and things reasonably necessary in order to effectuate the foregoing, provided that no such addition shall in any way negatively and materially affect Borrowers' rights or obligations hereunder.

(e) Agent shall maintain at its address a copy of each Commitment Transfer Supplement and Modified Commitment Transfer Supplement delivered to it and a register (the

“Register”) for the recordation of the names and addresses of each Lender and the outstanding principal, accrued and unpaid interest and other fees due hereunder. The entries in the Register shall be conclusive, in the absence of manifest error, and each Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrowing Agent or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of \$3,500 payable by the applicable Purchasing Lender and/or Purchasing CLO upon the effective date of each transfer or assignment (other than to an intermediate purchaser) to such Purchasing Lender and/or Purchasing CLO.

(f) Each Borrower authorizes each Lender to disclose to any Transferee and any prospective Transferee any and all financial information in such Lender's possession concerning such Borrower which has been delivered to such Lender by or on behalf of such Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of such Borrower.

16.4. Application of Payments. Agent shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that any Borrower makes a payment or Agent or any Lender receives any payment or proceeds of the Collateral for any Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Agent or such Lender.

16.5. Indemnity. Each Borrower shall indemnify Agent, each Lender and each of their respective officers, directors, Affiliates, attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including reasonable fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Agent or any Lender in any claim, litigation, proceeding or investigation instituted or conducted by any Governmental Body or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Agent or any Lender is a party thereto, except to the extent that any of the foregoing arises out of the gross negligence or willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment). Without limiting the generality of the foregoing, this indemnity shall extend to any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including reasonable fees and disbursements of counsel) asserted against or incurred by any of the indemnitees described above in this Section 16.5 by any Person under any Environmental Laws or similar laws by reason of any Borrower's or any other Person's failure to comply with laws applicable to solid or hazardous waste materials, including Hazardous Substances and Hazardous Waste, or other Toxic Substances. Additionally, if any taxes (excluding taxes imposed upon or measured solely by the net income of Agent and Lenders, but including any intangibles taxes, stamp tax, recording tax or franchise tax) shall be payable by Agent, Lenders or Borrowers on account of the execution or delivery of

this Agreement, or the execution, delivery, issuance or recording of any of the Other Documents, or the creation or repayment of any of the Obligations hereunder, by reason of any Applicable Law now or hereafter in effect, Borrowers will pay (or will promptly reimburse Agent and Lenders for payment of) all such taxes, including interest and penalties thereon, and will indemnify and hold the indemnitees described above in this Section 16.5 harmless from and against all liability in connection therewith.

16.6. Notice. Any notice or request hereunder may be given to Borrowing Agent or any Borrower or to Agent or any Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice, request, demand, direction or other communication (for purposes of this Section 16.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission or by setting forth such Notice on a site on the World Wide Web (a "Website Posting") if Notice of such Website Posting (including the information necessary to access such site) has previously been delivered to the applicable parties hereto by another means set forth in this Section 16.6) in accordance with this Section 16.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 16.6 or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 16.6. Any Notice shall be effective:

(a) In the case of hand-delivery, when delivered;

(b) If given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission, a Website Posting or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);

(d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(e) In the case of electronic transmission, when actually received;

(f) In the case of a Website Posting, upon delivery of a Notice of such posting (including the information necessary to access such site) by another means set forth in this Section 16.6; and

(g) If given by any other means (including by overnight courier), when actually received.

Any Lender giving a Notice to Borrowing Agent or any Borrower shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Lenders of its receipt of such Notice.

(A) If to Agent or PNC at:

PNC Bank, National Association
1900 E. 9th Street, 9th Floor
Locator: B7-YB13-09-5
Cleveland, Ohio 44114
Attention: Todd Milenius
Telephone: (216) 222-9761
Telecopier: (216) 222-8155

with a copy to:

Frost Brown Todd LLC
201 East Fifth Street, Suite 2200
Cincinnati, Ohio 45202
Attention: Michael J. O'Grady
Telephone: (513) 651-6482
Facsimile: (513) 651-6981

(B) If to a Lender other than Agent, as specified on the signature pages hereof.

(C) If to Borrowing Agent or any Borrower:

c/o Sypris Solutions Inc.
101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
Attention: General Counsel
Telephone: (502) 329-2017
Facsimile: (502) 329 2050

with a copy to:

Middleton Reutlinger
2500 Brown & Williamson Tower
Louisville, Kentucky 40202
Attention: Thomas Ice
Telephone: (502) 625-2807
Facsimile: (502) 588-1971

16.7. Survival. The obligations of Borrowers under Sections 2.2(f), 3.6, 3.8, 4.19(h), and 16.5 and the obligations of Lenders under Section 14.7, shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

16.8. Severability. If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Laws, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

16.9. Expenses. All costs and expenses including reasonable attorneys' fees and disbursements incurred by Agent on its behalf or on behalf of Lenders, or by any Lender on its own behalf (a) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (b) in connection with the entering into, modification, amendment, administration and enforcement of this Agreement or any consents or waivers hereunder and all related agreements, documents and instruments, or (c) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, or maintaining, preserving or enforcing any of Agent's or any Lender's rights hereunder and under all related agreements, documents and instruments, whether through judicial proceedings or otherwise, or (d) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with any Borrower, or any of their respective Subsidiaries, or (e) in connection with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement and all related agreements, documents and instruments, may be charged to Borrower's Account as a Revolving Advance maintained as a Domestic Rate Loan and shall be part of the Obligations. In addition, Agent may conduct field examinations and appraisals at the expense of Borrowers to the extent provided in Section 4.10. Notwithstanding the foregoing, the Borrowers shall not be responsible for any legal fee of Agent's U.S. counsel incurred to initially establish this Agreement which exceeds \$50,000 in the aggregate. Such limitation shall not apply to out-of-pocket expenses of U.S. counsel or legal fees or expenses of counsel located outside of the U.S., if any.

16.10. Injunctive Relief. Each Borrower recognizes that, in the event any Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, or threatens to fail to perform, observe or discharge such obligations or liabilities, any remedy at law may prove to be inadequate relief to Lenders; therefore, Agent, if Agent so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

16.11. Consequential Damages. None of the Borrowers, Agent, or Lenders, nor any agent or attorney for any of them, shall be liable to any other party for indirect, punitive, exemplary or consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations or as a result of any transaction contemplated under this Agreement or any Other Document.

16.12. Captions. The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

16.13. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission or other form of electronic transmission shall be deemed to be an original signature hereto.

16.14. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

16.15. Confidentiality; Sharing Information. Agent, each Lender and each Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (a) to its examiners, Affiliates, outside auditors, counsel and other professional advisors, (b) to Agent, any Lender or to any prospective Transferees, and (c) as required or requested by any Governmental Body or representative thereof or pursuant to legal process; provided, further that (i) unless specifically prohibited by Applicable Law, Agent, each Lender and each Transferee shall use its reasonable best efforts prior to disclosure thereof, to notify the applicable Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of a Lender or a Transferee by such Governmental Body) or (B) pursuant to legal process and (ii) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by any Borrower other than those documents and instruments in possession of Agent or any Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated. Each Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to such Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by any Lender or by one or more Subsidiaries or Affiliates of such Lender and each Borrower hereby authorizes each Lender to share any information delivered to such Lender by such Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such Subsidiary or Affiliate of such Lender, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provisions of this Section 16.15 as if it were a Lender hereunder. Such authorization shall survive the repayment of the other Obligations and the termination of this Agreement.

16.16. Publicity. Each Borrower and each Lender hereby authorizes Agent to make appropriate announcements of the financial arrangement entered into among Borrowers, Agent and Lenders, including announcements which are commonly known as tombstones, in such publications and to such selected parties as Agent shall in its sole and absolute discretion deem appropriate.

16.17. Certifications From Banks and Participants: US PATRIOT Act. Each Lender or assignee or participant of a Lender that is not incorporated under the Laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA PATRIOT Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Lender is not a "shell" and certifying to other matters as required by Section 313 of the USA PATRIOT Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) as such other times as are required under the USA PATRIOT Act.

Signature Pages Follow

Signature Page to Revolving Credit and Security Agreement

SYPRIS SOLUTIONS, INC.,
as Borrower

By: /s Jeffrey T. Gill

Jeffrey T. Gill
President and Chief Executive Officer

SYPRIS TECHNOLOGIES, INC.,
SYPRIS ELECTRONICS, LLC,
SYPRIS DATA SYSTEMS, INC.,
SYPRIS TECHNOLOGIES MARION, LLC,
SYPRIS TECHNOLOGIES KENTON, INC.,
SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC,
as Borrowers

By: /s Jeffrey T. Gill

Jeffrey T. Gill
Chairman

Signature Page to Revolving Credit and Security Agreement

PNC BANK, NATIONAL ASSOCIATION,
as Lender and as Agent

By: /s/ Gerald R. Kirpes

Gerald R. Kirpes
Senior Vice President

PNC Bank, National Association
1900 E. 9th Street, 9th Floor
Locator: B7-YB13-09-5
Cleveland, Ohio 44114
Attention: Todd Milenius

Commitment Percentage: 100%

