

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

FORM 10-K

(Mark one)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the fiscal year ended December 31, 2014.
 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, including zip code)

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

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

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

(Title of each class)

(Name of each exchange on which registered)

Common Stock, \$.01 par value

The NASDAQ Stock Market LLC

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

None

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2014) was \$62,343,462.

There were 20,456,044 shares of the registrant's common stock outstanding as of March 10, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 5, 2015 are incorporated by reference into Part III to the extent described therein.

Table of Contents

	<u>Page</u>
Part I	
Item 1. Business	1
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	15
Item 2. Properties	16
Item 3. Legal Proceedings	17
Item 4. Mine Safety Disclosures	18
Part II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6. Selected Financial Data	20
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	31
Item 8. Financial Statements and Supplementary Data	32
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	62
Item 9A. Controls and Procedures	62
Item 9B. Other Information	62
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	63
Item 11. Executive Compensation	63
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	63
Item 13. Certain Relationships and Related Transactions and Director Independence	64
Item 14. Principal Accounting Fees and Services	64
Part IV	
Item 15. Exhibits and Financial Statement Schedules	65
Signature Page	68

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

PART I

Item 1. Business

General

We were formed as a Delaware corporation in 1997. We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design and other technical services, often under sole-source contracts with corporations and government agencies principally in the markets for industrial manufacturing and aerospace and defense electronics.

We are organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of goods and manufacturing services to customers in the market for truck components and assemblies and from the sale of products to the energy and chemical markets. The Electronics Group, which is comprised of Sypris Electronics, LLC and its subsidiary, generates revenue primarily from the sale of manufacturing services, technical services and products to customers in the market for aerospace and defense electronics.

We focus on those markets where we believe we have the expertise, qualifications and leadership position to sustain a competitive advantage. We target our resources to support the needs of industry participants 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, historically, have been renewed for terms of up to five years, create opportunities to invest in leading-edge processes or technologies to help our customers remain competitive. The productivity, flexibility and economies of scale that can result offer an important opportunity for differentiating ourselves from the competition when it comes to cost, quality, reliability and customer service.

Industrial Manufacturing Group (the Industrial Group). Through our Industrial Group, we are a significant supplier of forged and machined components, serving the commercial vehicle, off highway vehicle, light truck and energy markets in North America. We have the capacity to produce drive train components including axle shafts, gear sets, differential cases, steer axle forgings, and other components for ultimate use by the leading truck manufacturers, including Ford Motor Company (Ford), Freightliner LLC (Freightliner), Mack Trucks, Inc. (Mack), Navistar International Corporation (Navistar), PACCAR, Inc. (PACCAR) and Volvo Truck Corporation (Volvo). We also supply Meritor Inc. (Meritor) with trailer axle beams for use by the leading trailer manufacturers, including Great Dane Limited Partnership (Great Dane), Hyundai Motor Company (Hyundai), Stoughton Trailers, LLC (Stoughton), Utility Trailer Manufacturing Company (Utility) and Wabash National Corporation (Wabash). We support our customers' strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies. Over the past several years, we had implemented a restructuring plan that allowed us to adjust our overhead and infrastructure to be more in line with projected levels of customer demand and market requirements. The plan was largely successful, resulting in significant and permanent cost reductions that have lowered our operating breakeven levels. The plan also included a diversification strategy which has resulted in the recent addition of long-term agreements with Eaton Corporation (Eaton) and American Axle & Manufacturing, Inc., under which we supply forgings. We have recently initiated a similar effort to meet the new challenges of reduced revenues from Dana Holding Corporation (Dana), traditionally our largest customer. In 2014 and 2013, Dana represented approximately 59% and 58% of our net revenue, respectively. In 2015, we do not expect to continue doing business directly with Dana, although we may have new opportunities to supply certain of Dana's competitors who are in some cases gaining market share with Dana's customers. Due to the loss of our largest customer, we will need to cut costs and rebuild our revenues over time. While we hope to take advantage of our excess capacity through these ongoing actions, especially if global economic conditions and the strength of the commercial vehicle industry remain at historically high levels, there can be no assurances that such conditions will continue or that our efforts to cut costs will be successful. See "Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship" in Part I, Item 1A of this Annual Report on Form 10-K. Our sales of engineered products such as pressurized closures, insulated joints and other specialty products, primarily to oil and gas pipelines and related energy markets have remained an independent source of diversified revenues and are becoming an area of greater focus for the Company going forward. We are continually exploring new product developments and potential new markets, which will be an increasing area of focus for the Company going forward.

Aerospace & Defense Electronics Group (the Electronics Group). Our Electronics Group is organized around three primary business lines: Information Security Solutions (ISS), Electronic Manufacturing Services (EMS) and Cyber Security and Analytics (Cyber).

- *Information Security Solutions (ISS).* Our ISS business provides solutions in secure communications, global electronic key management, Sypris Data Systems branded products, and product design and development to the U.S. Government, both defense and civilian agencies, international government agencies, as well as worldwide aerospace and defense prime contractors. This group has several contracts with the Department of Defense to design and build information assurance products, including link encryptors, data recording products and electronic key fill devices.
- *Electronic Manufacturing Services (EMS).* Our EMS business is focused on circuit card and full box build manufacturing, dedicated space and high reliability manufacturing, integrated design and engineering services, systems assembly and integration, design for manufacturability, and design to specification work. Our customers include large aerospace and defense companies such as Lockheed Martin Corporation (Lockheed Martin), Northrop Grumman Corporation (Northrop Grumman) and Exelis Inc. (Exelis).
- *Cyber Security and Analytics (Cyber).* Our Cyber business includes a variety of software, hardware and service solutions designed to help our customers better train and equip their security personnel to protect their operations and sensitive information from theft, disruption or other harm in an increasing hostile and volatile, global cyber environment.

The industry and business environment of our Electronics Group continues to be shaped by policy and budget decisions of the U.S. Government, as well as economic conditions. Recent actions of Congress and the Administration indicate an ongoing emphasis on federal budget deficit reduction. It is likely that U.S. government discretionary spending levels for Fiscal Year 2016 and beyond will continue to be subject to significant pressure, including risk of future sequestration cuts. Significant uncertainty also continues with respect to program-level appropriations for the U.S. Department of Defense (U.S. DoD) and other government agencies within the overall budgetary framework described above. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could result in reductions, cancellations and/or delays of existing contracts or programs. Any of these impacts could have a material effect on the results of the Company's operations, financial position and/or cash flows. Our Electronics Group accounted for approximately 9% of net revenue in 2014.

Our Markets

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

Electronics Group. As noted above, the U.S. Government continues to focus on developing and implementing spending, tax and other initiatives to reduce the deficit, create jobs and stimulate the economy. This process and the spending reductions to defense programs has adversely impacted our portfolio of business in this segment, which is dependent upon discretionary appropriations for defense programs. Although we believe that our products and programs are well aligned with national defense and other priorities, shifts in domestic and international spending and tax policy, changes in security, defense and intelligence priorities, the affordability of our products and services, changes in or preferences for new or different technologies, general economic conditions and other factors may affect the level of funding for existing or proposed programs. Uncertainty over budget plans and national security spending may prove challenging for our customers, as well as the defense industry as a whole.

Market conditions for our ISS and Cyber businesses are expected to be favorable over the long term, given the growing cyber security and intelligence markets. However, market conditions for our EMS business, dedicated to the aerospace and defense market, are characterized by a number of obstacles. The nature of providing outsourced manufacturing services to the aerospace and defense electronics industry differs substantially from the commercial electronics manufacturing industry. The cost of failure can be extremely high, the manufacturing requirements are typically complex and products are produced in relatively small quantities. Companies that provide these manufacturing services are required to maintain and adhere to a number of strict and comprehensive certifications, security clearances and traceability standards. As mentioned above, U.S. Government and private customer spending levels remain uncertain.

Our Business Strategy

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

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

Dedicate our Resources to Support Strategic Partnerships. We will continue to prioritize our resources to support the needs of industry leaders that embrace multi-year contractual relationships as a strategic component of their supply chain management and have the potential for long-term growth. We prefer contracts that are sole-source by part number so we can work closely with the customer to the mutual benefit of both parties. Meritor and Meritor's Brazilian subsidiary have awarded us with sole-source supply agreements for certain parts that run through at least 2015 and 2016, respectively. During 2013, Sypris and Dana executed an amendment to extend our current sole-source supply agreement through 2019. While Dana has repudiated this amendment, we are seeking to enforce the amendment through pending arbitration and litigation proceedings (see "Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship" in Part I, Item 1A of this Annual Report on Form 10-K). In 2015, we do not expect to do any significant business directly with Dana, and we intend re-allocate resources to other long-term multi-year contractual relationships or opportunities in the Industrial and Electronics Groups.

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

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

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

Our Services and Products

We are a diversified provider of outsourced services and specialty products. Our services consist of manufacturing, technical and other services and products that are delivered as part of our customers' overall supply chain management. The information below is representative of the types of products we manufacture, services we provide and the customers and industries for which we provide such products or services.

Industrial Group:

Meritor	Axle shafts and drive train components for medium and heavy-duty trucks as well as axle beams for trailers.
Eaton	Transmission shafts for heavy-duty trucks.
Jamison Products	Specialty closures for oil and gas pipelines.

Electronics Group:

Northrop Grumman	Circuit card assembly and sub-assembly design and build for electronic sensors and systems ranging from radar and targeting systems to tactical ground stations, navigation systems and integrated avionics.
U.S. Government	Secure communications equipment, global key management solutions and data recording systems.
Lockheed Martin	Complex circuit cards for use in some of the nation's high priority space programs.
Exelis	Complex circuit cards and subassemblies for use in weapons systems, targeting and warning systems.

Manufacturing Services

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

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

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

Products

In addition to our outsourced contract manufacturing services, we offer specialized products including light weight axle components, digital and analog data systems and encryption devices used in military applications, a variety of cyber security training and identity authentication solutions, and specialty closures and joints used in pipeline and chemical systems. As we look to grow our products business and seek to replace the revenues lost from the Dana relationship, greater emphasis will be placed on the commercialization of new products to broaden our portfolio and meet the needs of our customers.

Our Customers

Our customers include large, established companies and agencies of the federal government. We provide some customers with a combination of outsourced services and products, while other customers may be in a single category of our service or product offerings. Our five largest customers in 2014 were Dana, Meritor, Sistemas Corporation (Sistemas), Axle Alliance and Northrop Grumman, which in the aggregate accounted for 85% of net revenue. Our five largest customers in 2013 were Dana, Meritor, Sistemas, Northrop Grumman and Eaton, which in the aggregate accounted for 81% of net revenue. In 2014, Dana and Meritor represented approximately 59% and 16% of our net revenue, respectively. In 2013, Dana and Meritor represented approximately 58% and 15% of our net revenue, respectively. In addition, U.S. governmental agencies accounted for 2% and 3% of net revenue in 2014 and 2013, respectively. Dana has repudiated the extension of our long term supply agreement and is not expected to be a direct customer in 2015 (see “Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship.” in Part I, Item 1A of this Annual Report on Form 10-K).

Geographic Areas and Currency Fluctuations

We are located in the U.S., Mexico, Denmark and the U.K. Our Mexican subsidiaries and affiliates are a part of our Industrial Group and manufacture and sell a number of products similar to those the Industrial Group produces in the U.S. Our Denmark subsidiary is a sales office and is part of our Electronics Group. Our U.K subsidiary is a sales office and is part of our Industrial Group. In addition to normal business risks, operations outside the U.S. may be subject to a greater risk of changing political, economic and social environments, changing governmental laws and regulations, currency revaluations and market fluctuations. Fluctuations in foreign currency exchange rates have primarily impacted our earnings only to the extent of remeasurement gains or losses related to U.S. dollar denominated accounts of our foreign subsidiaries, because the vast majority of our transactions are denominated in U.S. dollars. For the year ended December 31, 2014, other income, net, included foreign currency transaction gains of \$0.7 million. For 2013, other income, net, included foreign currency transaction losses of \$0.3 million.

Net revenues from Mexican operations, primarily from Dana, were \$111.2 million, or 31%, and \$95.4 million, or 31%, of our consolidated net revenues in 2014 and 2013, respectively. The loss of Dana’s revenues will create significant challenges for the Company, especially in the near-term as we seek to control our costs while rebuilding and diversifying our customer base. In 2014, net income from our Mexican operations was \$10.8 million, as compared to our consolidated net loss of \$1.2 million. In 2013, net income from our Mexican operations was \$7.7 million, as compared to our consolidated net loss of \$9.9 million. You can find more information about our regional operating results, including our export sales, in “Note 20 Segment Information” to our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Sales and Business Development

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

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

Since January 1, 2015, a number of Dana’s customers and suppliers have contacted us, requesting that we either supply component parts to them, directly to Dana or to Dana’s competitors. We are continuing to explore these various opportunities as they arise, but there can be no assurances that our efforts to develop new sources of revenues will be successful.

Competition

The markets that we serve are highly competitive, and we compete against numerous domestic companies in addition to the internal capabilities of some of our customers. In the truck components and assemblies market, we compete primarily against other component suppliers such as Ramkrishna Forgings Limited, Mid-West Forge, Inc., GNA Axles Limited, US Manufacturing Corporation, Spencer Forge and Machine, Inc. and Traxle, which serve as suppliers to many Tier I and smaller companies. In the aerospace and defense electronics market, we compete primarily against companies such as Celestica Inc., Jabil Circuit, Inc. and Safenet, Inc. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours. In addition, we will face new competitors as we attempt to increase and expand our business.

We believe that the principal competitive factors in our markets include the availability of capacity, currency exchange rates (especially in low-cost countries), technological capability, flexibility, financial strength and timeliness in responding to design and schedule changes, price, quality and delivery. Although we believe that we generally compete favorably with respect to each of these factors, some of our competitors, as compared to us, are larger and have greater financial and operating resources, greater geographic breadth and range of services, customer bases and brand recognition than we do. We also face competition from manufacturing operations of our current and potential customers that continually evaluate the relative benefits of internal manufacturing compared to outsourcing.

Suppliers

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

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

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

Research and Development

Our research and development activities are mainly related to our product lines that serve the aerospace and defense electronics market. Process improvement expenditures related to our outsourced services are not reflected in research and development expense. Accordingly, our research and development expense represents a relatively small percentage of our net revenue. Company-sponsored research and development costs are expensed as incurred. We invested \$0.6 million and \$3.0 million in research and development in 2014 and 2013, respectively. Customer-sponsored research and development costs are incurred under U.S. Government-sponsored contracts and require us to provide a product or service meeting certain defined performance or other specifications (such as designs). Customer-sponsored research and development is accounted for under the milestone method and included in our net revenue and cost of sales (see Critical Accounting Policies and Estimates in Item 7 of this Annual Report on Form 10-K).

Patents, Trademarks and Licenses

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

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

Government Regulation

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

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

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

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

Employees

As of December 31, 2014, we had a total of 1,332 employees, of which 1,064 were engaged in manufacturing and providing our technical services, 19 were engaged in sales and marketing, 104 were engaged in engineering and 145 were engaged in administration. Approximately 683 of our employees were covered by collective bargaining agreements with various unions that expire on various dates through 2017. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements that expire within the next 12 months. In response to the loss of significant revenues from Dana, traditionally our largest customer, we have engaged in layoffs during the first quarter of 2015, and our ability to maintain our workforce depends on our ability to attract and retain new and existing customers. Although we believe overall that relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably, that negotiations will be successful or that we will not experience a work stoppage, which could adversely affect our consolidated results of operations.

Internet Access

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

Item 1A. Risk Factors

Risks Related to Our Business and Forward-Looking Statements

This annual report and our other oral or written communications may contain “forward-looking” statements. These statements may include our expectations or projections about the future of our industries, business strategies, the markets in which we operate, potential acquisitions, contracts with customers, new business opportunities or financial results and our views about developments beyond our control including government spending, domestic or global economic conditions, trends and market forces. These statements are based on management’s views and assumptions at the time originally made, and we undertake no obligation to update these statements, except as may be required by law. There can be no assurance that our expectations, projections or views will come to pass, and you should not place undue reliance on these forward-looking statements.

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

Customers

We anticipate operating losses in the near term as we seek to generate new business revenues to replace the loss of our largest customer.

Our businesses generally will require a higher level of new business revenues in order to operate profitably. The recent loss of revenues from Dana has accelerated our need to launch new programs with existing customers and to diversify our business by adding new customers. While we expect to generate operating losses in the near term due to the loss of Dana as a customer, we intend to steadily increase our revenues over this time with new or existing customers by utilizing our excess manufacturing capacity. Unless we can develop and offer new products and services to existing customers or obtain new customers, we may be unable to maintain the critical mass of capital investments or talented employees that are needed to succeed in our chosen markets or to maintain our existing facilities, which could result in additional restructuring or exit costs. There can be no assurance that we will be able to generate enough additional revenue to offset the loss of revenues from Dana through new or existing customers.

Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship and stopped placing orders with us as of the end of 2014.

Until recently, our two largest customers, Dana and Meritor, had contracts with expiration dates of December 31, 2014 and, for a portion of the Meritor goods, May 2, 2015. In 2014, Dana and Meritor represented approximately 59% and 16% of our revenues. While we have renewed the Meritor agreement and have executed an extension of the Dana contract through 2019, Dana has repudiated that extension, which repudiation is currently being litigated and arbitrated (see “Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K). Even if we prevail on some or all of the items under dispute, we do not expect to retain Dana as a customer. In 2015, we do not expect to do business directly with Dana. Our inability to replace the loss of Dana business while effectively controlling our costs would materially adversely affect our business, results of operations and financial condition.

Customer contracts could be less profitable than expected.

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

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

In the past, we have signed long-term supply agreements with Dana and Meritor and acquired their facilities in Morganton, North Carolina and Toluca, Mexico, among other manufacturing assets. Although most of these acquired facilities have had well-established product markets, the Company does not currently expect to continue doing business directly with Dana. In addition, Meritor's products may not continue to be successful, product enhancements may not be made in a timely fashion, and any long-term pricing agreements could generate lower margins than anticipated. If any of these facilities are required to operate at underutilized levels for extended periods of time, especially those plants with traditionally higher percentages of Dana business, it could materially adversely affect our business, results of operations and financial condition.

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

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

We depend on a few key customers in challenging industries for most of our revenues. We have recently lost our largest customer and continue to have substantial customer concentration.

Our five largest customers in 2014 were Dana, Meritor, Sistemas, Axle Alliance and Northrop Grumman, collectively accounting for 85% of net revenue. Our five largest customers in 2013 were Dana, Meritor, Sistemas, Northrop Grumman and Eaton, collectively accounting for 81% of net revenue. In 2015, we do not currently expect to continue doing business directly with Dana. Our inability to replace the loss of Dana business while effectively controlling our costs would materially adversely affect our business, results of operations and financial condition. In 2015 and beyond, we will need to attract new clients and attempt to diversify our customer base from a limited number of potential customers and with longer lead times often being required for new programs.

The truck components and assemblies industry has experienced credit risk, highly cyclical market demand, labor unrest, rising steel costs, bankruptcy and other obstacles, while the aerospace and defense electronics industry has experienced consolidation, increased competition, disruptive new technologies and uncertain funding. We depend on the continued growth and financial stability of these customers and our core markets, as well as general economic conditions. Adverse changes affecting these customers, markets or economic conditions could harm our operating results. The truck components and assemblies market is highly cyclical, due in part to regulatory deadlines, the availability or scarcity of credit, fluctuations in oil prices and pent-up demand for replacement vehicles.

Rising costs of steel or component parts could increase our inventory and working capital levels and present challenges to our customers who seek to pass those costs on to their customers. Many of our customers' labor disputes, financial difficulties and restructuring needs have created rising uncertainty and risk, which could increase our costs or impair our business model.

The aerospace and defense industry is pressured by cyclical, rapid technological change, shortening product life cycles, decreasing margins, unpredictable funding levels and government procurement and certification processes. Our aerospace and defense business faces an aging portfolio of legacy products and services which must be replenished with new technologies if we are to successfully maintain or expand our market share. Our failure to address any of these factors, particularly in our secured electronic communications or space engineering programs, could impair our business model.

There can be no assurance that any of our customers will not default on, delay or dispute payment of, or seek to reject our outstanding invoices in bankruptcy or otherwise. In addition, the existence of these factors may result in fewer customers in our target markets due to consolidation, bankruptcy, competitive or other market reasons, making it more difficult to obtain new clients and diversify our customer base in the near future.

Congressional budgetary constraints or reallocations could reduce our government sales.

Our Electronics Group sells manufacturing services and products to a number of U.S. government agencies, which in the aggregate represented approximately 2% and 3% of our net revenue in 2014 and 2013, respectively. We also serve as a contractor for large aerospace and defense companies such as Lockheed Martin, Northrop Grumman and Exelis, typically under federally funded programs, which represented approximately 4% and 5% of net revenue in 2014 and 2013, respectively.

The Electronics Group already has been significantly adversely affected by declines in the overall government defense market due to the effects of sequestration, and may be further affected if funding for programs in which we participate, either by selling services and products directly to U.S. government agencies or as a subcontractor to prime contractors such as Lockheed Martin, Northrop Grumman and Exelis, is reduced, delayed or cancelled. Our ability to obtain new contract awards also could be negatively affected.

Congress and the Administration continue to debate these funding issues, but reductions in U.S. military spending also could materially adversely affect the results of our Electronics Group, and we expect that certain military and defense programs will experience delays while the receipt of government approvals remain pending.

Future levels of governmental spending, including delays, declines or reallocations in the funding of certain programs could adversely affect our financial results, if we are unable to offset these changes with new business or cost reductions.

Suppliers**Interruptions in the supply of key components could disrupt production.**

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

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

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

Execution**Contract terminations or delays could harm our business.**

We often provide manufacturing services and products under contracts that contain detailed specifications, quality standards and other terms. If we are unable to perform in accordance with such terms, our customers might seek to terminate such contracts, demand price concessions or other financial consideration or downgrade our past performance rating, an increasingly critical factor in federal procurement competitions. Moreover, many of our contracts are subject to termination for convenience or upon default. These provisions could provide only limited recoveries of certain incurred costs or profits on completed work and could impose liability for our customers' costs in procuring undelivered items from another source. If any of our significant contracts were to be repudiated, terminated or not renewed, such as the Dana contract described above, we would lose substantial revenues, and our operating results as well as prospects for future business opportunities could be adversely affected. For example, as described above, our supply agreement with Dana represented approximately 59% of our revenues in 2014, and this agreement has been repudiated by Dana effective as of December 31, 2014 (see "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K).

We are subject to various audits, reviews and investigations, including private party “whistleblower” lawsuits, relating to our compliance with federal and state laws. Should our business be charged with wrongdoing, or determined not to be a “presently responsible contractor,” we could be temporarily suspended or debarred for up to three or more years from receiving new government contracts or government-approved subcontracts.

We must operate more efficiently than usual due to lower revenues.

If we are unable to improve the cost, efficiency and yield of our operations, and if we are not able to control costs, our financial results could suffer and we could be forced to sell assets, refinance our debt at higher costs or take other measures to restructure our operations or capital structure. A number of major obstacles could include: an inability to effectively control costs during our efforts to replace the loss of Dana revenues; the loss of other substantial revenues due to a sluggish economic recovery; inflationary pressures; increased borrowing due to declines in sales; changes in anticipated product mix and the associated variances in our profit margins; efforts to increase our manufacturing capacity and launch new programs; efforts to migrate, restructure or move business operations from one location to another; the breakdown of critical machinery or equipment; the need to identify and eliminate our root causes of scrap; our ability to achieve expected annual savings or other synergies from past and future business combinations; inventory risks due to shifts in market demand; obsolescence; price erosion of raw material or component parts; shrinkage, or other factors affecting our inventory valuations; and an inability to successfully manage growth, contraction or competitive pressures in our primary markets.

Our management or systems could be inadequate to support our existing or future operations, especially as we downsize our operating staff to reduce expenses while we work to replace the loss of Dana revenues. New customers or new contracts, particularly with new product offerings, could require us to invest in additional equipment or other capital expenditures. We may have limited experience or expertise in installing or operating such equipment, which could negatively impact our ability to deliver products on time or with acceptable costs. In addition, a material portion of our manufacturing equipment requires significant maintenance to operate effectively, and we may experience maintenance and repair issues. Our efforts to restructure, relocate and consolidate a significant number of the operations, especially in our truck component manufacturing plants, could cause certain of these facilities to operate at underutilized levels, which could materially adversely affect our business, results of operations and financial condition. In our Electronics Group, the risk of technical failures, nonconformance with customer specifications, an inability to deliver next generation products or other quality concerns could materially impair our operating results.

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

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

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

Cyber security risks could negatively affect operations and result in increased costs.

Our Electronics Group, as a U.S. defense contractor, and our Company overall, face cyber security threats, threats to the physical security of our facilities and employees and terrorist acts, as well as the potential for business disruptions associated with information technology failures and natural disasters.

We routinely experience cyber security threats, threats to our information technology infrastructure and attempts to gain access to our sensitive information, as do our customers, suppliers and subcontractors. Prior cyber attacks directed at us have not had a material impact on our financial results. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

Although we work cooperatively with our customers and our suppliers, subcontractors, and other partners to seek to minimize the impacts of cyber threats, other security threats or business disruptions, we must rely on the safeguards put in place by those entities, and those safeguards might not be effective.

The costs related to cyber security or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect our internal operations, the services we provide to customers, loss of competitive advantages derived from our research and development efforts, early obsolescence of our products and services, our future financial results, our reputation or our stock price.

Competition

Increasing competition could limit or reduce our market share.

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

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

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

The markets for our products and services are characterized by changing technology and continuing process development. The future of our business will depend in large part upon the continuing relevance of our technological capabilities. We could fail to make required capital investments, develop or successfully market services and products that meet changing customer needs and anticipate or respond to technological changes in a cost-effective and timely manner. Our inability to successfully launch or sustain new or next generation programs or product features, especially in accordance with budgets or committed delivery schedules, could materially adversely affect our financial results. We could encounter competition from new or revised technologies that render our technologies and equipment less profitable or obsolete in our chosen markets and our operating results may suffer. In particular, the Company is currently developing new products and pursuing new programs in an attempt to replenish the Electronics Group's revenue stream, which has been declining since 2009. However, commercializing the new products and programs is costly, has been slower than anticipated and is not expected to result in significant revenue in 2015. The launch of any new products or programs within the Electronics Group may not be successful.

Access to Capital

An inability to obtain new financing could require us to sell assets and could impair our ability to continue operations.

As previously disclosed, we amended our existing credit facility (the "Credit Facility") in March 2015 in response to the changes in our business arising out of the loss of Dana as a customer. We are currently seeking to attempt to locate suitable debt financing to supplement or replace the Credit Facility on or prior to its maturity in January 2016. The amended Credit Facility requires us to make certain repayments through additional financing or the sale of marketable assets prior to maturity and includes other provisions designed to incentivize us to make early repayments to the lender, such as rising interest rates.

The timeframes during which we need to obtain such financing may make it more difficult to obtain on acceptable terms. Without the addition of junior capital, we do not believe conventional bank lending will be available to us in the near-term due to the recent loss of Dana revenues, among other factors. If additional financing is obtained in the form of debt, the terms of the debt could place restrictions on our ability to operate or increase the financial risk of our capital structure. Additional equity financing or debt financing with an equity component (such as warrants) could result in dilution to existing holders.

Our ability to borrow under the Credit Facility is conditioned upon our compliance with various financial covenants. If we fail to meet those covenants, it could accelerate our need to obtain alternative financing. If unsuccessful, we may need to raise capital through the sale of core or non-core assets or businesses, and our inability to do so could materially adversely impact our operating results, financial results or ability to continue operations.

Our ability to finance expansion or new business opportunities may be limited.

Our future liquidity and capital requirements depend on numerous factors other than bank borrowings or debt financing, including the pace at which we can replace the loss of Dana revenues. One method we have historically used to increase our revenues and obtain multi-year supply agreements is to buy a customer's non-core manufacturing assets and produce products for them. We may not be able to raise funds necessary to pursue this strategy under our existing and future debt agreements which could further limit our ability to replace the loss of revenues.

We may be unable to comply with the covenants in our amended Credit Facility.

The financial covenants in our amended Credit Facility require us to achieve certain financial and other business results. In March 2015, certain covenants were amended to allow for current and future compliance. A failure to comply with these or other covenants could, if we were unable to obtain a waiver or another amendment of the covenant terms, cause an event of default that would cause our debt under the Credit Facility to become immediately due and payable. We have also agreed to repay a portion of our loan balances by September 30, 2015 in the event that such amount is not raised either through additional subordinated debt or the sale of collateral. Our failure or inability to do so in accordance with our amended Credit Facility could cause an event of default that would cause the debt under the Credit Facility to become immediately due and payable. In the event that our outstanding debt under the Credit Facility was declared immediately due and payable, we may be required to sell assets which could impair our ability to continue operations.

Labor Relations

We must attract and retain qualified employees while successfully managing related costs.

Our future success in a changing business environment, including during rapid changes in the size, complexity or skills required of our workforce, as we are experiencing in connection with the recent loss of Dana revenues, will depend to a large extent upon the efforts and abilities of our executive, managerial and technical employees. The loss of key employees, especially in a recovering economic environment, could have a material adverse effect on our operations. Our future success will also require an ability to attract and retain qualified employees, especially those with engineering or production expertise in our core business lines. Labor disputes or changes in the cost of providing pension and other employee benefits, including changes in health care costs, investment returns on plan assets and discount rates used to calculate pension and related liabilities or other requirements to accelerate the level of our pension fund contributions to reduce or eliminate underfunded liabilities, could lead to increased costs or disruptions of operations in any of our business units.

Disputes with labor unions could disrupt our business plans.

As of December 31, 2014, we had collective bargaining agreements covering approximately 683 employees (all of which were in the Industrial Group), or 51% of total employees. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements that expire within the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement. These employees represented approximately 36% of the Company's workforce, or 474 employees at year end. In response to the loss of significant revenues from Dana, traditionally our largest customer, we have engaged in layoffs during the first quarter of 2015 and our ability to maintain our workforce depends on our ability to attract and retain new and existing customers. We could experience a work stoppage or other disputes which could disrupt our operations or the operations of our customers and could harm our operating results.

Regulatory**Environmental, health and safety risks could expose us to potential liability.**

We are subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals and substances used in our operations. If we fail to comply with present or future regulations, we could be forced to alter, suspend or discontinue our manufacturing processes and pay substantial fines or penalties.

Groundwater and other contamination has occurred at certain of our current and former facilities during the operation of those facilities by their former owners, and this contamination may occur at future facilities we operate or acquire. There is no assurance that environmental indemnification agreements we have secured from former owners of these properties will be adequate to protect us from liability.

The Marion, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the state voluntary action program standards applicable to the site. The property was sold in March 2013 to Whirlpool Corporation (Whirlpool). Whirlpool has indemnified the Company against the legacy environmental risks on the property.

We previously acquired certain business assets formerly located at a leased facility in Littleton, Colorado, where chlorinated solvents had been disposed of on site by a prior owner of the business at the site, contaminating the groundwater at and around the site. The seller of the assets to us is operating a remediation system on the site approved by the State of Colorado and has entered into a consent order with the EPA providing for additional investigation at the site. In addition, Sypris has been contractually indemnified by the prior owners of the facility.

Our Morganton, North Carolina facility is subject to soil and groundwater contamination involving petroleum compounds, certain metals and other contaminants, some of which may exceed the State of North Carolina standards applicable to the site. The Company is aware of no current litigation, material remediation claims or other proceedings with respect to this facility.

Our Toluca, Mexico facility is subject to soil and groundwater contamination involving petroleum compounds and volatile organic compounds, among other concerns. We continue to test and assess this site to determine the extent of any contamination by the prior owners of the facility. Under our purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to June 30, 2006, subject to certain other conditions involving Dana's release of, or continuing right to seek indemnity from, Eaton, from which Dana acquired the property.

The Kenton, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, volatile organic compounds, certain metals, PCBs and other contaminants. Under our purchase agreement for this property, Meritor agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Meritor prior to May 2, 2006. The building and real property were sold in January 2012.

Our business is also subject to potential liabilities with respect to health and safety matters. We are required to comply with federal, state, local and foreign laws and regulations governing the health and safety of our workforce, and we could be held liable for damages arising out of human exposure to hazardous substances or other dangerous working conditions. Health and safety laws and regulations are complex and change frequently. As a result, our future costs to comply with such laws or the liabilities incurred in the event of any violations may increase significantly.

Adverse regulatory developments or litigation could harm our business.

Our businesses operate in heavily regulated environments. We must successfully manage the risk of changes in or adverse actions under applicable law or in our regulatory authorizations, licenses and permits, governmental security clearances or other legal rights to operate our businesses, to manage our work force or to import and export goods and services as needed. Our business activities expose us to the risks of litigation with respect to our customers, suppliers, creditors, stockholders or from product liability, environmental or asbestos-related matters. We also face the risk of other adverse regulatory actions, compliance costs or governmental sanctions, as well as the costs and risks related to our ongoing efforts to design and implement effective internal controls.

Other Risks

We face other factors which could seriously disrupt our operations.

Many other risk factors beyond our control could seriously disrupt our operations, including: risks relating to war, future terrorist activities, computer hacking or other cyber attacks, or political uncertainties; risks relating to natural disasters or other casualties which could shut down our domestic or foreign facilities, disrupt transportation of products or supplies, increase the costs under our self insurance program or change the timing and availability of funding in our aerospace and defense electronics markets; risks inherent in operating abroad, including foreign currency exchange rates, adverse regulatory developments, and miscommunications or errors due to inaccurate foreign language translations or currency exchange rates; or our failure to anticipate or to adequately insure against other risks and uncertainties present in our businesses including unknown or unidentified risks.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal manufacturing services operations are engaged in electronics manufacturing services for our aerospace and defense customers and industrial manufacturing services for our truck components and assemblies customers. The following chart indicates the significant facilities that we own or lease, the location and size of each such facility and the manufacturing certifications that each facility possesses. The facilities listed below (other than the corporate office) are used principally as manufacturing facilities.

Location	Segment (Market Served)	Own or Lease (Expiration)	Approximate Square Feet	Certifications
Corporate Office:				
Louisville, Kentucky		Lease (2024)	21,600	
Manufacturing and Service Facilities:				
Louisville, Kentucky	Industrial Group (Truck Components & Assemblies; Specialty Closures)	Own	450,000	QS 9000 TS 16949
Morganton, North Carolina	Industrial Group (Truck Components & Assemblies)	Own	360,000	TS 16949 ISO 14001
Tampa, Florida	Electronics Group (Aerospace & Defense Electronics)	Lease (2016)	318,000	ISO 9001 ISO 14001 AS 9100 NASA-STD-8739 IPC-A-610, Rev D, Class 3 J-STD-001, Rev D, Class 3 CMMI Level 3
Toluca, Mexico	Industrial Group (Truck Components & Assemblies)	Own	217,000	TS 16949

In addition, we lease space in one other facility in Copenhagen, Denmark, which is utilized as a sales office for our Electronics Group.

Below is a listing and description of the various manufacturing certifications or specifications that we utilize at various of our facilities.

Certification/Specification Description

AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
IPC-A-610	A certification process for electronics assembly manufacturing which describes materials, methods and verification criteria for producing high quality electronic products. Class 3 specifically includes high performance or performance-on-demand products where equipment downtime cannot be tolerated, end-use environment may be uncommonly harsh, and the equipment must function when required.

Certification/Specification Description

J-STD-001	A family of voluntary standards of industry-accepted workmanship criteria for electronic assemblies.
CMMI Level-3	An internationally recognized measure of an organization's engineering process maturity.
ISO 9001	A certification process comprised of quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 14001	A family of voluntary standards and guidance documents defining specific requirements for an Environmental Management System.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
QS 9000	A certification process developed by the nation's major automakers that focuses on continuous improvement, defect reduction, variation reduction and elimination of waste.
TS 16949	A quality certification system developed within the automotive sector. Using ISO 9001:2000 as its foundation, ISO/TS 16949:2002 specifies the quality management system (QMS) requirements for the design, development, production, installation and servicing of automotive related products.

Item 3. Legal Proceedings

We are involved from time to time in litigation and other legal or environmental proceedings incidental to our business. On November 25, 2013, Sypris Technologies, Inc. initiated an arbitration proceeding against Dana Limited under the Non-Administered Arbitration Rules of the International Institute for Conflict Prevention & Resolution alleging that Dana Limited had entered and then repudiated a five year extension of the parties' long term supply agreement, to run through 2019. Sypris seeks contractual damages associated with Dana's repudiation of the extended agreement and the resulting loss of these revenues. On December 30, 2013, Sypris filed a Notice of Supplemental Claims in the same arbitration proceeding, seeking up to approximately \$9 million in damages for Dana's alleged breach of the parties' original 2007 supply agreement; Dana has filed a counterclaim for certain unpaid price rebates in the amount of approximately \$3 million. On January 17, 2014, Dana initiated a declaratory judgment action in the Court of Common Pleas for Lucas County, Ohio challenging the arbitrability of the existence and enforceability of the extended supply agreement and seeking a ruling that the extended agreement was unenforceable. On February 28, 2015, the Lucas County Court granted Dana's motion, and Sypris has initiated an appellate review of that ruling in the Sixth District Court of Appeals for Ohio.

Ongoing environmental matters include the following:

- The Marion, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, semi-volatile and volatile organic compounds, certain metals, PCBs and other contaminants, some of which exceed the State of Ohio voluntary action program standards applicable to the site. The property was sold in March 2013 to Whirlpool. Whirlpool has indemnified the Company against the legacy environmental risks on the property.
- In December 1992, we acquired certain business assets formerly located at a leased facility in Littleton, Colorado. Certain chlorinated solvents disposed of on the site by Honeywell, a previous owner of the business, have contaminated the groundwater at and around the site. Alliant Techsystems, from which we acquired the business assets, operates a remediation system approved by the State of Colorado and has also entered into a consent order with the EPA providing for additional investigation at the site. Alliant Techsystems has agreed to indemnify us with respect to these matters.

- Our Morganton, North Carolina facility is subject to soil and groundwater contamination involving petroleum compounds, certain metals and other contaminants, some of which exceed the State of North Carolina notification standards applicable to the site. No litigation or other proceedings are underway with respect to this site.
- Our Toluca, Mexico facility is subject to soil and groundwater contamination involving petroleum compounds and volatile organic compounds, among other concerns. Under our purchase agreement for this facility, Dana has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Dana prior to June 30, 2006, to the extent of any indemnification owed to Dana by Eaton or any other matters for which Dana has released Eaton.
- The Kenton, Ohio property formerly owned by Sypris is subject to soil and groundwater contamination involving petroleum compounds, volatile organic compounds, certain metals, PCBs and other contaminants. Under our purchase agreement for this facility, Meritor has agreed to indemnify us for, among other things, environmental conditions that existed on the site as of closing and as to which we notified Meritor prior to May 2, 2006. The building and real property were sold in January 2012, and the building was subsequently razed by the buyer. Under the terms of the sale agreement, no warranties relating to the property were made including existing environmental conditions and all liability has been passed to the buyer.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to provide the performance graph required in paragraph (e) of Item 201 of Regulation S-K.

Our common stock is traded on the NASDAQ Global Market under the symbol "SYPR." The following table sets forth, for the periods indicated, the high and low closing sale prices per share of our common stock as reported by the NASDAQ Global Market.

	<u>High</u>	<u>Low</u>
Year ended December 31, 2014:		
First Quarter	\$ 3.14	\$ 2.76
Second Quarter	6.10	2.76
Third Quarter	5.66	3.47
Fourth Quarter	3.69	2.36
Year ended December 31, 2013:		
First Quarter	\$ 4.49	\$ 3.60
Second Quarter	3.96	3.06
Third Quarter	3.39	3.03
Fourth Quarter	3.22	2.57

As of March 10, 2015, there were 700 holders of record of our common stock. The amount of cash dividends declared per share for each fiscal quarter in 2014 and 2013 is presented in the table below.

	<u>Dividends per Common Share</u>
Year ended December 31, 2014:	
First Quarter	\$ 0.02
Second Quarter	0.02
Third Quarter	0.02
Fourth Quarter	0.02
Year ended December 31, 2013:	
First Quarter	\$ 0.02
Second Quarter	0.02
Third Quarter	0.02
Fourth Quarter	0.02

Dividends may be paid on common stock only when, as and if declared by our Board of Directors in its sole discretion. The Company's Credit Facility, as recently amended, prohibits dividend payments, as further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" below. As a result, we do not anticipate paying dividends for the remainder of 2015.

The following table summarizes our shares of common stock repurchased during the three months ended December 31, 2014 (dollars in thousands except per share data):

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (b)
9/29/2014 – 10/26/2014	11,616	\$ 3.26	8,772	\$ 3,917
10/27/2014 – 11/23/2014	12,190	\$ 3.32	12,190	\$ 3,877
11/24/2014 – 12/31/2014	—	\$ —	—	\$ 3,877

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

Item 6. Selected Financial Data

We are a smaller reporting company as defined in Item 10(f)(1) of Regulation S-K and thus are not required to report the selected financial data in Item 301 of Regulation S-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our consolidated results of operations and financial condition should be read together with the other financial information and consolidated financial statements included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in the forward-looking statements as a result of a variety of factors, including those discussed in "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K.

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 sole-source contracts with corporations and government agencies principally in the markets for industrial manufacturing and aerospace and defense electronics.

We are organized into two business groups, the Industrial Group and the Electronics Group. The Industrial Group, which is comprised of Sypris Technologies, Inc. and its subsidiaries, generates revenue primarily from the sale of manufacturing services to customers in the market for truck components and assemblies and from the sale of products to the energy and chemical markets. The Electronics Group, which is comprised of Sypris Electronics, LLC and its subsidiary, generates revenue primarily from the sale of manufacturing services, technical services and products to customers in the market for 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, historically, have been renewed for sufficient periods to 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 our competitors when it comes to cost, quality, reliability and customer service.

Industrial Group Outlook

General economic and industry specific market conditions have begun to stabilize for our Industrial Group, and improvements in the overall U.S. economy contributed to improved consumer confidence levels in 2014. In North America, production levels for light, medium and heavy duty trucks have steadily increased over the past five years from a low in the depressed economic environment of 2008 and 2009. The commercial vehicle industry overall is expecting modest growth in production levels through 2015.

Despite the industry's market outlook, our Industrial Group's production levels are expected to decline significantly in 2015. Our shipments to Dana ceased on December 31, 2014, in the context of a dispute over the enforceability of a five-year contract renewal signed by the parties in 2013. In 2014, Dana represented approximately 59% of our net revenue (see "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K). In July 2013, Sypris and Dana signed an amended and restated supply agreement to extend the supply agreement term beyond December 31, 2014, the binding effect of which is currently in dispute. Dana has repudiated this July 2013 agreement, and Dana has ceased ordering any components from us effective December 31, 2014. Sypris disputes Dana's ability to do so and is seeking to recover its lost margins and additional remedies with respect to the revenues to which Sypris was entitled under the renewed agreement.

Dana initiated an ancillary action in Ohio state court challenging the arbitrability of the existence and enforceability of the amended and restated July 2013 supply agreement on January 17, 2014. The parties have conducted discovery, and the Ohio trial court has granted an initial motion for judgment on the pleadings or summary judgment, which Sypris has appealed. If the case goes to trial and if ruled in the Company's favor, the dispute would revert to the arbitrator to determine damages.

The parties have also asserted various damages claims against each other arising out of their prior supply agreement and have sought the assistance of an arbitrator in connection with these disputes. The parties have had an arbitration hearing in January 2015, but the arbitrator has yet to rule. Even if we prevail on the merits in the arbitration or litigation proceedings, there can be no assurance as to the size or timing of any monetary damages awarded.

The loss of Dana's revenues will create significant challenges for the Company, especially in the near-term as we seek to control our costs while rebuilding and diversifying our customer base.

Revenue Recovery Plans

As a result of the dispute with Dana and the loss of the Dana business, the Company has taken significant actions during the fourth quarter of 2014 and the first quarter of 2015 to pursue new business opportunities with existing and potential customers, identify alternative uses for the related assets and certain other contingency plans. For example, since January 1, 2015, a variety of prospective and existing customers, seeking new or expanded relationships with suppliers that have available manufacturing capacity, have toured our operating plants in Kentucky, North Carolina and Mexico as part of their due diligence efforts in connection with a number of potential projects in the commercial vehicle, agricultural equipment and off-highway vehicle component markets. These markets are generally experiencing strong current demand and limited available manufacturing capacity. As a result, the Company is aggressively targeting these new opportunities to utilize our excess capacity for future growth. However, there can be no assurance that our plans to mitigate the loss and to effectively manage our costs during the transition will be successful. See "Risk Factors – Customer contracts may not be renewed on acceptable terms or at all. Our largest customer Dana has repudiated our supply relationship." in Part I, Item 1A of this Annual Report on Form 10-K. See also Note 2 "Loss of a Key Customer and Management's Recovery Plans" to the consolidated financial statements in this Form 10-K.

Electronics Group Outlook

We continue to face challenges within the Electronics Group, such as the conclusion of several U.S. Department of Defense programs that the Company supported as a subcontractor, the loss of a key commercial space customer who decided to begin insourcing programs that had been previously outsourced to the Electronics Group, the uncertainty in the worldwide macroeconomic climate and its impact on aerospace and defense spending patterns globally, the emergence of new competitors to our product and service offerings, as well as federal government spending uncertainties in the U.S. and the allocation of funds by the U.S. Department of Defense.

The Electronics Group's revenue has declined year-over-year since 2009 primarily due to our inability to replace the declining demand for certain legacy products and services with competitive new offerings. While we have begun to generate revenue from the ramp-up of new electronic manufacturing services and other technical service programs, the process of fully replacing our legacy programs will continue through 2015 and 2016. The Company is continuing to develop new products and pursuing new programs to attempt to replenish its revenue stream within the Electronics Group.

The U.S. Government's continued focus on addressing federal budget deficits and the growing national debt exacerbates this challenging environment for the Electronics Group. It is likely that U.S. government discretionary spending levels for Fiscal Year 2016 and beyond will continue to be subject to significant pressure, including risk of future sequestration cuts. Significant uncertainty also continues with respect to program-level appropriations for the U.S. Department of Defense (U.S. DoD) and other government agencies within the overall budgetary framework described above. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions associated with the authorization and appropriations process could result in reductions, cancellations and/or delays of existing contracts or programs. Congress and the Administration continue to debate these long and short-term funding issues, but reductions in U.S. DoD spending could materially and adversely affect the results of our Electronics Group, and we expect that certain military and defense programs will experience delays while the receipt of government approvals remain pending.

As a result, the Company expects ongoing uncertainty within this segment for at least the next twelve months. For the longer term, we are continuing to evaluate new investments in products and programs to further improve the attractiveness of our business portfolio, with a specific emphasis on trusted solutions for identity management, cryptographic key distribution and cyber analytics. There can be no assurance that the Company's investment in and efforts to introduce new products and services will result in new business or revenue. In addition, while the Company continues to evaluate and implement cost reduction measures in this segment, the Company's currently contemplated cost reduction measures may not be able to reduce its cost structure to offset the impact of lower revenues. Should revenues fail to increase in future periods, the Company is considering further cost reductions or other downsizing measures, which could be costly and adversely impact our financial performance.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. We believe the following critical accounting policies affect our more complex judgments and estimates. We also have other policies that we consider to be key accounting policies, such as our policies for revenue recognition in the Industrial Group, including cost of sales; however, these policies do not meet the definition of critical accounting policies because they do not generally require us to make estimates or judgments that are difficult or subjective.

Allowance for Doubtful Accounts. We establish reserves for uncollectible accounts receivable based on overall receivable aging levels, a specific evaluation of accounts for customers with known financial difficulties and evaluation of customer chargebacks, if any. These reserves and corresponding write-offs could significantly increase if our customers experience deteriorating financial results or in the event we receive a significant chargeback, which is deemed uncollectible.

Goodwill. Goodwill is tested for impairment annually as of December 31 or more frequently if impairment indicators arise. If impairment indicators arise, a step one assessment is performed to identify any possible goodwill impairment in the period in which the indicator is identified. Beginning in March 2013, we noted certain indicators relating to our Electronics Group reporting unit that were significant enough to conclude that an impairment indicator existed as of March 31, 2013. Specifically, the Company experienced emerging uncertainty regarding certain key programs within the Electronics Group's space business beginning in the latter part of the first quarter of 2013, as one key customer communicated its strategic sourcing decision to begin insourcing programs that had been previously outsourced to the Electronics Group. As a result, the Electronics Group's short term revenue forecasts were materially affected. Further, the Company experienced a decline in the market value of its equity subsequent to March 31, 2013. As a result of the analysis, the Electronics Group's goodwill was deemed to be impaired as of March 31, 2013, resulting in a non-cash impairment charge of \$6.9 million, representing the segment's entire goodwill balance.

Net Revenue and Cost of Sales. Net revenue of products and services under commercial terms and conditions are recorded upon delivery and passage of title, or when services are rendered. Related shipping and handling costs, if any, are included in costs of sales.

Net revenue on fixed-price contracts is recognized as services are performed. Revenue is deferred until all of the following have occurred: (1) there is a contract in place, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Contract profits are taken into earnings based on actual cost of sales for units shipped. Amounts representing contract change orders or claims are included in revenue when such costs are invoiced to the customer.

The Company periodically enters into research and development contracts with customers related primarily to key encryption products. When the contracts provide for milestone or other interim payments, the Company will recognize revenue under the milestone method in accordance with Accounting Standards Codification ("ASC") 605-28, *Revenue Recognition – Milestone Method*. The Company had one contract in process as of December 31, 2014 being accounted for under the milestone method. The milestone method requires the Company to deem all milestone payments within each contract as either substantive or non-substantive. That conclusion is determined based upon a thorough review of each contract and the deliverables to which the Company has committed to in each contract. For substantive milestones, the Company concludes that upon achievement of each milestone, the amount of the corresponding defined payment is commensurate with the effort required to achieve such milestone or the value of the delivered item. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of the deliverables and the payment terms within the contract. Milestones may include, for example, the successful completion of design review or technical review, the submission and acceptance of technical drawings, delivery of hardware, software or regulatory agency certifications. All milestones under the contract in process as of December 31, 2014 were deemed substantive. Revenue recognized through the achievement of multiple milestones during 2014 and 2013 amounted to \$3.1 million and \$0.7 million, respectively. There are no performance, cancellation, termination or refund provisions in the arrangement that contain material financial consequences to the Company.

Long-lived asset impairment. We perform periodic impairment analysis on our long-lived amortizable assets whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. When indicators are present, we compare the estimated future undiscounted net cash flows of the operations to which the assets relate to their carrying amount. If the operations are unable to recover the carrying amount of their assets, the long-lived assets are written down to their estimated fair value. Fair value is determined based on discounted cash flows, third party appraisals or other methods that provide appropriate estimates of value. A considerable amount of management judgment and assumptions are required in performing the impairment test, principally in determining whether an adverse event or circumstance has triggered the need for an impairment review.

The Industrial Group performed an asset recoverability test for one of its asset groups totaling approximately \$33.1 million as of December 31, 2014. The Company concluded that the undiscounted sum of estimated future cash flows exceeded the carrying value for such asset group, and accordingly, no impairment was recognized. While we believe our judgments and assumptions were reasonable, changes in assumptions underlying these estimates could result in a material impact to our consolidated financial statements in any given period.

Pension Plan Funded Status. The calculation of pension assets and liabilities involve complex estimation processes dependent on assumptions developed by us in consultation with our outside advisors, including actuaries. The assumptions used, including discount rates and return on plan assets, have a significant impact on plan expenses and obligations. Changes in these rates could significantly impact the actuarially determined amounts recorded in the consolidated balance sheets. If actual experience differs from expectations, our financial position and results of operations in future periods could be affected.

A change in the assumed pension discount rate of 100 basis points would result in a change in our pension obligation as of December 31, 2014 of \$4.8 million. A change in the assumed rate of return on plan assets of 100 basis points would result in a \$0.1 million change in the estimated 2015 pension expense.

Discount rates are based upon the construction of a theoretical bond portfolio, adjusted according to the timing of expected cash flows for the future obligations. A yield curve is based on a subset of these fixed income investments. The projected cash flows are matched to this yield curve and a present value is developed which is then calibrated to develop a single equivalent discount rate. Pension benefits are funded through deposits with trustees that satisfy, at a minimum, the applicable funding regulations. Expected investment rates of return are based upon input from the plan's investment advisors and actuary regarding our expected investment portfolio mix, historical rates of return on those assets, projected future asset class returns and long-term market conditions and inflation expectations. We believe that the long-term asset allocation on average will approximate the targeted allocation, and we regularly review the actual asset allocation to periodically rebalance the investments to the targeted allocation when appropriate.

Actuarial gains or losses may result from changes in assumptions or when actual experience is different from that expected. Under applicable standards, those gains and losses are not required to be immediately recognized as expense, but instead may be deferred as part of accumulated other comprehensive income and amortized into expense over future periods.

Reserve for Excess, Obsolete and Scrap Inventory. We record inventory at the lower of cost, determined under the first-in, first-out method, or market, and we reserve for excess, obsolete or scrap inventory. These reserves are primarily based upon management's assessment of the salability of the inventory, historical usage of raw materials, historical demand for finished goods and estimated future usage and demand. An improper assessment of salability or improper estimate of future usage or demand, or significant changes in usage or demand could result in significant changes in the reserves and a positive or a negative impact on our consolidated results of operations in the period the change occurs.

Stock-based Compensation. We account for stock-based compensation in accordance with the fair value recognition provisions using the Black-Scholes option-pricing method, which requires the input of several subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (forfeitures). Changes in the subjective assumptions can materially affect the fair value estimate of stock-based compensation and consequently, the related expense recognized in the consolidated statements of operations.

Income Taxes. We account for income taxes as required by the provisions of ASC 740, *Income Taxes*, under which deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using enacted tax rates.

Management judgment is required in determining income tax expense and the related balance sheet amounts. In addition, under ASC 740-10, *Accounting for Uncertainty in Income Taxes*, judgments are required concerning the ultimate outcome of uncertain income tax positions. Actual income taxes paid may vary from estimates, depending upon changes in income tax laws, actual results of operations and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. We believe that our recorded income tax liabilities adequately provide for the probable outcome of these assessments.

Deferred tax assets are also recorded for operating losses and tax credit carryforwards. However, ASC 740 requires that a valuation allowance be recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment is largely dependent upon projected near-term profitability including the effects of tax planning. Deferred tax assets and liabilities are determined separately for each tax jurisdiction in which we conduct our operations or otherwise incur taxable income or losses. We have recorded valuation allowances against deferred tax assets in the U.S. and Mexico where realization has been determined to be uncertain.

Our Mexican operations also have certain deferred tax assets that are expected to be realized. The Company has been profitable in Mexico in the past, and while we do not expect to be profitable in 2015 due to the loss of the Dana business, we expect to be profitable in 2016 and thereafter. Therefore no valuation allowance has been recorded against such assets as of December 31, 2014. Since future financial results may differ from previous estimates, periodic adjustments to our valuation allowance may be necessary.

Results of Operations

We operate in two segments, the Industrial Group and the Electronics Group. The table presented below compares our segment and consolidated results of operations from 2014 to 2013. The table presents the results for each year, the change in those results from one year to another in both dollars and percentage change and the results for each year as a percentage of net revenue.

- The first two columns in each table show the absolute results for each period presented.
- The columns entitled “Year-Over-Year Change” and “Year-Over-Year Percentage Change” show the change in results, both in dollars and percentages. These two columns show favorable changes as positive and unfavorable changes as negative. For example, when our net revenue increases from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative number in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of each segment’s net revenue. These amounts are shown in italics.

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

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

	Year Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Year Ended December 31,	
	2014	2013	Favorable (Unfavorable)	Favorable(Unfavorable)	2014	2013
Net revenue:						
Industrial Group	\$ 322,262	\$ 276,136	\$ 46,126	16.7%	90.8%	88.9
Electronics Group	32,514	34,578	(2,064)	(6.0)	9.2	11.1
Total net revenue	354,776	310,714	44,062	14.2	100.0	100.0
Cost of sales:						
Industrial Group	280,241	244,498	(35,743)	(14.6)	87.0	88.5
Electronics Group	35,705	36,163	458	1.3	109.8	104.6
Total cost of sales	315,946	280,661	(35,285)	(12.6)	89.1	90.3
Gross profit (loss):						
Industrial Group	42,021	31,638	10,383	32.8	13.0	11.5
Electronics Group	(3,191)	(1,585)	(1,606)	(101.3)	(9.8)	(4.6)
Total gross profit	38,830	30,053	8,777	29.2	10.9	9.7
Selling, general and administrative	35,531	30,464	(5,067)	(16.6)	10.0	9.8
Research and development	579	3,047	2,468	81.0	0.1	1.0
Amortization of intangible assets	—	30	30	NM	—	0.0
Impairment of goodwill	—	6,900	6,900	NM	—	2.2
Operating income (loss)	2,720	(10,388)	13,108	NM	0.8	(3.3)
Interest expense, net	617	522	(95)	(18.2)	0.2	0.2
Other (income), net	(1,282)	(930)	352	37.8	(0.4)	(0.3)
Income (loss) before income taxes	3,385	(9,980)	13,365	NM	1.0	(3.2)
Income tax expense (benefit), net	4,569	(93)	(4,662)	NM	1.3	—
Net loss	\$ (1,184)	\$ (9,887)	\$ 8,703	88.0	(0.3)%	(3.2)%

Net Revenue. The Industrial Group derives its revenue from manufacturing services and product sales. Net revenue in the Industrial Group increased \$46.1 million from the prior year to \$322.3 million in 2014. Increased volumes accounted for \$44.5 million of the increase in revenue for the year ended December 31, 2014, while pricing accounted for \$1.7 million. The increases in volumes are primarily attributable to the overall improvement in the class 5-8 North American commercial vehicle market and increased demand for components for the trailer and light truck markets.

The Electronics Group derives its revenue from product sales and technical outsourced services. Net revenue in the Electronics Group decreased \$2.1 million to \$32.5 million in 2014, primarily due to a decrease in sales of certain encryption products and data systems products. The Electronics Group is currently developing new products and pursuing new programs in an attempt to replenish its revenue stream; however, commercializing the new products and programs is costly and has been slower than anticipated. Additionally, the Electronics Group's outlook continues to be negatively affected by budgetary and funding uncertainty within the U.S. Department of Defense and other factors. For information about the budgetary and funding uncertainty, see "Risk Factors – Congressional budgetary constraints or reallocations could reduce our government sales" in Part I, Item 1A of this Annual Report on Form 10-K.

Gross Profit. The Industrial Group's gross profit increased \$10.4 million to \$42.0 million in 2014 as compared to \$31.6 million in the prior year. The net increase in sales volumes and pricing resulted in increased gross profit of approximately \$8.8 million and \$1.6 million, respectively for the year ended December 31, 2014 and depreciation expense declined \$1.8 million. Partially offsetting this was approximately \$1.8 million of additional costs for increased maintenance and repair on manufacturing equipment, overtime charges and other labor inefficiencies and increased supplies, scrap and other expenses.

The Electronics Group's gross profit decreased \$1.6 million to a loss of \$3.2 million in 2014. The decrease is primarily the result of lower revenues and an unfavorable mix in sales of lower margin products and services. Although variable contribution margins for the Electronics Group's programs are positive for all periods presented, the under-absorbed fixed costs at the corresponding levels of revenue has resulted in negative results at the gross profit line. The challenges for both revenue growth and cost reductions discussed above under "Electronics Group Outlook" are reflected in this lack of profitability, and management is evaluating cost structure countermeasures if revenues from new products and programs do not materialize.

Selling, General and Administrative. Selling, general and administrative expense increased \$5.1 million to \$35.5 million in 2014 as compared to \$30.5 million in 2013. Selling, general and administrative expense increased as a percentage of revenue to 10.0% in 2014 from 9.8% in 2013. The increase is primarily related to an increase in legal expenses regarding contract negotiations and litigation (see Note 2 "Loss of a Significant Customer and Management's Recovery Plans" to the consolidated financial statements in this Form 10-K) and the year over year increase in costs of our medical claims incurred and related charges. While we intend to cut costs in 2015 in response to the loss of Dana as a customer, we intend to continue to pursue our legal remedies in the dispute with Dana and expect to continue to incur legal expenses in 2015, although at reduced levels in comparison to 2014.

Research and Development. Research and development costs were \$0.6 million and \$3.0 million for the years ended December 31, 2014 and 2013, respectively, primarily in support of the Electronics Group's self-funded product and technology development activities. Certain research and development projects during the year ended December 31, 2014 have been customer funded and therefore reduced the level of investment required by the Company from 2013. In addition, the Company has prioritized, and in some cases suspended or deferred discretionary investment levels which could adversely impact our ability to develop new products or service offerings.

Impairment of Goodwill. Goodwill is tested for impairment annually as of December 31 or more frequently if impairment indicators arise. If impairment indicators arise, a step one assessment is performed to identify any possible goodwill impairment in the period in which the indicator is identified. Beginning in March 2013, we noted certain indicators relating to our Electronics Group reporting unit that were significant enough to conclude that an impairment indicator existed. Specifically, the Company experienced emerging uncertainty regarding key programs within the Electronics Group's space business beginning in the latter part of the first quarter of 2013, as one key customer communicated its strategic sourcing decision to begin insourcing programs that had been previously outsourced to the Electronics Group. As a result, the Electronics Group's short term revenue forecasts were materially affected. Further, the Company experienced a decline in the market value of its equity subsequent to March 31, 2013. As a result of the analysis, the Electronics Group's goodwill was deemed to be impaired, resulting in a non-cash impairment charge of \$6.9 million for the year ended December 31, 2013, representing the segment's entire goodwill balance.

Interest Expense, Net. Interest expense for the year ended December 31, 2014 increased \$0.1 million primarily due to an increase in the weighted average debt outstanding. The weighted average interest rate increased slightly to 2.5% in 2014 from 2.4% in 2013, while our weighted average debt outstanding increased to \$16.6 million during 2014 from \$13.2 million during 2013. As a result of recent amendments to the Credit Facility in 2015, which increased the Company's interest rate structure, interest expense is expected to increase going forward.

Other (Income), Net. Other (income), net increased \$0.4 million to \$1.3 million for 2014 from \$0.9 million in 2013. Other income, net for the year ended December 31, 2014 includes gains of \$0.7 million within the Industrial Group from the receipt of federal grant funds for improvements made under a flood relief program, along with foreign currency related gains of \$0.7 million related to the net U.S. dollar denominated monetary asset position of our Mexican subsidiaries for which the Mexican peso is the functional currency. Other income for the year ended December 31, 2013 includes gains of \$1.5 million from the sale of idle assets primarily within the Industrial Group offset by foreign currency transaction losses of \$0.3 million.

Income Taxes. The 2014 income tax provision consists of current tax expense of \$3.5 million and deferred tax expense of \$1.1 million. The 2013 income tax provision consists of current tax expense of \$1.2 million and a deferred tax benefit of \$1.3 million. The current tax expense in both years is primarily attributable to taxes paid by our Mexican subsidiaries. Included in deferred taxes in both years is an increase in the valuation allowance on U.S. deferred tax assets. The 2013 deferred tax benefit also includes a \$2.4 million benefit recorded due to the required intraperiod tax allocation resulting from the loss from continuing operations and other comprehensive income. Additionally, our Mexican subsidiaries recognized a deferred tax benefit in 2013 related to the recovery of certain deferred tax assets that were previously reserved for by a valuation allowance.

Quarterly Results

The following table presents our unaudited condensed consolidated statements of operations data for each of the eight quarters in the two-year period ended December 31, 2014. The quarterly results are presented on a 13-week period basis. We have prepared this data on the same basis as our audited consolidated financial statements and, in our opinion, have included all normal recurring adjustments necessary for a fair presentation of this information. You should read these unaudited quarterly results in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The consolidated results of operations for any quarter are not necessarily indicative of the results to be expected for any subsequent period.

	2014				2013			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except per share data)							
Net revenue:								
Industrial Group	\$ 75,839	\$ 83,710	\$ 82,555	\$ 80,158	\$ 71,149	\$ 74,432	\$ 66,650	\$ 63,905
Electronics Group	8,405	9,403	7,649	7,057	7,262	7,734	9,628	9,954
Total net revenue	84,244	93,113	90,204	87,215	78,411	82,166	76,278	73,859
Cost of sales:								
Industrial Group	64,685	72,327	73,256	69,973	63,039	65,574	59,233	56,652
Electronics Group	8,995	9,959	8,739	8,012	7,296	8,256	9,784	10,827
Total cost of sales	73,680	82,286	81,995	77,985	70,335	73,830	69,017	67,479
Gross profit (loss):								
Industrial Group	11,154	11,383	9,299	10,185	8,110	8,858	7,417	7,253
Electronics Group	(590)	(556)	(1,090)	(955)	(34)	(522)	(156)	(873)
Total gross profit	10,564	10,827	8,209	9,230	8,076	8,336	7,261	6,380
Selling, general and administrative	7,992	9,141	8,273	10,125	7,158	7,598	7,689	8,019
Research and development	151	10	116	302	877	1,419	547	204
Amortization of intangible assets	—	—	—	—	22	8	—	—
Impairment of goodwill	—	—	—	—	6,900	—	—	—
Operating income (loss)	2,421	1,676	(180)	(1,197)	(6,881)	(689)	(975)	(1,843)
Interest expense, net	132	155	179	151	146	120	124	132
Other (income) expense, net	(528)	75	(397)	(432)	(1,195)	(259)	38	486
Income (loss) before tax	2,817	1,446	38	(916)	(5,832)	(550)	(1,137)	(2,461)
Income tax expense (benefit)	1,165	1,076	1,197	1,131	627	944	858	(2,522)
Net income (loss)	\$ 1,652	\$ 370	\$ (1,159)	\$ (2,047)	\$ (6,459)	\$ (1,494)	\$ (1,995)	\$ 61
Income (loss) per common share:								
Basic	\$ 0.08	\$ 0.02	\$ (0.06)	\$ (0.11)	\$ (0.34)	\$ (0.08)	\$ (0.10)	\$ —
Diluted	\$ 0.08	\$ 0.02	\$ (0.06)	\$ (0.11)	\$ (0.34)	\$ (0.08)	\$ (0.10)	\$ —

Liquidity and Capital Resources

There are numerous risks and uncertainties relating to the global economy and the commercial vehicle and aerospace and defense industries that could materially affect our financial condition, future results of operations and liquidity. These risks and uncertainties could result in decreased sales, limited access to credit, rising costs, increased competition, customer or supplier bankruptcies, delays in customer payment terms and acceleration of supplier payments, growing inventories and failure to meet debt covenants. The loss of Dana as a customer will require us in 2015 to cut costs significantly, invest in equipment or make other capital expenditures to support new business and incur other costs. As a result, the Company is forecasting reduced levels of available liquidity which will require closer monitoring of the timing of capital expenditures and cash flows in order to manage its business operations.

In response to the dispute with Dana and the loss of the Dana business as of January 1, 2015, we have taken significant actions during the fourth quarter of 2014 and the first quarter of 2015 to pursue new business opportunities with existing and potential customers, identify alternative uses for the related assets and other contingency plans. Based on our current forecast for 2015, we expect to be able to meet the financial covenants of our amended Credit Facility and have sufficient liquidity to finance our operations through 2015. Although we believe the assumptions underlying our current forecast are reasonable, we have considered the possibility of even lower revenues and other risks. If we are unable to achieve our forecasted revenue or if our costs are higher than expected, we may be required to sell additional assets to repay indebtedness. Any such sale of assets may hinder or delay our plans to increase our revenues.

Our ability to service our indebtedness will require a significant amount of cash. Our ability to generate this cash will depend largely on future operations including the success of our revenue recovery plans. As disclosed elsewhere in this report, our 2015 results are expected to be significantly impacted by the loss of Dana. However, based upon our current level of operations and our 2015 business plan, we expect to be able to meet the financial covenants of our amended Credit Facility and have sufficient liquidity to finance our operations throughout 2015. However, changing business, competitive, regulatory and economic conditions and other factors could cause our actual results to vary from our forecasts.

If we have insufficient cash flow to fund our liquidity needs and are unable to refinance our indebtedness or raise additional capital, we would risk being in default under our existing amended Credit Facility, unless our lender agreed to modify or waive such requirements. In such circumstances, we believe that the Company would have the ability to sell certain of its assets, particularly its underutilized manufacturing facilities, if necessary to repay its outstanding indebtedness. However, we may be unable to pursue certain opportunities for new revenues and may be required to defer our planned capital expenditures as a result. See “Risk Factors – An inability to obtain new financing could require us to sell assets and could impair our ability to continue operation.” in Part I, Item 1A of this Annual Report on Form 10-K.

As of December 31, 2014, the Company’s Credit Facility provided potential total availability of up to \$50.0 million with an option, subject to certain conditions, to increase total potential availability to \$60.0 million in the future. Actual 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. Based on that calculation, at December 31, 2014, we had actual total borrowing availability under the Credit Facility of \$28.3 million, of which we had drawn \$17.0 million, leaving \$10.6 million available for borrowing, after accounting for the letter of credit. Along with an unrestricted cash balance of \$7.0 million, we had total cash and available borrowing capacity of \$17.6 million as of December 31, 2014. Approximately \$4.7 million of the unrestricted cash balance relates to our Mexican subsidiaries. Standby letters of credit up to a maximum of \$5.0 million could be issued under the Credit Facility of which \$0.8 million were issued at December 31, 2014 and 2013. 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 domestic assets of the Company.

We also had purchase commitments totaling approximately \$7.4 million at December 31, 2014, primarily for manufacturing equipment and inventory.

As of December 31, 2014, the Company was in compliance with all covenants. However, during the first quarter of 2015, the Company faced potential defaults under certain covenants of the Credit Facility caused primarily by the loss of Dana as a customer (see Note 2 “Loss of a Key Customer and Management’s Recovery Plans” to the consolidated financial statements in this Form 10-K). The Credit Facility was amended (the “Amendment”) during the first quarter of 2015 to, among other things, (i) waive certain existing or potential events of default, (ii) limit total borrowings to \$25.0 million, (iii) restrict the payment of dividends, (iv) increase the applicable margin on borrowings which will result in an initial interest rate of approximately 6% and increasing by 50 basis points beginning June 2015 and each month thereafter to an estimated interest rate of 10% in January 2016, (v) revise the maturity date to January 15, 2016, (vi) revise certain financial covenants to include a minimum cumulative free cash flow covenant, (vii) establish minimum excess availability of \$1.0 million initially, through May 31, 2015, and then in the amount of \$5.0 million or before September 30, 2015, and (viii) require the Company to raise new capital by securing subordinated debt or divesting certain real property or a combination thereof on or before September 30, 2015 (and, if earlier than September 30, 2015, to maintain minimum excess availability of \$5 million thereafter). As of March 24, 2015, we had actual total borrowing availability under the Credit Facility of \$21.6 million, of which we had drawn \$16.8 million, leaving \$4.0 million available for borrowing, after accounting for the letter of credit.

Under the terms of the Amendment, the Company has also agreed to raise new capital by September 30, 2015, through (i) additional subordinated indebtedness of the Company, (ii) the sale of all or a portion of the Company's property in Toluca, Mexico, or (iii) a combination thereof, in each case, in a minimum amount agreed to by the Company and the lender.

In connection with the Amendment, the Company has received the proceeds of new subordinated indebtedness from Gill Family Capital Management, Inc. (“Gill Family Capital Management”) in an amount of \$4.0 million. Gill Family Capital Management is an entity controlled by our president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. Gill Family Capital Management, Inc., Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders in the Company. The promissory note bears interest at a rate of 8.00% per year and matures on April 12, 2016. All principal and interest on the promissory note will be due and payable on the maturity date.

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 without bank approval, create liens, make investments, make acquisitions, engage in mergers, change the nature of our business and engage in certain transactions with affiliates.

Financial Condition

Operating Activities. Net cash provided by operating activities was \$3.0 million in 2014, as compared to cash used of \$0.3 million in 2013. Cash of \$9.1 million was used to finance an increase in accounts receivables resulting from higher revenues and a change in payment terms with one of our largest customers. Similarly, increases in accounts payable provided cash of \$2.4 million. Decreases in inventory provided cash of \$4.3 million as one of our largest customers within the Industrial Group moved to a consigned basis during the fourth quarter and lower purchases within the Electronics Group to align with its shipment forecast for the first quarter of 2015. Accrued liabilities increased and provided \$3.2 million reflecting the net impact of \$3.5 million received from customers related to deferred revenue on certain Electronics Group programs.

Investing Activities. Net cash used in investing activities was \$5.2 million in 2014 as compared to \$2.8 million in 2013. Net cash used in investing activities for 2014 included \$5.3 million of capital expenditures. Net cash used in investing activities in 2013 includes capital expenditures of \$5.1 million partially offset by proceeds from the sale of idle assets of \$2.3 million primarily within the Industrial Group.

Financing Activities. Net cash used in financing activities was \$9.5 million in 2014 as compared to net cash provided of \$3.1 million in 2013. During 2014, the Company reduced its debt under the Credit Facility by \$7.0 million, paid dividends of \$1.6 million and paid \$0.9 million for the repurchase of stock and minimum statutory tax withholdings on stock-based compensation. Net cash provided by financing activities in 2013 included \$5.0 million in additional borrowing under the Credit Facility partially offset by \$1.2 million in dividend payments and \$0.7 million for the repurchase of stock and minimum statutory tax withholdings on stock-based compensation.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources as of December 31, 2014.

Recent Accounting Pronouncements

See Note 1 to our consolidated financial statements for a full description of recent accounting pronouncements, including the respective dates of adoption and effects on our results of operations and financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

SYPRIS SOLUTIONS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management’s Report on Internal Control Over Financial Reporting	33
Report of Independent Registered Public Accounting Firm	34
Consolidated Statements of Operations	36
Consolidated Statements of Comprehensive Loss	37
Consolidated Balance Sheets	38
Consolidated Statements of Cash Flows	39
Consolidated Statements of Stockholders’ Equity	40
Notes to Consolidated Financial Statements	41

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Sypris Solutions, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed to provide reasonable assurance to Sypris management and its Board of Directors regarding the preparation and fair presentation of published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to the accuracy of consolidated financial statement preparation and presentation.

Under the supervision and with participation of our management, including the Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of Sypris Solutions, Inc.'s internal control over financial reporting as of December 31, 2014. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on our assessment, we concluded that as of December 31, 2014, Sypris' internal control over financial reporting is effective based on these criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company (non-accelerated filer) to provide only management's report in this annual report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Sypris Solutions, Inc.
Louisville, Kentucky

We have audited the accompanying consolidated balance sheet of Sypris Solutions, Inc. (the Company) as of December 31, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sypris Solutions, Inc. at December 31, 2014, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 and Note 12 to the consolidated financial statements, the Company lost a key customer as of January 1, 2015 and amended their debt agreement as of March 12, 2015. This customer represented 59% of 2014 net revenue.

/s/ Crowe Horwath LLP

Louisville, Kentucky
March 31, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Board of Directors and Stockholders
Sypris Solutions, Inc.**

We have audited the accompanying consolidated balance sheet of Sypris Solutions, Inc. (the Company) as of December 31, 2013, and the related consolidated statement of operations, comprehensive loss, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sypris Solutions, Inc. at December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 11, 2014

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

	Year ended December 31,	
	2014	2013
Net revenue:		
Outsourced services	\$ 322,159	\$ 276,471
Products	32,617	34,243
Total net revenue	354,776	310,714
Cost of sales:		
Outsourced services	288,081	252,663
Products	27,865	27,998
Total cost of sales	315,946	280,661
Gross profit	38,830	30,053
Selling, general and administrative	35,531	30,464
Research and development	579	3,047
Amortization of intangible assets	0	30
Impairment of goodwill	0	6,900
Operating income (loss)	2,720	(10,388)
Interest expense, net	617	522
Other (income), net	(1,282)	(930)
Income (loss) before income taxes	3,385	(9,980)
Income tax expense (benefit), net	4,569	(93)
Net loss	\$ (1,184)	\$ (9,887)
Loss per common share:		
Basic	\$ (0.06)	\$ (0.51)
Diluted	\$ (0.06)	\$ (0.51)
Cash dividends per common share	\$ 0.08	\$ 0.08

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	<u>Year ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Net loss	\$ (1,184)	\$ (9,887)
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of tax of \$153 in 2013	(2,830)	240
Employee benefit related, net of tax of \$2,284 in 2013	(4,471)	3,588
Other comprehensive (loss) income, net of tax	(7,301)	3,828
Total comprehensive loss	<u>\$ (8,485)</u>	<u>\$ (6,059)</u>

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

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

	December 31,	
	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,003	\$ 18,674
Accounts receivable, net	47,666	38,533
Inventory, net	29,031	34,422
Other current assets	5,666	5,403
Total current assets	89,366	97,032
Property, plant and equipment, net	37,654	44,683
Other assets	2,661	4,568
Total assets	\$ 129,681	\$ 146,283
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 39,027	\$ 36,684
Accrued liabilities	18,775	23,806
Current portion of long-term debt	17,000	0
Total current liabilities	74,802	60,490
Long-term debt	0	24,000
Other liabilities	7,991	5,541
Total liabilities	82,793	90,031
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 975,150 shares authorized; no shares issued	—	—
Series A preferred stock, par value \$0.01 per share, 24,850 shares authorized; no shares issued	—	—
Common stock, non-voting, par value \$0.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value \$0.01 per share, 30,000,000 shares authorized; 20,567,735 shares issued and 20,485,043 outstanding in 2014 and 20,448,007 shares issued and 20,399,649 outstanding in 2013	206	204
Additional paid-in capital	151,314	150,569
Retained deficit	(79,596)	(76,786)
Accumulated other comprehensive loss	(25,035)	(17,734)
Treasury stock, 82,692 and 48,358 shares in 2014 and 2013, respectively	(1)	(1)
Total stockholders' equity	46,888	56,252
Total liabilities and stockholders' equity	\$ 129,681	\$ 146,283

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

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

	Year ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (1,184)	\$ (9,887)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,409	12,401
Deferred income taxes	1,050	(1,286)
Non-cash compensation	1,597	1,689
Deferred revenue recognized	(8,657)	(8,000)
Deferred loan costs recognized	78	78
Gain on sale of assets	(19)	(1,516)
Provision for excess and obsolete inventory	1,150	1,251
Goodwill impairment	0	6,900
Other noncash items	(993)	565
Contributions to pension plans	(1,090)	(663)
Changes in operating assets and liabilities:		
Accounts receivable	(9,091)	(19)
Inventory	4,276	(1,708)
Prepaid expenses and other assets	(143)	(556)
Accounts payable	2,425	705
Accrued and other liabilities	3,237	(247)
Net cash provided by (used in) operating activities	3,045	(293)
Cash flows from investing activities:		
Capital expenditures	(5,259)	(5,053)
Proceeds from sale of assets	30	2,265
Net cash used in investing activities	(5,229)	(2,788)
Cash flows from financing activities:		
Net change in debt under Credit Facility	(7,000)	5,000
Common stock repurchases	(426)	(36)
Indirect repurchase of shares for minimum statutory tax withholdings	(429)	(657)
Cash dividends paid	(1,635)	(1,216)
Proceeds from issuance of common stock	3	0
Net cash (used in) provided by financing activities	(9,487)	3,091
Net (decrease) increase in cash and cash equivalents	(11,671)	10
Cash and cash equivalents at beginning of year	18,674	18,664
Cash and cash equivalents at end of year	<u>\$ 7,003</u>	<u>\$ 18,674</u>

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

SYPRIS SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except for share data)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained (Deficit) Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>
	<u>Shares</u>	<u>Amount</u>				
January 1, 2013 balance	20,155,268	\$ 202	\$ 149,576	\$ (65,282)	\$ (21,562)	\$ (1)
Net loss	0	0	0	(9,887)	0	0
Employee benefit related	0	0	0	0	3,588	0
Foreign currency translation adjustment, net of tax	0	0	0	0	240	0
Comprehensive income (loss)	0	0	0	(9,887)	3,828	0
Cash dividends, \$0.08 per common share	0	0	0	(1,623)	0	0
Common stock repurchases	(11,675)	0	(36)	0	0	0
Restricted common stock grant	288,000	3	(3)	0	0	0
Noncash compensation	42,000	0	1,689	6	0	0
Exercise of stock options	97,608	0	0	0	0	0
Treasury stock	(57,000)	0	0	0	0	0
Retire treasury stock	(114,552)	(1)	(657)	0	0	0
December 31, 2013 balance	20,339,649	204	150,569	(76,786)	(17,734)	(1)
Net loss	0	0	0	(1,184)	0	0
Employee benefit related, net of tax	0	0	0	0	(4,471)	0
Foreign currency translation adjustment	0	0	0	0	(2,830)	0
Comprehensive loss	0	0	0	(1,184)	(7,301)	0
Cash dividends, \$0.08 per common share	0	0	0	(1,637)	0	0
Common stock repurchases	(104,501)	0	(426)	0	0	0
Restricted common stock grant	283,000	3	0	0	0	0
Noncash compensation	48,000	0	1,597	11	0	0
Exercise of stock options	56,217	0	3	0	0	0
Treasury stock	(98,000)	0	0	0	0	0
Retire treasury stock	(99,322)	(1)	(429)	0	0	0
December 31, 2014 balance	<u>20,485,043</u>	<u>\$ 206</u>	<u>\$ 151,314</u>	<u>\$ (79,596)</u>	<u>\$ (25,035)</u>	<u>\$ (1)</u>

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

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

(1) Organization and Significant Accounting Policies

Consolidation Policy

The accompanying 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, Denmark and the U.K. and serve a wide variety of domestic and international customers. All intercompany accounts and transactions have been eliminated.

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, often under 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. See Note 20 for additional information regarding our segments.

Use of Estimates

The preparation of the consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Changes in facts and circumstances could have a significant impact on the resulting estimated amounts included in our consolidated financial statements. Actual results could differ from these estimates.

Fair Value Estimates

The Company estimates fair value of its financial instruments utilizing an established three-level hierarchy. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date as follows: Level 1 – Valuation is based upon unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurements.

Cash Equivalents

Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Inventory

Inventory is stated at the lower of cost or estimated net realizable value. Costs for raw materials, work in process and finished goods is determined under the first-in, first-out method. Indirect inventories, which include perishable tooling, repair parts and other materials consumed in the manufacturing process but not incorporated into finished products are classified as raw materials.

The Company's reserve for excess and obsolete inventory is primarily based upon forecasted demand for its product sales, and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is generally computed using the straight-line method over their estimated economic lives. For land improvements, buildings and building improvements, the estimated economic life is generally 40 years. Estimated economic lives range from three to fifteen years for machinery, equipment, furniture and fixtures. Leasehold improvements are amortized over the shorter of their economic life or the respective lease term using the straight-line method. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major rebuilds and improvements are capitalized.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Long-lived Assets

The Company reviews the carrying value of amortizable long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held for sale and held for use is measured by a comparison of the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If facts and circumstances indicate that the carrying value of an asset or groups of assets, as applicable, is impaired, the long-lived asset or groups of long-lived assets are written down to their estimated fair value.

The Industrial Group performed an asset recoverability test for one of its asset groups totaling approximately \$33,118,000 as of December 31, 2014. The Company concluded that the undiscounted sum of estimated future cash flows exceeded the carrying value for such asset group, and accordingly, no impairment was recognized.

Goodwill

Goodwill is tested for impairment annually as of December 31 or more frequently if impairment indicators arise. If impairment indicators arise, a step one assessment is performed to identify any possible goodwill impairment in the period in which the indicator is identified. Beginning in March 2013, we noted certain indicators relating to our Electronics Group reporting unit that were significant enough to conclude that an impairment indicator existed. Specifically, one key customer within the Electronics Group's space business communicated its strategic sourcing decision to begin insourcing programs that had been previously outsourced to the Electronics Group. Overall, the Electronics Group has been more impacted by declines in the overall government defense market than originally anticipated as the effects of sequestration have become clearer since its initial effective date on March 1, 2013. For example, sales of certain data recording products were significantly reduced due to the impact of sequestration on our customers, and the loss of commercial space business was due in part to our customer's efforts to offset unrelated losses of government business due to sequestration. Consequently, the Electronics Group's short term revenue forecasts were materially affected. As a result of the analysis, the Electronics Group's goodwill was deemed to be impaired, resulting in a non-cash impairment charge of \$6,900,000 for the year ended December 31, 2013, representing the segment's entire goodwill balance.

Deferred Revenue

Deferred revenue for the Electronics Group is recorded when payments are received in advance for service agreements and extended warranties on certain products and is amortized into revenue on a straight-line basis over the contractual term. Deferred revenue for the Electronics Group also includes prepayments received prior to the time when products are shipped. When the related products are shipped, the related amount recorded as deferred revenue is recognized as revenue. Deferred revenue for the Industrial Group is generally associated with the Dana settlement and was amortized into income on a units-of-production basis over the term of the related supply agreement period. See Note 3 for information regarding the Dana settlement, and see Note 10 for the amount of deferred revenue included in accrued liabilities at December 31, 2014 and 2013.

Income Taxes

The Company uses the liability method in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, using the statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

In the ordinary course of business there is inherent uncertainty in quantifying the Company's income tax positions. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements in accordance with ASC 740, *Income Taxes*. The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense.

The Company expects to repatriate available non-U.S. cash holdings in 2015 to support management's strategic objectives and fund ongoing U.S. operational cash flow requirements; therefore current earnings from non-U.S. operations are not treated as permanently reinvested. The U.S. income tax recorded in 2014 on these non-U.S. earnings is expected to be offset by the benefit of a partial release of a valuation allowance on deferred tax assets associated with our U.S. net operating loss carryforwards. Should the U.S. valuation allowance be eliminated at some future date, the U.S. tax on foreign earnings not permanently reinvested may have a material effect on our effective tax rate. For the year ending December 31, 2014, the Company expects any additional tax expense from non-U.S. withholding and other taxes expected to be incurred on the repatriation of current earnings will not be material.

Net Revenue and Cost of Sales

Net revenue of products and services under commercial terms and conditions are recorded upon delivery and passage of title, or when services are rendered. Related shipping and handling costs, if any, are included in costs of sales.

Net revenue on fixed-price contracts is recognized as services are performed. Revenue is deferred until all of the following have occurred (1) there is a contract in place, (2) delivery has occurred, (3) the price is fixed or determinable, and (4) collectability is reasonably assured. Contract profits are taken into earnings based on actual cost of sales for units shipped. Amounts representing contract change orders or claims are included in revenue when such costs are invoiced to the customer.

The Company periodically enters into research and development contracts with customers related primarily to key encryption products. When the contracts provide for milestone or other interim payments, the Company will recognize revenue under the milestone method in accordance with Accounting Standards Codification ("ASC") 605-28, *Revenue Recognition – Milestone Method*. The Company had one contract in process as of December 31, 2014 being accounted for under the milestone method. The milestone method requires the Company to deem all milestone payments within each contract as either substantive or non-substantive. That conclusion is determined based upon a thorough review of each contract and the deliverables to which the Company has committed to in each contract. For substantive milestones, the Company concludes that upon achievement of each milestone, the amount of the corresponding defined payment is commensurate with the effort required to achieve such milestone or the value of the delivered item. The payment associated with each milestone relates solely to past performance and is deemed reasonable upon consideration of the deliverables and the payment terms within the contract. Milestones may include, for example, the successful completion of design review or technical review, the submission and acceptance of technical drawings, delivery of hardware, software or regulatory agency certifications. All milestones under the contract in process as of December 31, 2014 were deemed substantive. Revenue recognized through the achievement of multiple milestones during 2014 and 2013 amounted to \$3,050,000 and \$675,000, respectively. There are no performance, cancellation, termination or refund provisions in the arrangement that contain material financial consequences to the Company.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUE

Product Warranty Costs

The provision for estimated warranty costs is recorded at the time of sale and is periodically adjusted to reflect actual experience. The Company's warranty liability, which is included in accrued liabilities in the accompanying balance sheets, as of December 31, 2014 and 2013, was \$825,000 and \$1,439,000, respectively. The Company's warranty expense for the years ended December 31, 2014 and 2013 was \$43,000 and \$660,000, respectively.

Additionally, the Company sells three and five-year extended warranties for certain link encryption products. The revenue from the extended warranties is deferred and recognized ratably over the contractual term. As of December 31, 2014 and 2013, the Company had deferred \$839,000 and \$1,567,000, respectively, related to extended warranties. At December 31, 2014, \$344,000 is included in accrued liabilities and \$495,000 is included in other liabilities in the accompanying balance sheets. At December 31, 2013, \$751,000 is included in accrued liabilities and \$816,000 is included in other liabilities in the accompanying balance sheets.

Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist of accounts receivable. The Company's customer base consists of a number of customers in diverse industries across geographic areas, primarily in North America and Mexico, various departments or agencies of the U.S. Government, and aerospace and defense companies under contract with the U.S. Government. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral on its commercial accounts receivable. Credit losses are provided for in the consolidated financial statements and consistently have been within management's expectations. Approximately 79% and 69% of accounts receivable outstanding at December 31, 2014 and 2013, respectively, are due from the Company's two largest customers. More specifically, Dana and Meritor comprise 57% and 22%, respectively, of December 31, 2014 outstanding accounts receivables. Similar amounts at December 31, 2013 were 47% and 22%, respectively.

The Industrial Group's largest customers for the year ended December 31, 2014 were Dana and Meritor, which represented approximately 59% and 16%, respectively, of the Company's total net revenue. Dana and Meritor were also the Company's largest customers for the year ended December 31, 2013, which represented approximately 58% and 15%, respectively, of the Company's total net revenue. The Company recognized revenue from contracts with the U.S. Government and its agencies approximating 2% and 3% of net revenue for the years ended December 31, 2014 and 2013, respectively. No other single customer accounted for more than 10% of the Company's total net revenue for the years ended December 31, 2014 or 2013.

Sypris and Dana have signed an amended and restated supply agreement, the binding effect of which is currently in dispute. Dana has repudiated this agreement and ceased purchasing goods supplied by Sypris. Sypris disputes Dana's ability to exercise such rights. Meritor, and Meritor's Brazilian subsidiary have awarded us with sole-source supply agreements for certain parts that run through at least 2015, and 2016 respectively.

Foreign Currency Translation

The functional currency for the Company's Mexican subsidiaries is the Mexican peso. Assets and liabilities are translated at the period end exchange rate, and income and expense items are translated at the weighted average exchange rate. The resulting translation adjustments are recorded in comprehensive (loss) income as a separate component of stockholders' equity. Remeasurement gains or losses for U.S. dollar denominated accounts of the Company's Mexican subsidiaries are included in other (income), net.

Collective Bargaining Agreements

Approximately 683, or 51% of the Company's employees, all in the Industrial Group, were covered by collective bargaining agreements at December 31, 2014. Excluding certain Mexico employees covered under an annually ratified agreement, there are no collective bargaining agreements that expire within the next 12 months. Certain Mexico employees are covered by an annually ratified collective bargaining agreement. These employees represented approximately 36% of the Company's workforce, or 474 employees as of December 31, 2014.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Adoption of Recently Issued Accounting Standards

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” which states that entities should present the unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss (“NOL”) or similar tax loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward under the tax law. The Company will be required to adopt this new standard on a prospective basis in the first interim reporting period of fiscal 2015, though early adoption is permitted as is a retrospective application. We do not anticipate that the adoption of this standard will have a material effect on the Company’s results of operations, financial position or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” This ASU supersedes the revenue recognition requirements in “Accounting Standard Codification 605 - Revenue Recognition” and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The new guidance will also require new disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years and early adoption is not permitted. The guidance allows for either a full retrospective or a modified retrospective transition method. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its results of operations, financial position and cash flows.

In April 2014, the FASB issued guidance that revises the definition of a discontinued operation. The revised definition limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on operations and financial results. The guidance also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance will apply to covered transactions that occur after 2014 and was optional for the initial reporting of disposals completed or approved in 2014.

(2) Loss of a Key Customer and Management's Recovery Plans

Our supply agreement with Dana Holding Corporation (“Dana”) was originally scheduled to expire on December 31, 2014. For the year ended December 31, 2014, Dana represented approximately 59% of our net revenue.

In July 2013, Sypris and Dana signed an amended and restated supply agreement to extend the supply agreement term beyond December 31, 2014, the binding effect of which is currently in dispute. Dana has repudiated this July 2013 agreement, and Dana has ceased ordering any components from us effective December 31, 2014. Sypris disputes Dana’s ability to do so and is seeking to recover its lost margins and additional remedies with respect to the revenues to which Sypris was entitled under the renewed agreement.

Dana initiated an ancillary action in Ohio state court challenging the arbitrability of the existence and enforceability of the amended and restated July 2013 supply agreement on January 17, 2014. The parties have conducted discovery, and the Ohio trial court has granted an initial motion for judgment on the pleadings or summary judgment, which Sypris has appealed. If the case goes to trial and if ruled in the Company’s favor, the dispute would revert to the arbitrator to determine damages.

The parties have also asserted various damages claims against each other arising out of their prior supply agreement and have sought the assistance of an arbitrator in connection with these disputes. The parties have had an arbitration hearing in January 2015, but the arbitrator has yet to rule. Even if we prevail on the merits in the arbitration or litigation proceedings, there can be no assurance as to the size or timing of any monetary damages awarded.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

As a result of the dispute with Dana and the loss of the Dana business, the Company has taken significant actions during the fourth quarter of 2014 and the first quarter of 2015, including but not limited to the following: (i) quoting new business opportunities with existing and potential customers resulting from the strength of the commercial vehicle market and a perceived shift in market share among tier one suppliers, (ii) reduced workforce at the locations most impacted by the loss of Dana, (iii) reduced employment costs by reduced work schedules, senior management pay reductions, deferral of merit increases and certain benefit payments, and (iv) utilized labor for preventative maintenance on equipment and facilities, deployment of Toyota Production System and refurbishing the overall appearance of facilities to attract customers. The Company has engaged an investment banking firm to provide financial advisory services in connection with its effort to secure new subordinated debt. The Company has also engaged a commercial real estate firm to provide advisory and brokerage services related to a potential transaction involving certain real property owned by the Company. However, there can be no assurance that our plans to mitigate the loss and to effectively manage our costs during the transition will be successful. Additionally, the Company amended its Credit Facility in March 2015 to support management’s plans and provide liquidity through January 2016. (See Note 12 “Credit Facility” for further discussion on liquidity).

As of December 31, 2014, the Company had net accounts receivable and net accounts payable specifically related to Dana of \$27,363,000 and \$18,912,000, respectively.

(3) Dana Claim

On March 3, 2006, 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 the Company was agreed to by the Company 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, the Company recorded the claim at the estimated fair value of \$76,483,000. The revenues and resulting net income associated with the Company’s continued involvement were deferred and were recognized over the remaining period of the Company’s supply agreement with Dana, through December 31, 2014. For the years ended December 31, 2014 and 2013, the Company recognized revenue of \$8,657,000 and \$8,000,000, respectively, related to the Claim. The Claim has been fully amortized as of December 31, 2014.

(4) Other (Income), Net

During the year ended December 31, 2014, the Industrial Group received \$714,000 from the receipt of federal grant funds for improvements made under a flood relief program. Additionally, the Company recognized foreign currency transaction gains of \$655,000 for the year ended December 31, 2014 related to the net U.S. dollar denominated monetary asset position of our Mexican subsidiaries for which the Mexican peso is the functional currency. For the year ended December 31, 2013, the Company recognized net gains of \$1,516,000 related to the disposition of idle assets and foreign currency transaction losses of \$298,000. These gains and losses are included in other (income), net on the consolidated statements of operations.

(5) Accounts Receivable

Accounts receivable consists of the following (in thousands):

	December 31,	
	2014	2013
Commercial	\$ 47,228	\$ 36,245
U.S. Government	727	2,620
	47,955	38,865
Allowance for doubtful accounts	(289)	(332)
	<u>\$ 47,666</u>	<u>\$ 38,533</u>

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 2014 and 2013, of \$727,000 and \$2,620,000 respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(6) Inventory

Inventory consists of the following (in thousands):

	December 31,	
	2014	2013
Raw materials	\$ 16,687	\$ 19,372
Work in process	11,702	16,436
Finished goods	6,991	5,017
Reserve for excess and obsolete inventory	(6,349)	(6,403)
	<u>\$ 29,031</u>	<u>\$ 34,422</u>

(7) Other Current Assets

Other current assets consist of the following (in thousands):

	December 31,	
	2014	2013
Prepaid expenses	\$ 1,499	\$ 1,690
Other	4,167	3,713
	<u>\$ 5,666</u>	<u>\$ 5,403</u>

Included in other current assets are deferred taxes for the Company's Mexican subsidiaries, income taxes refundable, deferred software development costs and other items, none of which exceed 5% of total current assets.

(8) Property, Plant and Equipment

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

	December 31,	
	2014	2013
Land and land improvements	\$ 2,770	\$ 2,999
Buildings and building improvements	26,055	26,053
Machinery, equipment, furniture and fixtures	158,816	161,207
Construction in progress	2,100	2,133
	<u>189,741</u>	<u>192,392</u>
Accumulated depreciation	(152,087)	(147,709)
	<u>\$ 37,654</u>	<u>\$ 44,683</u>

Depreciation expense totaled approximately \$10,409,000 and \$12,371,000 for the years ended December 31, 2014 and 2013, respectively. In addition, there were capital expenditures of approximately \$52,000 and \$135,000 included in accounts payable or accrued liabilities at December 31, 2014 and 2013, respectively.

(9) Other Assets

Other assets consist of the following (in thousands):

	December 31,	
	2014	2013
Deferred tax assets, net	1,575	2,401
Other	1,086	2,167
	<u>\$ 2,661</u>	<u>\$ 4,568</u>

Deferred tax assets, net relate to the Company's Mexico operations. Other assets at December 31, 2014 and 2013 includes unamortized loan costs of approximately \$109,000 and \$187,000, respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(10) Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2014	2013
Salaries, wages, employment taxes and withholdings	\$ 2,758	\$ 4,696
Employee benefit plans	1,437	1,244
Income, property and other taxes	2,439	532
Deferred revenue	6,120	12,357
Other	6,021	4,977
	<u>\$ 18,775</u>	<u>\$ 23,806</u>

Included in other accrued liabilities are accrued operating expenses, accrued warranty expenses, accrued interest, accrued legal fees and other items, none of which exceed 5% of total current liabilities. Deferred revenue at December 31, 2013 included \$8,657,000 related to the Dana settlement.

(11) Other Liabilities

Other liabilities consist of the following (in thousands):

	December 31,	
	2014	2013
Noncurrent pension liability	\$ 7,400	\$ 4,620
Other	591	921
	<u>\$ 7,991</u>	<u>\$ 5,541</u>

Included in other liabilities are accrued long-term warranty expenses and other items, none of which exceed 5% of total liabilities.

(12) Credit Facility

On May 12, 2011, the Company entered into a Credit Facility that provided potential total availability up to \$50,000,000 to support short-term funding needs and letters of credit. Loans made under the Credit Facility were scheduled to mature with the commitments thereunder to terminate in May 2016. The Credit Facility originally provided for an option, subject to certain conditions, to increase potential total availability to \$60,000,000 in the future. Borrowing availability under the Credit Facility is also 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.

Based on the above mentioned calculation, at December 31, 2014, the Company had actual total availability for borrowings and letters of credit under the Credit Facility of \$28,337,000 of which we had drawn \$17,000,000, leaving \$10,582,000 still available for borrowing, after accounting for the letter of credit. Along with an unrestricted cash balance of \$7,003,000, we had total cash and available borrowing capacity of \$17,585,000 as of December 31, 2014. Approximately \$4,652,000 of the unrestricted cash balance relates to the Company's Mexican subsidiaries. Standby letters of credit up to a maximum of \$5,000,000 could be issued under the Credit Facility of which \$755,000 and \$806,000 were issued at December 31, 2014 and 2013, respectively.

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 domestic assets of the Company.

The weighted average interest rate for outstanding borrowings at December 31, 2014 was 2.6%. The weighted average interest rates for borrowings during the years ended December 31, 2014 and 2013 were 2.5% and 2.4%, respectively. The Company had no capitalized interest in 2014 or 2013. Interest paid during the years ended December 31, 2014 and 2013 totaled approximately \$397,000 and \$333,000, respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

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 without bank approval, create liens, make investments, make acquisitions, engage in mergers, change the nature of our business and engage in certain transactions with affiliates. In addition, if the Company's availability under the Credit Facility fell below \$6,000,000 (or \$8,000,000 for a period of five or more consecutive days), the Company was required to maintain a fixed charge coverage ratio of at least 1.15 to 1.00.

As of December 31, 2014, the Company was in compliance with all covenants. However, during the first quarter of 2015, the Company faced potential defaults under certain covenants of the Credit Facility caused primarily by the loss of Dana as a customer (See Note 2). The Company's Credit Facility also contains a subjective acceleration clause which allows the lender to accelerate payments on current borrowings and discontinue availability under the Credit Facility based on its subjective assessment of the Company's operations. At December 31, 2014, management did not expect that the lender would exercise this clause of the agreement after the loss of the Dana revenues and in fact the lender has not done so. However, due to the existence of this subjective acceleration clause within the Credit Facility and the loss of Dana as a customer, the Company determined that the risk of such acceleration, while unlikely, was no longer remote, and the Company's debt was classified as current as of December 31, 2014. The Credit Facility was amended during the first quarter of 2015 to, among other things: (i) waive certain existing or potential events of default, (ii) limit total borrowings to \$25,000,000, (iii) restrict the payment of dividends, (iv) increase the applicable margin on borrowings which will result in an initial interest rate of approximately 6% and increasing by 50 basis points beginning June 2015 and each month thereafter to an estimated interest rate of 10% in January 2016, (v) revise the maturity date to January 15, 2016, (vi) revise certain financial covenants to include a minimum cumulative free cash flow covenant, (vii) establish minimum excess availability of \$1,000,000 initially, through May 31, 2015, and then in the amount of \$5,000,000 on or before September 30, 2015, and (viii) require the Company to raise new capital by securing subordinated debt or divesting certain real property or a combination thereof on or before September 30, 2015 (and, if earlier than September 30, 2015, to maintain minimum excess availability of \$5,000,000 thereafter).

The Company engaged an investment banking firm on March 20, 2015 to provide financial advisory services in connection with its effort to secure new subordinated debt. The Company also engaged a commercial real estate firm to provide advisory and brokerage services related to a potential transaction involving certain real property owned by the Company.

The Credit Facility is secured by substantially all domestic assets of the Company. In addition to the aforementioned pursuit of capital sources, the Company is also considering opportunities to support its cash flow from operations in 2015 through sources of cash from either investing or financing activities. The Company is exploring alternatives to monetize certain assets of the Company for values in excess of the availability being provided under the Credit facility, thereby generating additional sources of capital to the Company.

In connection with the Amendment, the Company has received the proceeds of subordinated indebtedness from Gill Family Capital Management in an amount of \$4,000,000. Gill Family Capital Management is an entity controlled by our president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. Gill Family Capital Management, Inc., Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders in the Company. The promissory note bears interest at a rate of 8.00% per year and matures on April 12, 2016. All principal and interest on the promissory note will be due and payable on the maturity date.

Based on the current forecast for 2015, the Company expects to be able to meet the financial covenants of its amended Credit Facility and have sufficient liquidity to finance its operations. Although the Company believes the assumptions underlying its current forecast are realistic, the Company has considered the possibility of even lower revenues and other risk factors such as its ability to onboard new business within the Industrial Group, continued delays in program bookings within our Electronics Group, or its ability to execute its current contingency plans.

Non-compliance with the covenants would provide the debt holder with the ability to demand immediate repayment of all outstanding borrowings under the amended Credit Facility. Accordingly, the inability to comply with covenants, obtain waivers for non-compliance, or obtain alternative financing would have a material adverse effect on the Company's financial position, results of operations and cash flows.

Based upon the Company's current level of operations and its 2015 business plan, the Company believes that cash flow from operations, available cash and available borrowings under its amended Credit Facility will be adequate to meet its liquidity needs for at least the next twelve months.

(13) 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 December 31, 2014 under the Credit Facility approximates fair value because borrowings on the Credit Facility mature January 2016.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(14) Employee Benefit Plans

The Industrial Group sponsors noncontributory defined benefit pension plans (the Pension Plans) covering certain of its employees. The Pension Plans covering salaried and management employees provide pension benefits that are based on the employees' highest five-year average compensation within ten years before retirement. The Pension Plans covering hourly employees and union members generally provide benefits at stated amounts for each year of service. All of the Company's pension plans are frozen to new participants and certain plans are frozen to additional benefit accruals. The Company's funding policy is to make the minimum annual contributions required by the applicable regulations. The Pension Plans' assets are primarily invested in equity securities and fixed income securities.

The following table details the components of pension (income) expense (in thousands):

	Year ended December 31,	
	2014	2013
Service cost	\$ 13	\$ 24
Interest cost on projected benefit obligation	1,789	1,652
Net amortization of actuarial loss	531	824
Expected return on plan assets	(2,390)	(2,522)
	<u>\$ (57)</u>	<u>\$ (22)</u>

The following are summaries of the changes in the benefit obligations and plan assets and of the funded status of the Pension Plans (in thousands):

	December 31,	
	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 40,526	\$ 45,561
Service cost	13	24
Interest cost	1,789	1,652
Actuarial loss (gain)	6,231	(3,534)
Benefits paid	(3,121)	(3,177)
Benefit obligation at end of year	<u>\$ 45,438</u>	<u>\$ 40,526</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 36,566	\$ 35,067
Actual return on plan assets	3,503	4,013
Company contributions	1,090	663
Benefits paid	(3,121)	(3,177)
Fair value of plan assets at end of year	<u>\$ 38,038</u>	<u>\$ 36,566</u>
Underfunded status of the plans	<u>\$ (7,400)</u>	<u>\$ (3,960)</u>
Balance sheet assets (liabilities):		
Other assets	\$ 0	\$ 660
Other liabilities	(7,400)	(4,620)
Net amount recognized	<u>\$ (7,400)</u>	<u>\$ (3,960)</u>
Pension plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ 45,438	\$ 26,773
Accumulated benefit obligation	45,428	26,760
Fair value of plan assets	38,038	22,153

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

	December 31,	
	2014	2013
Projected benefit obligation and net periodic pension cost assumptions:		
Discount rate	3.90%	4.65
Rate of compensation increase	4.00	4.00
Expected long-term rate of return on plan assets	6.75	7.50
Weighted average asset allocation:		
Equity securities	32%	46%
Debt securities	68	54
Total	<u>100%</u>	<u>100%</u>

The fair values of our pension plan assets as of December 31, 2014, are as follows (in thousands):

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
Asset categories:		
Cash and cash equivalents	\$ 1,270	\$ 0
Equity investments:		
U.S. Large Cap	8,105	0
U.S. Mid Cap	1,245	0
U.S. Small Cap	504	0
World Equity	1,596	0
Real estate	292	0
Other	266	0
Fixed income securities	11,710	13,050
Total Plan Assets	<u>\$ 24,988</u>	<u>\$ 13,050</u>

The fair values of our pension plan assets as of December 31, 2013, are as follows (in thousands):

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)
Asset categories:		
Cash and cash equivalents	\$ 1,047	\$ 0
Equity investments:		
U.S. Large Cap	9,926	0
U.S. Mid Cap	1,552	0
U.S. Small Cap	788	0
World Equity	3,152	0
Real estate	911	0
Other	637	0
Fixed income securities	8,405	10,148
Total Plan Assets	<u>\$ 26,418</u>	<u>\$ 10,148</u>

Investments in our defined benefit plans are stated at fair value. The following valuation methods were used to value our pension assets:

Equity securities	The fair value of equity securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.
Fixed income securities	The fair value of fixed income securities is determined by either direct or indirect quoted market prices. When the value of assets held in separate accounts is not published, the value is based on the underlying holdings, which are primarily direct quoted market prices on regulated financial exchanges.
Cash and cash equivalents	The fair value of cash and cash equivalents is set equal to its cost.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company uses December 31 as the measurement date for the Pension Plans. Total estimated contributions expected to be paid to the plans during 2015 is approximately \$800,000, which represents the minimum funding amounts required by federal law. The expected long-term rates of return on plan assets for determining net periodic pension cost for 2014 and 2013 were chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various assets categories to the target asset allocation of the plan. The target asset allocation of plan assets is equity securities ranging 0-55%, fixed income securities ranging 35-100% and non-traditional/other of 0-10% of total investments.

Accumulated other comprehensive loss at December 31, 2014 includes \$17,814,000 of unrecognized actuarial losses that have not yet been recognized in net periodic pension cost. The actuarial loss included in accumulated other comprehensive loss and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2015 is \$717,000. The actual loss reclassified from accumulated other comprehensive loss for 2014 and 2013 was \$531,000 and \$824,000, respectively.

At December 31, 2014, the benefits expected to be paid in each of the next five fiscal years, and in aggregate for the five fiscal years thereafter are as follows (in thousands):

2015	\$	3,185
2016		3,181
2017		3,158
2018		3,122
2019		3,085
2020-2025		14,563
	<u>\$</u>	<u>30,294</u>

The Company sponsors a defined contribution plan (the Defined Contribution Plan) for substantially all domestic employees of the Company. The Defined Contribution Plan is intended to meet the requirements of Section 401(k) of the Internal Revenue Code. The Defined Contribution Plan allows the Company to match participant contributions up to 3% and provide discretionary contributions. Contributions to the Defined Contribution Plan by the Company in 2014 and 2013 totaled approximately \$1,137,000 and \$973,000, respectively.

The Company has self-insured medical plans (the Medical Plans) covering substantially all domestic employees. The number of employees participating in the Medical Plans was approximately 670 and 668 at December 31, 2014 and 2013, respectively. The Medical Plans limit the Company's annual obligations to fund claims to specified amounts per participant. The Company is insured for amounts in excess of these limits. Employees are responsible for payment of a portion of the premiums. During 2014 and 2013, the Company charged approximately \$4,967,000 and \$3,909,000, respectively, to operations related to medical claims incurred and estimated, reinsurance premiums, and administrative costs for the Medical Plans.

In addition, certain of the Company's non-U.S. employees are covered by various defined benefit and defined contribution plans. The Company's expenses for these plans totaled approximately \$26,000 and \$247,000 in 2014 and 2013, respectively. The aggregate benefit plan assets and accumulated benefit obligation of these plans are not significant.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(15) Commitments and Contingencies

The Company leases certain of its real property and certain equipment, vehicles and computer hardware under operating leases with terms ranging from month-to-month to ten years and which contain various renewal and rent escalation clauses. Future minimum annual lease commitments under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2014 are as follows (in thousands):

2015	\$	2,260
2016		2,041
2017		442
2018		455
2019		360
2020 and thereafter		1,031
	<u>\$</u>	<u>6,589</u>

Rent expense for the years ended December 31, 2014 and 2013 totaled approximately \$2,849,000 and \$2,601,000, respectively.

As of December 31, 2014, the Company had outstanding purchase commitments of approximately \$7,369,000 primarily for the acquisition of inventory and manufacturing equipment.

The Company bears insurance risk as a member of a group captive insurance entity for certain general liability, automobile and workers' compensation insurance programs, a self-insured worker's compensation program 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 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, although the loss of the Dana business which is the subject of current litigation could have such an effect (see Note 2 "Loss of a Significant Customer and Management's Recovery Plans" to the consolidated financial statements in this Form 10-K).

The Company has various current and previously-owned facilities subject to a variety of environmental regulations. The Company has received certain indemnifications from either companies previously owning these facilities or from purchasers of those facilities. As of December 31, 2014 and 2013, no amounts were accrued for any environmental matters. See "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K.

(16) Stock Option and Purchase Plans

The Company's stock compensation program provides for the grant of restricted stock (including performance-based restricted stock), unrestricted stock, stock options and stock appreciation rights. A total of 3,000,000 shares of common stock were reserved for issuance under the 2004 Equity Plan. On May 11, 2010, the 2004 Equity Plan was replaced with the 2010 Sypris Omnibus Plan. A total of 3,655,088 shares of common stock were registered for issuance under the 2010 Omnibus Plan. Additionally, awards under the 2004 Plan that are cancelled without having been fully exercised or vested are available again for new awards under the 2010 Omnibus Plan. The aggregate number of shares available for future grant as of December 31, 2014 and 2013 was 1,052,021 and 1,551,521, respectively.

The 2004 Equity Plan provides for restrictions which lapse after one, two, three or four years for certain grants or for certain other shares, one-third of the restriction is removed after three, five and seven years, respectively. The 2010 Omnibus Plan provides for restrictions which lapse after three years. During the restricted period, which is commensurate with each vesting period, the recipient has the right to receive dividends and voting rights for the shares. Generally, if a recipient leaves the Company before the end of the restricted period or if performance requirements, if any, are not met, the shares will be forfeited.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The Company has certain stock compensation plans under which options to purchase common stock may be granted to officers, key employees and non-employee directors. Options may be granted at not less than the market price on the date of grant. Stock option grants under the 2004 Equity Plan include both six and ten year lives along with graded vesting over three, four and five years of service. Stock option grants under the 2010 Omnibus Plan include a five year life along with vesting after three years of service.

Compensation expense is measured based on the fair value at the date of grant and is recognized on a straight-line basis over the vesting period. Fair value for restricted shares is equal to the stock price on the date of grant, while the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing method. The Company uses historical Company and industry data to estimate the expected price volatility, the expected option life, the expected forfeiture rate and the expected dividend yield. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option.

The following weighted average assumptions were used to estimate the fair value of options granted using the Black-Scholes option-pricing model:

	Year ended December 31,	
	2014	2013
Expected life (years)	4.0	4.0
Expected volatility	53.3%	81.1%
Risk-free interest rates	1.73%	0.77%
Expected dividend yield	2.67	1.97

A summary of the restricted stock activity is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2014	978,715	\$ 4.00
Granted	283,000	2.80
Vested	(274,814)	4.16
Forfeited	(98,000)	3.72
Nonvested shares at December 31, 2014	888,901	\$ 3.60

The total fair value of shares vested during 2014 and 2013 was \$773,000 and \$1,344,000, respectively. In conjunction with the vesting of restricted shares and payment of taxes thereon, the Company received into treasury 98,251 and 114,552 restricted shares, respectively, at an average price of \$2.81 and \$4.22 per share, respectively, the closing market price on the date the restricted stock vested. Such repurchased shares were immediately cancelled.

The following table summarizes option activity for the year ended December 31, 2014:

	Number of Shares	Weighted- average Exercise Price Per Share	Weighted- average Remaining Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	1,075,400	\$ 3.95		
Granted	294,000	2.80		
Exercised	(201,589)	2.56		
Forfeited	(37,500)	3.52		
Expired	(74,311)	6.74		
Outstanding at December 31, 2014	1,056,000	\$ 3.72	2.85	\$ 15,000
Exercisable at December 31, 2014	233,000	\$ 4.16	1.20	\$ 14,800

The weighted average grant date fair value based on the Black-Scholes option pricing model for options granted in the years ended December 31, 2014 and 2013 was \$0.99 and \$2.08 per share, respectively. There were 201,589 and 208,000 options exercised in 2014 and 2013, respectively. The total intrinsic value of options exercised was \$417,000 and \$488,000 during the years ended December 31, 2014 and 2013, respectively.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

As of December 31, 2014, there was \$1,395,000 of total unrecognized compensation cost, after estimated forfeitures, related to unvested share-based compensation granted under the plans. That cost is expected to be recognized over a weighted-average period of 0.9 years. The total fair value of option shares vested was \$9,000 and \$67,000 during the years ended December 31, 2014 and 2013, respectively.

(17) Stockholders' Equity

As of December 31, 2014 and 2013, 24,850 shares of the Company's preferred stock were designated as Series A Preferred Stock in accordance with the terms of our stockholder rights plan, which expired in October 2011. There are no shares of Series A Preferred Stock currently outstanding, and we have no current plans to issue any such shares. Any future holders of Series A Preferred Stock, as currently designated, would have voting rights, be entitled to receive dividends based on a defined formula and have certain rights in the event of the Company's dissolution. Any such shares of Series A Preferred Stock would not be redeemable. However, the Company would be entitled to purchase shares of Series A Preferred Stock in the open market or pursuant to an offer to a holder or holders.

The holders of our common stock were not entitled to any payment as a result of the expiration of the rights plan and the rights issued thereunder.

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

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

	December 31,	
	2014	2013
Foreign currency translation adjustments	\$ (7,265)	\$ (4,435)
Employee benefit related adjustments – U.S.	(17,584)	(12,996)
Employee benefit related adjustments – Mexico	(186)	(303)
Accumulated other comprehensive loss	<u>\$ (25,035)</u>	<u>\$ (17,734)</u>

(18) Income Taxes

The Company accounts for income taxes under the liability method. Accordingly, deferred income taxes have been provided for temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

The components of income (loss) before taxes are as follows (in thousands):

	Year ended December 31,	
	2014	2013
Domestic	\$ (11,924)	\$ (19,952)
Foreign	15,309	9,972
	<u>\$ 3,385</u>	<u>\$ (9,980)</u>

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The components of income tax expense (benefit) applicable to continuing operations are as follows (in thousands):

	Year ended December 31,	
	2014	2013
Current:		
Federal	\$ 0	\$ 0
State	102	116
Foreign	3,417	1,077
Total current income tax expense	3,519	1,193
Deferred:		
Federal	0	(2,061)
State	0	(376)
Foreign	1,050	1,151
Total deferred income tax expense (benefit)	1,050	(1,286)
	\$ 4,569	\$ (93)

Income tax (benefit) expense for each year is allocated to continuing operations, discontinued operations, extraordinary items, other comprehensive income, the cumulative effects of accounting changes, and other charges or credits recorded directly to shareholders' equity. ASC 740-20-45 *Income Taxes, Intra-period Tax Allocation, Other Presentation Matters* includes an exception to the general principle of intra-period tax allocations. The codification source states that the tax effect of pretax income or loss from continuing operations generally should be determined by a computation that considers only the tax effects of items that are included in continuing operations. The exception to that incremental approach is that all items (i.e. other comprehensive income, discontinued operations, etc.) be considered in determining the amount of tax benefit that results from a loss from continuing operations and that benefit should be allocated to continuing operations. That is, when a company has a current period loss from continuing operations, management must consider income recorded in other categories in determining the tax benefit that is allocated to continuing operations. This includes situations in which a company has recorded a full valuation allowance at the beginning and end of the period, and the overall tax provision for the year is zero. The intra-period tax allocation is performed once the overall tax provision has been computed and allocates that provision to various income statement (continuing operations, discontinued operations), other comprehensive income and balance sheet captions. While the intra-period tax allocation does not change the overall tax provision, it results in a gross-up of the individual components. Additionally, tax jurisdictions must be considered separately; therefore the allocation to the U.S. and Mexico must be looked at separately.

As the Company experienced a loss from continuing operations in the U.S. for the year ended December 31, 2013 and other comprehensive income from employee benefit and foreign currency translation adjustments, the Company allocated income tax expense against the components of other comprehensive income in 2013 using a 38.9% effective tax rate. Income tax benefit related to continuing operations for the year ended December 31, 2013 includes a benefit of \$2,437,000 due to the required intra-period tax allocation. Conversely, other comprehensive income for the year ended December 31, 2013 includes income tax expense of \$2,437,000.

The Company files a consolidated federal income tax return which includes all domestic subsidiaries. State income taxes paid in the U.S. during 2014 and 2013 totaled \$33,000 and \$120,000, respectively. Foreign income taxes paid during 2014 and 2013 totaled \$1,063,000 and \$1,523,000, respectively. There were no foreign refunds received in 2014 and 2013. There were no federal taxes paid in 2014 and 2013, and there were no federal refunds received in 2014 and 2013. At December 31, 2014, the Company had \$112,448,000 of federal net operating loss carryforwards available to offset future federal taxable income, which will expire in various amounts from 2024 to 2034.

At December 31, 2014, the Company had \$49,508,000 of state net operating loss carryforwards available to offset future state taxable income, the majority of which relates to Florida. These carryforwards expire in various amounts from 2018 to 2034.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The following is a reconciliation of income tax (benefit) expense applicable to continuing operations to that computed by applying the federal statutory rate to (loss) income from continuing operations before income taxes (in thousands):

	Year ended December 31,	
	2014	2013
Federal tax expense at the statutory rate	\$ 1,185	\$ (3,517)
Current year permanent differences	61	50
Goodwill impairment	0	1,373
State income taxes, net of federal tax impact	(772)	(1,118)
Foreign repatriation, net of foreign tax credits	4,077	2,768
Mexican minimum taxes	0	46
Effect of tax rates of foreign subsidiaries	(733)	(486)
Currency translation effect on temporary differences	(71)	38
Valuation allowance	297	729
Prior year adjustment	531	22
Other	(6)	2
	<u>\$ 4,569</u>	<u>\$ (93)</u>

ASC 740, *Income Taxes*, 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 net cumulative domestic loss for the current and prior two years represents negative evidence under the provisions of ASC 740 requiring the Company to establish a valuation allowance against domestic deferred tax assets. 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.

The gross deferred tax asset for the Company's Mexican subsidiaries was \$2,556,000 and \$3,973,000 as of December 31, 2014 and 2013, respectively.

Therefore, the net deferred tax asset balances of \$2,556,000 and \$3,973,000 at December 31, 2014 and 2013, respectively, are attributable to the Mexican subsidiaries. The Company has been profitable in Mexico in the past, and while we do not expect to be profitable in 2015 due to the loss of the Dana business, we expect to be profitable in 2016 and thereafter.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

Deferred income tax assets and liabilities are as follows (in thousands):

	December 31,	
	2014	2013
Deferred tax assets:		
Compensation and benefit accruals	\$ 1,665	\$ 1,905
Inventory valuation	3,124	3,176
Federal and state net operating loss carryforwards	46,835	44,139
Deferred revenue	2,573	3,180
Accounts receivable allowance	113	129
Defined benefit pension plan	2,304	873
Foreign deferred revenue and other provisions	2,556	3,973
AMT credits	185	185
Other	974	1,339
	<u>60,329</u>	<u>58,899</u>
Domestic valuation allowance	(51,914)	(49,832)
Total deferred tax assets	8,415	9,067
Deferred tax liabilities:		
Foreign subsidiaries – unrepatriated earnings	(3,773)	(2,665)
Depreciation	(2,086)	(2,429)
Total deferred tax liabilities	(5,859)	(5,094)
Net deferred tax asset	<u>\$ 2,556</u>	<u>\$ 3,973</u>

The ASC Income Tax topic includes guidance for the accounting for uncertainty in income taxes recognized in an enterprise's financials. Specifically, the guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The total amount of gross unrecognized tax benefits as of December 31, 2014 and 2013 was \$200,000. There were no changes to the unrecognized tax benefit balance during the years ended December 31, 2014 and 2013.

If the Company's positions are sustained by the taxing authority in favor of the Company, the entire balance at December 31, 2014 would reduce the Company's effective tax rate. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2014 and 2013, the Company does not have an accrual for the payment of tax-related interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (IRS) is not currently examining the Company's U.S. income tax returns for 2010 through 2013, for which the statute has yet to expire. In addition, open tax years related to state and foreign jurisdictions remain subject to examination.

As of December 31, 2014, the Company has no undistributed earnings of foreign subsidiaries that are classified as permanently reinvested. The Company expects to repatriate available non-U.S. cash holdings during 2015. The Company will utilize its net operating loss carryforward in the U.S. to offset the taxable income generated in 2014 in the U.S. as a result of the repatriation and has therefore recognized a deferred income tax benefit equal to the amount of the U.S. deferred tax liability and a corresponding reduction in the deferred tax asset valuation allowance.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(19) 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. All potential common shares were excluded from diluted earnings per share for the year ended December 31, 2014 and 2013 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 loss per common share is as follows (in thousands):

	Year ended December 31,	
	2014	2013
Loss attributable to stockholders:		
Net loss as reported	\$ (1,184)	\$ (9,887)
Less dividends declared attributable to restricted award holders	(53)	(45)
Net loss allocable to common stockholders	<u>\$ (1,237)</u>	<u>\$ (9,932)</u>
Loss per common share attributable to stockholders:		
Basic	<u>\$ (0.06)</u>	<u>\$ (0.51)</u>
Diluted	<u>\$ (0.06)</u>	<u>\$ (0.51)</u>
Weighted average shares outstanding – basic	19,586	19,345
Weighted average additional shares assuming conversion of potential common shares	0	0
Weighted average shares outstanding – diluted	<u>19,586</u>	<u>19,345</u>

(20) Segment Information

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 the 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. Revenue derived from outsourced services for the Industrial Group accounted for 85% and 82% of total net revenue in 2014 and 2013, respectively. Revenue derived from outsourced services for the Electronics Group accounted for 6% and 7% of total net revenue in 2014 and 2013, respectively. There was no intersegment net revenue recognized for any year presented.

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

	Year ended December 31,	
	2014	2013
Net revenue from unaffiliated customers:		
Industrial Group	\$ 322,262	\$ 276,136
Electronics Group	32,514	34,578
	<u>\$ 354,776</u>	<u>\$ 310,714</u>

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

	Year Ended December 31,	
	2014	2013
Gross profit (loss):		
Industrial Group	\$ 42,021	\$ 31,638
Electronics Group	(3,191)	(1,585)
	<u>\$ 38,830</u>	<u>\$ 30,053</u>
Operating income (loss):		
Industrial Group	\$ 25,160	\$ 20,021
Electronics Group	(13,479)	(21,851)
General, corporate and other	(8,961)	(8,558)
	<u>\$ 2,720</u>	<u>\$ (10,388)</u>
Income (loss) before income taxes:		
Industrial Group	\$ 26,454	\$ 20,985
Electronics Group	(13,476)	(21,858)
General, corporate and other	(9,593)	(9,107)
	<u>\$ 3,385</u>	<u>\$ (9,980)</u>
Depreciation and amortization:		
Industrial Group	\$ 9,374	\$ 11,261
Electronics Group	945	999
General, corporate and other	90	141
	<u>\$ 10,409</u>	<u>\$ 12,401</u>
Capital expenditures:		
Industrial Group	\$ 3,725	\$ 4,547
Electronics Group	811	444
General, corporate and other	723	62
	<u>\$ 5,259</u>	<u>\$ 5,053</u>
December 31,		
	2014	2013
Total assets:		
Industrial Group	\$ 95,105	\$ 100,593
Electronics Group	26,874	29,689
General, corporate and other	7,699	16,001
	<u>\$ 129,681</u>	<u>\$ 146,283</u>
Total liabilities:		
Industrial Group	\$ 55,505	\$ 54,232
Electronics Group	8,697	9,216
General, corporate and other	18,601	26,583
	<u>\$ 82,793</u>	<u>\$ 90,031</u>

The Company's export sales from the U.S. totaled \$58,498,000 and \$45,163,000 in 2014 and 2013, respectively. Approximately \$111,177,000 and \$95,392,000 of net revenue in 2014 and 2013, respectively, and \$13,033,000 and \$16,656,000 of long lived assets at December 31, 2014 and 2013, respectively, and net assets of \$20,388,000 and \$20,779,000 at December 31, 2014 and 2013 relate to the Company's international operations.

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

(21) Subsequent Events

The Credit Facility was amended during the first quarter of 2015 to, among other things, (i) waive certain existing or potential events of default, (ii) limit total borrowings to \$25,000,000, (iii) restrict the payment of dividends, (iv) increase the applicable margin on borrowings which will result in an initial interest rate of approximately 6% and increasing by 50 basis points beginning June 2015 and each month thereafter to an estimated interest rate of 10% in January 2016, (v) revise the maturity date to January 15, 2016, (vi) revise certain financial covenants to include a minimum cumulative free cash flow covenant, (vii) establish minimum excess availability of \$1,000,000 initially, through May 31, 2015, and then in the amount of \$5,000,000 on or before September 30, 2015, and (viii) require the Company to raise new capital by securing subordinated debt or divesting certain real property or a combination thereof on or before September 30, 2015 (and, if earlier than September 30, 2015, to maintain minimum excess availability of \$5,000,000 thereafter).

In connection with the Amendment, the Company has received the proceeds of subordinated indebtedness from Gill Family Capital Management in an amount of \$4,000,000. Gill Family Capital Management is an entity controlled by our president and chief executive officer, Jeffrey T. Gill and one of our directors, R. Scott Gill. Gill Family Capital Management, Inc., Jeffrey T. Gill and R. Scott Gill are significant beneficial stockholders in the Company. The promissory note bears interest at a rate of 8.00% per year and matures on April 12, 2016. All principal and interest on the promissory note will be due and payable on the maturity date. The Board of Directors (“Board”) appointed the Audit and Finance Committee of the Board (“Committee”) as an independent committee of the Board to review the fairness of and negotiate the terms of the foregoing transactions including the promissory note with Gill Family Capital Management. The Committee reviewed, negotiated and approved the promissory note as fair and in the Company’s best interests on March 10, 2015 and the Board subsequently approved the transaction upon the Committee’s recommendation. Gill Family Capital Management, Jeffrey T. Gill and R. Scott Gill are significant, long term beneficial stockholders in the Company and have expressed a continuing interest in opportunities that are fair and reasonable to the Company and to the Gill family.

On March 26, 2015, the Company amended the vesting dates of certain outstanding restricted stock awards, including awards held by our named executive officers; their original vesting dates of March 31, 2015 and April 1, 2015 have been revised to October 1, 2015.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control over Financial Reporting

The management of Sypris Solutions, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management's report on internal control over financial reporting is included in Part II, Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Section 16(a) Beneficial Ownership Reporting Compliance," "Governance of the Company –Committees of the Board of Directors," "Governance of the Company – Audit and Finance Committee," "Proposal One, Election of Directors," and "Executive Officers," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

The Company has adopted a Code of Conduct that applies to all of its directors, officers (including its chief executive officer, chief financial officer, chief accounting officer and any person performing similar functions) and employees. The Company has made the Code of Conduct, and will make any amendments and waivers thereto, available on its website at www.sypris.com.

Item 11. Executive Compensation

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "2014 Director Compensation," "Governance of the Company," "Summary Compensation Table," and "Outstanding Equity Awards at Fiscal Year-End 2014," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Stock Ownership of Certain Beneficial Owners and Management," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Equity Compensation Plan Information

The following table provides information as of December 31, 2014 with respect to shares of Sypris common stock that may be issued under our equity compensation plans.

Plan Category	Number of Securities To be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Stockholders	1,056,000(1)	\$ 3.72	1,052,021(2)
Equity Compensation Plans Not Approved by Stockholders	—	—	—
Total	1,056,000	\$ 3.72	1,052,021

(1) Consists of (a) 18,000 outstanding options under the 2004 Equity Plan, (c) and 1,038,000 outstanding options under the 2010 Omnibus Plan.

(2) Shares remaining available for issuance under the 2010 Omnibus Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required herein is incorporated by reference from the sections of the Company's Proxy Statement titled "Governance of the Company – Transactions with Related Persons" and "Governance of the Company – Independence," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

Item 14. Principal Accounting Fees and Services

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Relationship with Independent Public Accountants," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are included.

2. Exhibits

Exhibit

Number Description

- | | |
|--------|---|
| 3.1 | Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2004 filed on August 3, 2004 (Commission File No. 000-24020)). |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed October 31, 2011 (Commission File No. 000-24020)). |
| 4.1 | Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 1998 filed on March 5, 1999 (Commission File No. 000-24020)). |
| 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 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 9, 2011 (Commission File No. 000-24020)). |
| 10.1.1 | Joinder and Amendment No. 1 to Loan Documents 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., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of February 10, 2015. |
| 10.1.2 | Amendment No. 2 to Loan Documents 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., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of March 12, 2015. |
| 10.2 | Promissory Note between Gill Family Capital Management, Inc., Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. dated as of March 12, 2015. |
| 10.2.1 | Security Agreement between Sypris Solutions, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc., Sypris Technologies Marion, LLC, Sypris Technologies Kenton, Inc., Sypris Technologies Mexican Holdings, LLC, Sypris Technologies Northern, Inc., Sypris Technologies Southern, Inc. and Sypris Technologies International, Inc. and Gill Family Capital Management, Inc., dated as of March 12, 2015. |
| 10.3 | Lease between John Hancock Mutual Life Insurance Company and Honeywell, Inc. dated April 27, 1979; related Notice of Assignment from John Hancock Mutual Life Insurance Company to Sweetwell Industrial Associates, L.P., dated July 10, 1986; related Assignment and Assumption of Lease between Honeywell, Inc. and Defense Communications Products Corporation (prior name of Group Technologies Corporation) dated May 21, 1989; and related Amendment I to Lease Agreement between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated October 25, 1991, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)). |

Exhibit Number	Description
10.3.1	Agreement related to Fifth Renewal of Lease between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated October 12, 2006, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.8.2 to the Company's Form 10-K for the fiscal year ended December 31, 2006 filed on March 14, 2007 (Commission File No. 000-24020)).
10.3.2	Agreement related to Sixth Renewal of Lease between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated August 13, 2008, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 28, 2008 filed on November 5, 2008 (Commission File No. 000-24020)).
10.4*	Sypris Solutions, Inc. Independent Directors' Stock Option Plan as Amended and Restated effective February 26, 2002 (incorporated by reference to Exhibit 4.5 to the Company's Form S-8 filed on May 9, 2002 (Registration No. 333-87882)).
10.5*	Sypris Solutions, Inc., Directors Compensation Program As Amended and Restated Effective February 24, 2004 and as amended December 15, 2004, (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 21, 2004 (Commission File No. 000-24020)).
10.6*	Sypris Solutions, Inc. Directors Compensation Program adopted on September 1, 1995 Amended and Restated on December 17, 2008 (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended December 31, 2008 filed on March 31, 2009 (Commission File No. 000-24020)).
10.7*	2004 Sypris Equity Plan effective as of April 27, 2004 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2004 filed on April 30, 2004 (Commission File No. 000-24020)).
10.8*	2010 Sypris Omnibus Plan effective as of May 11, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed on May 19, 2010 (Commission File No. 333-166951)).
10.9*	Amended Executive Long-Term Incentive Program and Alternate Form of Executive Long-Term Incentive Award Agreements for Grants to Executive Officers and Other Key Employees (incorporated by reference to Exhibit 10.10 to the Company's Form 10-Q filed on August 5, 2005 (Commission File No. 000-24020)).
10.10*	Amended 2010 Executive Long-Term Incentive Program and Alternate Form of Executive Long-Term Incentive Award Agreements for Grants to Executive Officers (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on May 18, 2010 (Commission File No. 000-24020)).
10.11*	Executive Equity Repurchase Agreement dated December 20, 2011 (incorporated by reference to Exhibit 10.19 to the Company's Form 10-K filed on March 13, 2012 (Commission File No. 000-24020)).
10.12*	Form of Employment Agreement between Sypris Solutions, Inc. and participants in the Sypris Solutions, Inc. Executive Long-Term Incentive Program for 2015 dated as of March 5, 2015.
10.13	Preliminary Settlement Agreement between Sypris Solutions, Inc. and Dana Corporation (Debtor in Possession) dated May 10, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on May 10, 2006 (Commission File No. 000-24020)).
10.14	Settlement Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007, replaces redacted copy of Settlement Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 7, 2008 (Commission File No. 000-24020)).
10.15	Redacted copy of Supply Agreement with Dana Corporation signed on July 24, 2007 and effective as of August 7, 2007 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 2, 2007 (Commission File No. 000-24020)).
16.1	Letter from Ernst & Young LLP addressed to the Securities and Exchange Commission, dated June 12, 2014 (incorporated by reference to Exhibit 16.1 to the Company's Form 8-K filed on June 12, 2014 (Commission File No. 000-24020)).

Exhibit Number	Description
21	Subsidiaries of the Company
23.1	Consent of Crowe Horwath LLP
23.2	Consent of Ernst & Young LLP
31.1	CEO certification pursuant to Section 302 of Sarbanes - Oxley Act of 2002.
31.2	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

* Management contract or compensatory plan or arrangement.

JOINDER AND AMENDMENT NO. 1 TO LOAN DOCUMENTS

SYPRIS SOLUTIONS, INC. (“Holdings”), SYPRIS TECHNOLOGIES, INC. (“Technologies”), SYPRIS ELECTRONICS, LLC (“Electronics”), SYPRIS DATA SYSTEMS, INC. (“Data Systems”), SYPRIS TECHNOLOGIES MARION, LLC (“Marion”), SYPRIS TECHNOLOGIES KENTON, INC. (“Kenton”), SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC (“Mexican Holdings”), SYPRIS TECHNOLOGIES NORTHERN, INC. (“Northern”), SYPRIS TECHNOLOGIES SOUTHERN, INC. (“Southern”), and SYPRIS TECHNOLOGIES INTERNATIONAL, INC. (“International”) (each a “Borrower”, and collectively the “Borrowers”) and PNC BANK, NATIONAL ASSOCIATION, as Agent (PNC, in such capacity, “Agent”) and Lender, agree as follows effective as of February 10, 2015 (the “Effective Date”):

1. Recitals.

- 1.1 As of May 12, 2011, certain of Borrowers, and PNC as Lender and Agent, entered into a Revolving Credit and Security Agreement (as amended, extended, modified, or restated, the “Loan Agreement”). Capitalized terms used herein and not otherwise defined will have the meanings given such terms in the Loan Agreement as amended. The Loan Agreement, the Other Documents, and all related loan and/or security documents related thereto are referred to herein as the “Loan Documents”.
- 1.2 Technologies has formed each of Northern, Southern, and International as wholly-owned Subsidiaries (together, the “New Subsidiaries”). Accordingly, the New Subsidiaries are hereby joining the Loan Documents as Borrowers pursuant to Section 7.12(a) of the Loan Agreement. In addition, Borrowers, and PNC as Lender and Agent, have agreed to amend the Loan Documents on the terms and subject to the conditions set forth herein.

2. Joinder.

- 2.1 As of the Effective Date, each of the New Subsidiaries assumes all the obligations of a “Borrower” under the Loan Agreement and Notes, and agrees that it is a Borrower and bound as a Borrower under the terms of the Loan Agreement and Notes, as if it had been an original signatory to the Loan Agreement and Notes. Each of the New Subsidiaries shall be jointly and severally liable for the Obligations with each of the other Borrowers. All references in the other Loan Documents to a “Borrower”, “Grantor”, “Debtor”, “Loan Party”, “Obligor” or similar terms will include each of the New Subsidiaries, and each of them is hereby made a party to each of such Loan Documents as if it had been an original signatory to the Loan Documents.
 - 2.2 Each of the New Subsidiaries hereby assigns, pledges and grants to the Agent a security interest in all of its right, title and interest in and to the Collateral to secure the Obligations. Each of the New Subsidiaries acknowledges that Agent is authorized to file such UCC Financing Statements with respect to the Collateral as it shall determine are necessary or advisable.
 - 2.3 The address for notices to each of the New Subsidiaries under the Loan Agreement shall be the address of the Borrowers set forth in Section 16.6 of the Loan Agreement.
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3. **Amendment**

3.1 Section 1.2 of the Loan Agreement is hereby amended to add the following defined terms in alphabetical order:

“Amendment No. 1” shall mean Joinder and Amendment No. 1 to Loan Documents among Borrowers, and PNC as Lender and Agent, effective as of February 10, 2015.

“Covered Entity” shall mean (a) each Borrower, each Borrower’s Subsidiaries, all Guarantors, and all pledgors of Collateral, and (b) each Person that, directly or indirectly, is in control of a Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the direct or indirect (x) ownership of, or power to vote, 25% or more of the issued and outstanding equity interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for such Person, or (y) power to direct or cause the direction of the management and policies of such Person whether by ownership of equity interests, contract or otherwise.

“Excluded Taxes” shall mean, with respect to the Agent, any Lender, Participant, Issuer or any other recipient of any payment to be made by or on account of any Obligations, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, Participant, or Issuer, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which a Borrower is located, (c) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new lending office), or is attributable to such Foreign Lender’s failure or inability (other than as a result of a change in Applicable Law) to comply with Section 3.10(e), except to the extent that such Foreign Lender or Participant (or its assignor or seller of a participation, if any) was entitled, at the time of designation of a new lending office (or assignment or sale of a participation), to receive additional amounts from a Borrower with respect to such withholding tax pursuant to Section 3.10(a), and (d) any Taxes imposed on any “withholding payment” payable to such recipient as a result of the failure of such recipient to satisfy the requirements set forth in the FATCA after December 31, 2012. The Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of Applicable Law) and all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in Applicable Law regardless of the date enacted, adopted, issued, promulgated or implemented.

“Foreign Lender” shall mean any Lender that is organized under the laws of a jurisdiction other than that in which a Borrower is resident for tax purposes. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Indemnified Taxes” shall mean Taxes, other than Excluded Taxes.

“Other Taxes” shall mean all present or future stamp or documentary Taxes or any other excise or property Taxes, charges or similar levies arising from any payment made hereunder or under any Other Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any Other Document.

“Reportable Compliance Event” shall mean that any Covered Entity becomes a Sanctioned Person, or is charged by indictment, criminal complaint or similar charging instrument, arraigned, or custodially detained in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or has knowledge of facts or circumstances to the effect that it is reasonably likely that any aspect of its operations is in actual or probable violation of any Anti-Terrorism Law.

“Sanctioned Country” shall mean a country subject to a sanctions program maintained under any Anti-Terrorism Law.

“Sanctioned Person” shall mean any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person, group, regime, entity or thing, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any Anti-Terrorism Law.

“Taxes” shall mean all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Body, including any interest, additions to tax or penalties applicable thereto.

- 3.2 The defined term “Anti-Terrorism Laws” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“Anti-Terrorism Law(s)” shall mean any Applicable Law relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering or bribery, and any regulation, order, or directive promulgated, issued or enforced pursuant to such Applicable Law, all as amended, supplemented or replaced from time to time.

- 3.3 The second (2nd) sentence of each of the defined terms “Eligible Finished Goods Inventory”, “Eligible Work-In-Process Inventory”, “Eligible Raw Material Inventory”, and “Eligible Receivables” is hereby deleted.

- 3.4 Subsection (l) of the defined term “Eligible Receivables” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

(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 however, that, unless and until Agent elects to deem Receivables due from Dana or its Affiliates to be ineligible (which election Agent may make in its sole discretion at any time), such Receivables shall not be subject to exclusion based on the existence of a supplier relationship with Dana;

- 3.5 The defined term “Eurodollar Rate Loan” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“Eurodollar Rate Loan” shall mean an Advance at any time that bears interest based on the Eurodollar Rate. Upon and after the effective date of Amendment No. 1, notwithstanding anything to the contrary herein, (i) Lenders shall not make any Advance as a Eurodollar Rate Loan, (ii) no Advance may be converted to or continued as a Eurodollar Rate Loan, and (iii) each outstanding Eurodollar Rate Loan shall be converted to a Domestic Rate Loan on the effective date of Amendment No. 1.

- 3.6 The defined term “FATCA” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“FATCA” shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

- 3.7 The defined term “Eurodollar Rate” set forth in Section 1.2 of the Loan Agreement is hereby amended to add the following after the last sentence thereof:

Notwithstanding the foregoing, if the Eurodollar Rate determined as provided above would be less than zero, the Eurodollar Rate shall be deemed to be zero for purposes of this Agreement.

- 3.8 The defined term “Maximum Revolving Advance Amount” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“Maximum Revolving Advance Amount” shall mean \$25,000,000.

- 3.9 The defined term “Obligations” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“Obligations” shall mean and include all of the following owing by any Borrower to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender, 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, if any, they may be evidenced: (a) any and all Indebtedness, loans, Advances, debts, liabilities, guaranties, obligations (including all reimbursement obligations and cash collateralization obligations with respect to Letters of Credit), covenants and duties, of any kind or nature, present or future (including any interest or other amounts accruing thereon, any fees accruing under or in connection therewith, any costs and expenses of any Person payable by any Borrower and any indemnification obligations payable by any Borrower arising or payable 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, fees or other amounts is allowable or allowed in such proceeding), (b) any and all Indebtedness, liabilities, debts or advances arising out of (i) overdrafts, deposit or other accounts, or electronic funds transfers (whether through automated clearing houses or otherwise), (ii) 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 (iii) credit cards, credit card processing services, debit cards and stored value cards, commercial or purchasing cards, cash management and treasury management services and products, controlled disbursement accounts or services, lockboxes, 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.

3.10 Subsection (g) of the defined term “Permitted Dispositions” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

(g) reserved; and

3.11 Subsection (f) of the defined term “Permitted Investments” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

(f) investments in or advances of cash and cash equivalents to Subsidiaries of Mexican Holdings, provided that no such investment or advance shall be made or increased after the effective date of Amendment No. 1;

3.12 The defined term “Satisfaction Event” set forth in Section 1.2 of the Loan Agreement is hereby deleted and replaced with the following:

“Satisfaction Event” shall mean the date upon which all of the Obligations of each Borrower have been indefeasibly paid and performed in full and this Agreement has been terminated.

3.13 Section 2.1(b) of the Loan Agreement is hereby deleted and replaced with the following:

(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 Permitted Discretion. 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).

3.14 Section 2.2(c) is hereby deleted and replaced with the following:

(c) Reserved.

3.15 Section 2.2(d) is hereby deleted and replaced with the following:

(d) Reserved.

3.16 Sections 2.2(g), 3.7, and 3.9(a) of the Loan Agreement are each hereby amended to add the following after the last sentence thereof:

A change in Applicable Law shall be deemed to occur when, after the Closing Date, any of the following occurs: (i) the adoption or taking effect of any Applicable Law; (ii) any change in any Applicable Law or in the administration, implementation, interpretation or application thereof by any Governmental Body; or (iii) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Body; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of Applicable Law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of law), in each case pursuant to Basel III, shall in each case be deemed to be a change in Applicable Law regardless of the date enacted, adopted, issued, promulgated or implemented.

3.17 Section 2.24 of the Loan Agreement is hereby deleted and replaced with the following:

2.24 Reserved.

3.18 Section 3.8 of the Loan Agreement is hereby amended to add the following subsections (c) and (d) immediately following subsection (b):

(c) the making, maintenance or funding of any Eurodollar Rate Loan has been made impracticable or unlawful by compliance by Agent or such Lender in good faith with any Applicable Law or any interpretation or application thereof by any Governmental Body or with any request or directive of any such Governmental Body (whether or not having the force of law), or

(d) the Eurodollar Rate will not adequately and fairly reflect the cost to such Lender of the establishment or maintenance of any Eurodollar Rate Loan,

3.19 Sections 3.10, 3.11 and 3.12 of the Loan Agreement are hereby deleted and replaced with the following:

3.10 Taxes.

(a) Any and all payments by or on account of any Obligations hereunder or under any Other Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes; provided that if a Borrower shall be required by Applicable Law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Agent, Lender, Issuer or Participant, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deduction, and (iii) such Borrower shall timely pay the full amount deducted to the relevant Governmental Body in accordance with Applicable Law.

(b) Without limiting the provisions of Section 3.10(a) above, each Borrower shall timely pay any Other Taxes to the relevant Governmental Body in accordance with Applicable Law.

(c) Borrowers shall indemnify Agent, each Lender, Issuer and any Participant, within thirty (30) days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by Agent, such Lender, Issuer, or such Participant, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Body. A certificate as to the amount of such payment or liability delivered to Borrowers by any Lender, Participant, or the Issuer (with a copy to Agent), or by Agent on its own behalf or on behalf of a Lender or the Issuer, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by Borrowers to a Governmental Body, Borrowers shall deliver to Agent the original or a certified copy of a receipt issued by such Governmental Body evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which a Borrower is resident for tax purposes, or under any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any Other Document shall deliver to Borrowers (with a copy to Agent), at the time or times prescribed by Applicable Law or reasonably requested by Borrowers or Agent, such properly completed and executed documentation prescribed by Applicable Law as will permit such payments to be made without withholding or at a reduced rate of withholding. Notwithstanding the submission of such documentation claiming a reduced rate of or exemption from U.S. withholding tax, Agent shall be entitled to withhold United States federal income taxes at the full statutory 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 United States Income Tax Regulations or other Applicable Law. Further, Agent is indemnified under §1.1461-1(e) of the United States Income Tax Regulations against any claims and demands of any Lender, Issuer or assignee or participant of a Lender or Issuer for the amount of any tax it deducts and withholds in accordance with regulations under §1441 of the Code. In addition, any Lender, if requested by Borrowers or Agent, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by Borrowers or Agent as will enable Borrowers or Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Without limiting the generality of the foregoing, in the event that a Borrower is resident for tax purposes in the United States of America, any Foreign Lender (or other Lender) shall deliver to Borrowers and Agent (in such number of copies specified below or as shall be requested by the recipient) on or prior to the date on which such Foreign Lender (or other Lender) becomes a Lender under this Agreement (and from time to time thereafter upon the request of Borrowers or Agent, but only if such Foreign Lender (or other Lender) is legally entitled to do so), whichever of the following is applicable:

- (i) two (2) duly completed valid originals of IRS Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,
 - (ii) two (2) duly completed valid originals of IRS Form W-8ECI,
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(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (B) a “10 percent shareholder” of a Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code and (y) two duly completed valid originals of IRS Form W-8BEN,

(iv) any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by Applicable Law to permit Borrowers to determine the withholding or deduction required to be made, or

(v) to the extent that any Lender is not a Foreign Lender, such Lender shall submit to Agent two (2) originals of an IRS Form W-9 or any other form prescribed by Applicable Law demonstrating that such Lender is not a Foreign Lender.

(f) If a payment made to a Lender, Participant, Issuer, or Agent under this Agreement or any Other Document would be subject to U.S. Federal withholding Tax imposed by FATCA if such Person fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender, Participant, Issuer, or Agent shall deliver to the Agent (in the case of a Lender, Participant or Issuer) and Borrowers (A) a certification signed by the chief financial officer, principal accounting officer, treasurer or controller of such Person, and (B) other documentation reasonably requested by the Agent or Borrowers sufficient for Agent and Borrowers to comply with their obligations under FATCA and to determine that such Lender, Participant, Issuer, or Agent has complied with such applicable reporting requirements.

3.20 Section 4.10 of the Loan Agreement is hereby deleted and replaced with the following:

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, examining, inspecting or appraising the Collateral and any and all records pertaining thereto and the operation of such Borrower’s business. The cost of all such audits, exams, inspections, and appraisals shall be at the sole expense of Borrowers and Borrowers shall promptly reimburse Agent for any cost expended by Agent in connection therewith. Agent may also charge the foregoing costs to Borrowers’ Account as a Revolving Advance maintained as a Domestic Rate Loan.

3.21 Section 5.22 of the Loan Agreement is hereby deleted and replaced with the following:

5.22 Reserved.

3.22 Section 5.23 of the Loan Agreement is hereby deleted and replaced with the following:

5.23 Reserved.

3.23 Article 6 of the Loan Agreement is hereby amended to add the following Section 6.9:

6 . 9 Consultant. Continue to employ a third-party consultant reasonably acceptable to Agent (the "Consultant") on terms and conditions reasonably satisfactory to Agent. Each of the Borrowers shall at all times cause the Consultant to perform the scope of work set forth in the engagement agreement between Holdings and Huron Consulting Services LLC dated February 8, 2015 and to otherwise cooperate with Agent by responding to Agent's reasonable requests for information relating to Borrowers, and providing Agent with the Consultant's analysis regarding Borrowers. Each Borrower hereby consents to Agent contacting the Consultant directly with respect to the foregoing, and hereby agrees that such communications shall not be restricted; provided, that Agent shall not have the right to direct the actions of the Consultant or to otherwise exercise any control over the Consultant. All fees and expenses of the Consultant shall be solely the responsibility of Borrowers, and in no event shall Agent have any liability or responsibility for the payment of the Consultant's fees or expenses or other liability to Borrowers, the Consultant or any other Person on account of or in connection with any services rendered by or any acts or omissions of the Consultant.

3.24 Article 6 of the Loan Agreement is hereby amended to add the following Section 6.10:

6 . 1 0 Collateral Access Agreements. Commencing thirty (30) days after the effective date of Amendment No. 1 and continuing thereafter, Borrowers shall obtain Collateral Access Agreements: (a) with respect to each leased property at which Inventory with a value in excess of \$50,000 is or will be located; and (b) with respect to each processor which has or will have possession of Inventory with a value in excess of \$50,000.

3.25 Section 7.7 of the Loan Agreement is hereby deleted and replaced with the following

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.

3.26 Clause (d) of Section 7.10 of the Loan Agreement is hereby deleted and replaced with the following:

(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, notwithstanding anything to the contrary herein, no such transfers shall be made after the effective date of Amendment No. 1,

3.27 Clause (e) of Section 7.10 of the Loan Agreement is hereby deleted and replaced with the following:

(e) the Mexican Loan; provided that, notwithstanding anything to the contrary herein, the payment of any principal, interest or taxes with respect thereto shall not be permitted after the effective date of Amendment No. 1.

3.28 Section 7.18 of the Loan Agreement is hereby deleted and replaced with the following:

7.18 Reserved.

3.29 Section 7.20 of the Loan Agreement is hereby deleted and replaced with the following:

7.20 Reserved.

3.30 Article 10 of the Loan Agreement is hereby amended to add the following Section 10.19:

10.19 Anti-Money Laundering/International Trade Law Compliance. Any representation or warranty contained in Section 16.18 is or becomes false or misleading at any time or any covenant therein is violated.

3.31 Article 16 of the Loan Agreement is hereby amended to add the following Section 16.18:

Section 16.18 Anti-Terrorism Laws.

(a) Each Borrower represents and warrants that (i) no Covered Entity is a Sanctioned Person, and (ii) no Covered Entity, either in its own right or through any third party, (A) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (B) does business in or with, or derives any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; or (C) engages in any dealings or transactions prohibited by any Anti-Terrorism Law.

(b) Each Borrower covenants and agrees that (i) no Covered Entity will become a Sanctioned Person, (ii) no Covered Entity, either in its own right or through any third party, will (A) have any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (B) do business in or with, or derive any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; (C) engage in any dealings or transactions prohibited by any Anti-Terrorism Law; or (D) use the Advances to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law, (iii) the funds used to repay the Obligations will not be derived from any unlawful activity, (iv) each Covered Entity shall comply with all Anti-Terrorism Laws, and (v) Borrowers shall promptly notify the Agent in writing upon the occurrence of a Reportable Compliance Event.

3.32 The maximum principal amount set forth in the third paragraph of the Revolving Credit Note is hereby amended from FIFTY MILLION DOLLARS (\$50,000,000) to TWENTY FIVE MILLION DOLLARS (\$25,000,000). The reference to the \$50,000,000 principal amount of the Revolving Credit Note on the top of the first page thereof is hereby amended from \$50,000,000 to \$25,000,000.

4. **Representations, Warranties and Covenants.** To induce Agent and Lender to enter into this Amendment, each Borrower represents, warrants, and covenants, as applicable, as follows:
- 4.1 **No Claims.** Each Borrower represents and warrants that it has no claims, counterclaims, setoffs, actions or causes of actions, damages or liabilities of any kind or nature whatsoever whether at law or in equity, in contract or in tort, existing as of the date of this Amendment (collectively, "**Claims**") against Agent or Lender, their direct or indirect parent corporations or any direct or indirect Affiliates of such parent corporations, or any of the foregoing's respective directors, officers, employees, agents, attorneys and legal representatives, or the heirs, administrators, successors or assigns of any of them (collectively, "**Lender Parties**") that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event. As an inducement to Agent and Lender to enter into this Amendment, each Borrower on behalf of itself, and all of its respective successors and assigns hereby knowingly and voluntarily releases and discharges all Lender Parties from any and all Claims, whether known or unknown in existence as of the date hereof, that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event. As used herein, the term "**Prior Related Event**" means any transaction, event, circumstance, action, failure to act, occurrence of any sort or type, whether known or unknown, which occurred, existed, was taken, permitted or begun at any time prior to the Effective Date or occurred, existed, was taken, was permitted or begun in accordance with, pursuant to or by virtue of any of the terms of the Loan Documents or any documents executed in connection with the Loan Documents or which was related to or connected in any manner, directly or indirectly to the relationship between the Borrowers and Agent or Lender or to the extension of credit represented by the Loan Documents.
- 4.2 **Authorization.** Each Person executing this Amendment on behalf of a Borrower is a duly elected and acting manager or officer of such Borrower and is duly authorized by the board of directors, members or managers, as applicable, of such Borrower to execute and deliver this Amendment on behalf of such Borrower. The entry into and performance of this Amendment and the related documents have been duly authorized by each Borrower. Each Borrower has the full right, power and authority to enter into this Amendment and perform its respective obligations hereunder.
- 4.3 **No Misrepresentations.** No information or material submitted to Agent in connection with this Amendment contains any material misstatement or misrepresentation nor omits to state any material fact or circumstance.
- 4.4 **No Conflicts.** The execution and delivery of this Amendment and all deliveries required hereunder, and the performance by each Borrower of its obligations hereunder do not and will not conflict with any provision of law or the organizational documents of Borrowers or of any agreement binding upon Borrowers.
- 4.5 **Enforceability.** This Amendment and each of the related documents is a legal and valid and binding obligation of Borrowers, enforceable against Borrowers in accordance with its terms.
- 4.6 **Ratification.** Except as expressly modified herein, the Loan Documents, as amended, are and remain in full force and effect. The Loan Documents are hereby ratified and confirmed as the continuing obligation of the Borrowers. The Borrowers hereby reaffirm and grant to the Agent a security interest in and lien upon all of the Collateral.
- 4.7 **Holdings Resolutions.** Within ten (10) days after the Effective Date, Borrower will have delivered to Agent, in form and substance acceptable to Agent, a certificate of Holdings, dated as of the Effective Date and executed by its Secretary which shall (i) certify the resolutions of its Board of Directors, members or other body authorizing the execution, delivery and performance of this Amendment, (ii) identify by name and title and bear the signatures of the officer of Holdings authorized to sign this Amendment, and (iii) contain appropriate attachments, including the certificate or articles of incorporation or organization of Holdings.
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5. **Conditions Precedent.** The closing of this Amendment is subject to the following conditions precedent:
- 5.1 **Fees and Expenses.** Borrowers will pay to Agent all reasonable attorneys' fees and expenses of Agent incurred in connection with this Amendment. Such fees and expenses may be charged to Borrowers by Agent as a Revolving Advance.
 - 5.2 **Additional Stock Pledges.** Technologies will have executed and delivered to Agent a Stock Pledge Agreement in form and substance satisfactory to Agent with respect to: (a) 100% of the Equity Interests in each of the New Subsidiaries, and (b) 100% of the Equity Interests in Sypris Technologies (UK) Ltd., together with original stock powers and share certificates.
 - 5.3 **Resolutions.** Agent shall have received the following in form and substance acceptable to Agent: (a) a certificate of each Borrower (other than Holdings), dated the Effective Date and executed by its Secretary which shall (i) certify the resolutions of its Board of Directors, members or other body authorizing the execution, delivery and performance of this Amendment, (ii) identify by name and title and bear the signatures of the officer of such Borrower authorized to sign this Amendment, and (iii) contain appropriate attachments, including the certificate or articles of incorporation or organization of each Borrower, (b) a certificate of Sypris Technologies (UK) Ltd., dated the Effective Date and executed by its Secretary which shall certify to its organizational documents, and (c) a good standing certificate for each Borrower from its jurisdiction of organization or the substantive equivalent available in the jurisdiction of organization for each Borrower from the appropriate governmental officer in such jurisdiction.
 - 5.4 **UCC Matters.** Agent shall have obtained results of such Lien searches with respect to New Subsidiaries as Agent shall deem necessary, with results in form and substance satisfactory to Agent.
 - 5.5 **Insurance.** Agent shall have received insurance certificates with respect each of the New Subsidiaries which evidence the coverage required by the Loan Documents and are otherwise in form and substance satisfactory to Agent.
 - 5.6 **Patent Security Agreement.** Technologies and Electronics will have executed and delivered to Agent a Patent Security Agreement in form and substance satisfactory to Agent with respect to certain U.S. patents and patent applications of Borrowers.
 - 5.7 **Trademark Security Agreement.** Technologies and Electronics will have executed and delivered to Agent a Trademark Security Agreement in form and substance satisfactory to Agent with respect to a certain U.S. trademark of Borrowers.
 - 5.8 **Other.** All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment and the related documentation shall be satisfactory in form and substance to Agent and its counsel.
 - 5.9 The representations and warranties of Borrowers in Section 4 herein will be true.
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6. **General.**

- 6.1 This Amendment constitutes an “Other Document” as defined in the Loan Agreement. The Loan Documents are hereby modified to include this Amendment within the definition of the term “Other Documents” or “Loan Documents” as used therein.
- 6.2 All representations and warranties made by Borrowers herein will survive the execution and delivery of this Amendment.
- 6.3 This Amendment will be binding upon and inure to the benefit of Borrowers, Agent, and Lender and their respective successors and assigns.
- 6.4 This Amendment will in all respects be governed and construed in accordance with the laws of the State of Ohio.
- 6.5 This Amendment and the documents and instruments to be executed hereunder constitute the entire agreement among the parties with respect to the subject matter hereof and shall not be amended, modified or terminated except by a writing signed by the party to be charged therewith.
- 6.6 Each Borrower agrees to execute such other instruments and documents and provide Agent with such further assurances as Agent may reasonably request to more fully carry out the intent of this Amendment.
- 6.7 This Amendment may be executed in a number of identical counterparts. If so, each such counterpart shall collectively constitute one agreement. Any signature delivered by a party by facsimile transmission or other electronic means shall be deemed to be an original signature hereto.
- 6.8 No provision of this Amendment is intended or shall be construed to be for the benefit of any third party.
- 6.9 **THE PARTIES EACH HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AMENDMENT.**
- 6.10 **EACH BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT SUCH BORROWER MAY HAVE TO CLAIM OR RECOVER FROM THE AGENT OR ANY LENDER IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.**
- 6.11 **EACH BORROWER ACKNOWLEDGES THAT (A) A TRIGGERING EVENT OCCURRED AS OF JANUARY 10, 2015, (B) TESTING OF THE FIXED CHARGE COVERAGE RATIO HAS COMMENCED, (C) A CASH DOMINION PERIOD IS CONTINUING, AND (D) AGENT MAY AT ANY TIME AND FROM TIME TO TIME EXERCISE ANY OR ALL OF ITS RIGHTS AND REMEDIES ARISING UPON THE OCCURRENCE OF A TRIGGERING EVENT OR DURING A CASH DOMINION PERIOD, INCLUDING THE EXERCISE OF EXCLUSIVE CONTROL WITH RESPECT TO COLLECTION ACCOUNTS AND THE DAILY APPLICATION OF COLLATERAL COLLECTIONS TO THE OBLIGATIONS.**
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6.12 **NOTHING CONTAINED HEREIN SHALL BE DEEMED TO BE A WAIVER OF ANY OF THE RIGHTS AND REMEDIES AVAILABLE TO AGENT OR LENDERS UNDER APPLICABLE LAW OR ANY OF THE LOAN DOCUMENTS, AND AGENT RESERVES ALL RIGHTS AND REMEDIES UNDER THE LOAN DOCUMENTS AND APPLICABLE LAW AGAINST BORROWERS, INCLUDING, WITHOUT LIMITATION, ANY AND ALL RIGHTS AND REMEDIES WITH RESPECT TO ANY PENDING DEFAULT OR EVENT OF DEFAULT, WHETHER KNOWN OR UNKNOWN. NO FAILURE TO EXERCISE, NO DELAY IN EXERCISING, NO MAKING OF ANY ADVANCE TO BORROWERS BY AGENT OR LENDERS, AND NO ACCEPTANCE OF ANY PAYMENT OR NEGOTIATION BY AGENT OR LENDERS, NOW OR IN THE FUTURE, SHALL OPERATE AS A WAIVER OF ANY POWER, REMEDY, OR RIGHT OF THEM UNDER THIS AGREEMENT, THE LOAN DOCUMENTS OR APPLICABLE LAW, NOR SHALL ANY SINGLE OR PARTIAL EXERCISE OF ANY POWER, REMEDY, OR RIGHT PRECLUDE ANY OTHER OR FURTHER EXERCISE OF ANY SUCH POWER, REMEDY OR RIGHT. NO WAIVER OF ANY DEFAULT OR EVENT OF DEFAULT, NOR ANY AMENDMENT, MODIFICATION, WAIVER, DISCHARGE OR TERMINATION OF ANY PROVISION OF ANY OF THE LOAN DOCUMENTS, NOR CONSENT TO ANY DEPARTURE BY ANY BORROWER THEREFROM, WILL BE ESTABLISHED BY CONDUCT, CUSTOM OR COURSE OF DEALING. NO COURSE OF DEALING IS ESTABLISHED HEREBY. NO AMENDMENT, MODIFICATION, WAIVER, DISCHARGE, TERMINATION OR CONSENT WITH RESPECT TO THE LOAN DOCUMENTS WILL IN ANY EVENT BE EFFECTIVE UNLESS THE SAME IS IN WRITING, SIGNED BY AGENT AND LENDERS AND SPECIFICALLY REFERS TO THE APPLICABLE LOAN DOCUMENT, AND THEN SUCH AMENDMENT, MODIFICATION, WAIVER, DISCHARGE, TERMINATION OR CONSENT WILL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH GIVEN. THIS AMENDMENT IS NOT REQUIRED TO MAINTAIN THE VALIDITY OR ENFORCEABILITY OF THE LOAN DOCUMENTS. TIME IS OF THE ESSENCE WITH RESPECT TO THE PERFORMANCE BY BORROWERS OF THE TERMS AND PROVISIONS OF THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS.**

Signature Page Follows

Signature Page to Joinder and Amendment No. 1 to Loan Documents

Executed as of the Effective Date

SYPRIS SOLUTIONS, INC.,
as Borrower

By: _____
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,
SYPRIS TECHNOLOGIES NORTHERN, INC.
SYPRIS TECHNOLOGIES SOUTHERN, INC. SYPRIS
TECHNOLOGIES INTERNATIONAL, INC.,
as Borrowers

By: /s/ Jeffrey T. Gill
Jeffrey T. Gill
Chairman

PNC BANK, NATIONAL ASSOCIATION,
as Lender and Agent

By: /s/ Jay Danforth
Jay Danforth
Vice President

AMENDMENT NO. 2 TO LOAN DOCUMENTS

SYPRIS SOLUTIONS, INC. ("Holdings"), SYPRIS TECHNOLOGIES, INC. ("Technologies"), SYPRIS ELECTRONICS, LLC ("Electronics"), SYPRIS DATA SYSTEMS, INC. ("Data Systems"), SYPRIS TECHNOLOGIES MARION, LLC ("Marion"), SYPRIS TECHNOLOGIES KENTON, INC. ("Kenton"), SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC ("Mexican Holdings"), SYPRIS TECHNOLOGIES NORTHERN, INC. ("Northern"), SYPRIS TECHNOLOGIES SOUTHERN, INC. ("Southern"), and SYPRIS TECHNOLOGIES INTERNATIONAL, INC. ("International") (each a "Borrower", and collectively the "Borrowers") and PNC BANK, NATIONAL ASSOCIATION, as Agent (PNC, in such capacity, "Agent") and Lender, agree as follows effective as of March 12, 2015 (the "Effective Date"):

1. Recitals.

- 1.1 As of May 12, 2011, Borrowers and PNC, as Lender and Agent, entered into a Revolving Credit and Security Agreement (as amended, extended, modified, or restated, the "Loan Agreement"). Capitalized terms used herein and not otherwise defined will have the meanings given such terms in the Loan Agreement as amended. The Loan Agreement, the Other Documents, and all related loan and/or security documents related thereto are referred to herein as the "Loan Documents".
- 1.2 Borrowers have (i) failed to deliver to Agent the monthly financial statements and Compliance Certificate, as required under the Loan Agreement, (ii) advised Agent that Borrowers anticipate failing to satisfy the Fixed Charge Coverage Ratio under the Loan Agreement, and (iii) failed to maintain revenue levels under the Material Contract among Borrowers, Dana Limited, and certain Affiliates, and such failure may have resulted in a Material Adverse Effect. Such events and/or conditions (including any omissions, nonoccurrences or failures to act) constitute or will constitute, Events of Default under the Loan Agreement (collectively, the "Existing Events of Default").
- 1.3 Borrowers have requested, and Agent and Lenders have agreed, to waive the Existing Events of Default and to amend the Loan Documents, on the terms and subject to the conditions set forth herein.

2. **Waiver of Existing Events of Default.** Subject to the terms and conditions contained herein, upon the effectiveness of this Amendment, Agent and Lenders hereby waive the Existing Events of Default; provided, however that such waiver shall in no way constitute a waiver of any other Defaults or Events of Default which may have occurred but which are not specifically referenced as the Existing Events of Default, nor shall this waiver obligate Agent or any Lender to provide any further waiver of any other Default or Event of Default (whether similar or dissimilar, including any further Default or Event of Default resulting from a failure to comply with the terms of the Loan Agreement). Other than in respect of the Existing Events of Default, this waiver shall not preclude the future exercise of any right, power, or privilege available to Agent or any Lender whether under the Loan Agreement, the Other Documents or otherwise. Agent has not been advised by the Borrowers of the existence of any Defaults or Events of Default other than the Existing Events of Default, and the Borrowers have represented to Lender that no Default or Event of Default, other than the Existing Events of Default, has occurred and is continuing under any of the Loan Documents. Agent and Lenders have no actual knowledge, as of the date of this Amendment, of the existence of any Defaults or Events of Default (or of any condition or event (including any omission, nonoccurrence or failure to act) which would be or will be a Default or Event of Default: a) with the mere passage of time; b) if Agent were to give notice that such condition or event constitutes a Default or Event of Default; or c) which Agent has the right to determine to be a Default or Event of Default), other than the Existing Events of Default.
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3. **Amendments.**

3.1 **Definitions.** The following defined terms contained in Section 1.2 of the Loan Agreement are hereby amended and restated in their entirety as follows:

“**Applicable Margin**” shall mean, commencing as of the Second Amendment Date, (i) for Revolving Advances, 2.75% per annum for Domestic Rate Loans, and (ii) for the Facility Fee, 0.375% per annum; **provided, however,** that notwithstanding the foregoing, the Applicable Margin for Revolving Advances consisting of Domestic Rate Loans shall increase (x) on June 1, 2015, to 3.25% per annum, and (y) on the first day of each month thereafter, to a percentage which is 0.50% greater than the Applicable Margin for Revolving Advances consisting of Domestic Rate Loans for the immediately preceding month.

“**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 calculations of the covenants set forth in Section 6.5, and calculations evidencing compliance with Sections 7.4 and 7.7 to the extent applicable.

3.2 **New Definitions.** Section 1.2 of the Loan Agreement is hereby amended to add the following defined terms in alphabetical order:

“**Free Cash Flow**” shall mean, for Holdings and its Subsidiaries on a Consolidated Basis, for any period, an amount equal to: Modified EBITDA **minus** interest expense paid in cash **minus** Capital Expenditures **minus** taxes paid in cash.

“**Gill Subordinated Indebtedness**” shall mean Indebtedness of the Borrowers in favor of Gill Family Capital Management Inc. in the principal amount of \$4,000,000 and subordinated to the Obligations and subject to a subordination agreement in form and substance satisfactory to Agent in its sole discretion.

“**Mexican Proceeds**” shall mean proceeds of advances from Sypris Technologies Mexico S. de R.L. de C.V. and/or Sypris Technologies Toluca, S.A. de C.V. received by Borrowers on or after February 25, 2015 and applied to reduce the outstanding Revolving Advances.

“**Modified 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. For the avoidance of doubt, Modified EBITDA shall not include any add backs for restructuring charges.

“Second Amendment Date” shall mean March 12, 2015.

“Second Amendment Proceeds” shall mean (i) proceeds of Subordinated Indebtedness which is not less than a minimum amount mutually agreeable to Borrowers and Agent (the “Minimum”), (ii) proceeds from the sale of the Toluca Property which is not less than the Minimum, or (iii) a combination of proceeds of Subordinated Indebtedness and proceeds from the sale of the Toluca Property in the aggregate amount of not less than the Minimum, in each case so long as any such Subordinated Indebtedness is on terms, and subject to documentation, which is reasonably satisfactory to Agent.

“Subordinated Indebtedness” shall mean (i) the Gill Subordinated Indebtedness and (ii) other Indebtedness of the Borrowers to a subordinated lender reasonably acceptable to Agent, in each case which is subordinated to the Obligations and subject to a subordination agreement in form and substance reasonably satisfactory to Agent.

“Toluca Property” shall mean the real property located at Industrias Quimicas 200, Zona Industrial, 50071, Toluca, Estado de Mexico, Mexico or Alberto Einstein 401, Zona Industrial, 50071, Toluca, Estado de Mexico, Mexico (as applicable) owned by Sypris Technologies Toluca, S.A.

3.3 Financial Covenants. Section 6.5 of the Loan Agreement is hereby amended and restated in its entirety as follows:

6.5 Financial Covenants.

(a) Undrawn Availability. Have Undrawn Availability equal to or greater than (i) \$1,000,000 at all times commencing on the Second Amendment date and continuing through and including May 31, 2015 or such earlier date set forth in clause (ii)(b) hereof and (ii) \$5,000,000 at all times commencing the earlier of (a) September 30, 2015 and (b) the date of receipt by Borrowers of the Second Amendment Proceeds.

(b) Free Cash Flow. Cause to be maintained Free Cash Flow as of the end of each month, commencing with the month ending April 30, 2015, of not less than the amounts set forth in the chart below for the corresponding measurement periods set forth in the chart below:

<u>Measurement Period</u>	<u>Free Cash Flow</u>
As of April 30, 2015 for the two month period then ending.	(\$4,647,000)
As of May 31, 2015 for the three month period then ending.	(\$5,397,000)
As of June 30, 2015 for the four month period then ending.	(\$5,717,000)
As of July 31, 2015 for the five month period then ending.	(\$6,860,000)
As of August 31, 2015 for the six month period then ending.	(\$5,382,000)
As of September 30, 2015 for the seven month period then ending.	(\$3,618,000)
As of October 31, 2015 for the eight month period then ending.	(\$3,310,000)
As of November 30, 2015 for the nine month period then ending.	(\$1,567,000)
As of December 31, 2015 for the ten month period then ending.	(\$2,892,000)

3.4 Collateral Access Agreements. Section 6.10 of the Loan Agreement is hereby deleted in its entirety.

3.5 Indebtedness. Section 7.8 of the Loan Agreement is hereby amended and restated in its entirety as follows:

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, (f) the Mexican Loan, and (g) Subordinated Indebtedness.3.6 Transactions with Affiliates. Section 7.10 of the Loan Agreement is hereby amended and restated in its entirety as follows:

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, notwithstanding anything to the contrary herein, no such transfers shall be made after the effective date of Amendment No. 1, and (e) on and after the Second Amendment Date, transfers of cash to repay the Mexican Proceeds so long as (x) at the time of, and after giving effect to the making of any such repayment, no Event of Default or Default shall have occurred or would occur and (y) such repayment is made within 30 days following the date on which Borrowers received the applicable Mexican Proceeds being repaid.

3.7 Term. Section 13.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

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 January 15, 2016 (the "Term") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ten (10) days' prior written notice and payment in full of the Obligations, including any fees due upon early termination. 4. Consents.

4.1 Notwithstanding anything to the contrary contained in the Loan Agreement, Agent consents to the setoff by Borrowers of any amounts owed to Dana Corporation or any of its Affiliates against any amounts due from Dana Corporation of any of its Affiliates, including balances originating in the United States and Mexico, and to the collection of outstanding receivables and the payment of outstanding payables in connection with any such setoff.

4.2 Notwithstanding anything to the contrary contained in the Loan Agreement, Agent consents to the Liens securing the Gill Subordinated Indebtedness as of the date hereof.

5. Representations, Warranties and Covenants. To induce Agent and Lenders to enter into this Amendment, each Borrower represents, warrants, and covenants, as applicable, as follows:

5.1 No Claims. Each Borrower represents and warrants that it has no claims, counterclaims, setoffs, actions or causes of actions, damages or liabilities of any kind or nature whatsoever whether at law or in equity, in contract or in tort, existing as of the date of this Amendment (collectively, "Claims") against Agent or Lender, their direct or indirect parent corporations or any direct or indirect Affiliates of such parent corporations, or any of the foregoing's respective directors, officers, employees, agents, attorneys and legal representatives, or the heirs, administrators, successors or assigns of any of them (collectively, "Lender Parties") that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event (defined below). As an inducement to Agent and Lender to enter into this Amendment, each Borrower on behalf of itself, and all of its respective successors and assigns hereby knowingly and voluntarily releases and discharges all Lender Parties from any and all Claims, whether known or unknown in existence as of the date hereof, that directly or indirectly arise out of, are based upon or are in any manner connected with any Prior Related Event. As used herein, the term "Prior Related Event" means any transaction, event, circumstance, action, failure to act, occurrence of any sort or type, whether known or unknown, which occurred, existed, was taken, permitted or begun at any time prior to the Effective Date or occurred, existed, was taken, was permitted or begun in accordance with, pursuant to or by virtue of any of the terms of the Loan Documents or any documents executed in connection with the Loan Documents or which was related to or connected in any manner, directly or indirectly to the relationship between the Borrowers and Agent or Lender or to the extension of credit represented by the Loan Documents.

- 5.2 Authorization. Each Person executing this Amendment on behalf of a Borrower is a duly elected and acting manager or officer of such Borrower and is duly authorized by the board of directors, members or managers, as applicable, of such Borrower to execute and deliver this Amendment on behalf of such Borrower. The entry into and performance of this Amendment and the related documents have been duly authorized by each Borrower. Each Borrower has the full right, power and authority to enter into this Amendment and perform its respective obligations hereunder.
 - 5.3 No Misrepresentations. No information or material submitted to Agent in connection with this Amendment contains any material misstatement or misrepresentation nor omits to state any material fact or circumstance.
 - 5.4 No Conflicts. The execution and delivery of this Amendment and all deliveries required hereunder, and the performance by each Borrower of its obligations hereunder do not and will not conflict with any provision of law or the organizational documents of Borrowers or of any agreement binding upon Borrowers.
 - 5.5 Enforceability. This Amendment and each of the related documents is a legal and valid and binding obligation of Borrowers, enforceable against Borrowers in accordance with its terms.
 - 5.6 Events of Default. No Default or Event of Default is continuing under any of the Loan Documents.
 - 5.7 Ratification. Except as expressly modified herein, the Loan Documents, as amended, are and remain in full force and effect. The Loan Documents are hereby ratified and confirmed as the continuing obligation of the Borrowers. The Borrowers hereby reaffirm and grant to the Agent a security interest in and lien upon all of the Collateral.
6. **Conditions Precedent**. The closing of this Amendment is subject to the following conditions precedent:
- 6.1 Amendment. Agent shall have received this Amendment duly executed by the Borrowers.
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- 6.2 Fees and Expenses. Agent shall have received an amendment fee in the amount of \$200,000, which Borrowers acknowledge was fully earned and payable upon execution of this Amendment (the "Amendment Fee"). The Amendment Fee may be charged to Borrowers by Agent as a Revolving Advance.
- 6.3 Capital Infusion. Borrowers shall have received the proceeds of subordinated indebtedness from Gill Family Capital Management Inc. or other Person acceptable to Agent (such Person, "Obligor") in an amount which is not less than \$4,000,000; provided, however, that such subordinated loan shall be evidenced by documentation in form and substance satisfactory to Agent, and such loan shall be subject to the terms and provisions of a subordination agreement between Obligor and Agent (and acknowledged by Borrowers) in form and substance satisfactory to Agent, it being understood that in no event shall Obligor receive, or be entitled to receive, any current pay interest in connection with the foregoing.
- 6.4 Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment and the related documentation shall be satisfactory in form and substance to Agent and its counsel.
- 6.5 The representations and warranties of Borrowers in Section 5 herein will be true.

7. **Post Closing Covenants.**

- 7.1 Advisors. On or before March 20, 2015, the Borrowers shall engage an investment bank acceptable to Agent for the purpose of finding a subordinated lender to extend financing to the Borrowers pursuant to an engagement letter in form and substance reasonably satisfactory to Agent. Borrowers further agree to retain such other advisors and consultants as are mutually agreeable to Borrowers and Agent.
- 7.2 Toluca Property. On or before March 20, 2015, the Borrowers shall engage an appropriate party acceptable to Agent for the purpose of selling the real property located at Industrias Quimicas 200, Zona Industrial, 50071, Toluca, Estado de Mexico, Mexico or Alberto Einstein 401, Zona Industrial, 50071, Toluca, Estado de Mexico, Mexico (as applicable) and owned by Sypris Technologies Toluca, S.A. (the "Toluca Property").
- 7.3 Commitment Letter. On or before August 31, 2015, the Borrowers shall have received, and shall provide to Agent, (i) a commitment letter evidencing a commitment of a subordinated lender to extend financing to the Borrowers in an amount which is not less than the Minimum, (ii) a commitment letter evidencing a commitment of a buyer to purchase from the Borrowers the Toluca Property for a purchase price which is not less than the Minimum, or (iii) a series of commitment letters evidencing a commitment of a subordinated lender to extend financing to the Borrowers and a commitment of a buyer to purchase the Toluca Property such that Borrowers shall receive aggregate proceeds of not less than the Minimum, and in each case such subordinated lender commitment letter shall be reasonably satisfactory to Agent.
- 7.4 Receipt of Proceeds. On or before September 30, 2015, the Borrowers shall have received into their collections account located at PNC: (i) proceeds of Subordinated Indebtedness which is not less than the Minimum, (ii) proceeds from the sale of the Toluca Property which is not less than the Minimum, or (iii) a combination of proceeds of Subordinated Indebtedness and proceeds from the sale of the Toluca Property in the aggregate amount of not less than the Minimum, in each case so long as any such Subordinated Indebtedness is on terms, and subject to documentation, which is reasonably satisfactory to Agent.
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7.5 Fees.

- 7.5.1 On June 1, 2015, and on the first day of each month thereafter through and including September 1, 2015, Agent shall receive a fee in an amount equal to \$100,000, which Borrowers acknowledge will be fully earned and non-refundable as of such date, if by any such date Borrowers have not received the proceeds described in Section 7.4 above or if by such date a Satisfaction Event has not occurred. Each such fee may be charged to Borrowers by Agent as a Revolving Advance.
- 7.5.2 On October 1, 2015, Agent shall receive a fee in an amount equal to \$250,000, which Borrowers acknowledge will be fully earned and non-refundable as of such date, if by such date Borrowers have not received the proceeds described in Section 7.4 above or if by such date a Satisfaction Event has not occurred. Such fee may be charged to Borrowers by Agent as a Revolving Advance.

7.6 Reporting.

- 7.6.1 Commencing with the fiscal month ending May 3, 2015, and continuing for each fiscal month thereafter, on or before the date which is 15 days after the end of each such fiscal month, Borrowers shall deliver to Agent the financial statements required to be delivered to Agent under Section 9.9 of the Loan Agreement, together with a Compliance Certificate detailing the Borrowers' Free Cash Flow for such month.
- 7.6.2 No less than every two weeks, commencing two weeks following the Second Amendment Date, Borrowers shall provide Agent with an update of each item set forth in Sections 7.1 through 7.3, which update shall be in form and substance acceptable to Agent.

8. **Security Interest.** As security for the payment and performance of the Obligations, and satisfaction by the Borrowers of all covenants and undertakings contained in the Loan Agreement and other Loan Documents, each of the Borrowers reconfirms the prior grant of the security interest in and first priority, perfected lien in favor of Agent, for its benefit and the benefit of each Lender, upon and to, all of its right, title and interest in and to the Collateral, whether now owned or hereafter acquired, created or arising and wherever located, and, to the extent not previously granted, hereby grants in favor of Agent, for its benefit and the benefit of each Lender, a lien and security interest in each Borrower's right, title, and interest in and to the litigation between Dana Limited and Sypris Technologies, Inc.

9. **General.**

- 9.1 This Amendment constitutes an "Other Document" as defined in the Loan Agreement. The Loan Documents are hereby modified to include this Amendment within the definition of the term "Other Documents" or "Loan Documents" as used therein.
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- 9.2 All representations and warranties made by Borrowers herein will survive the execution and delivery of this Amendment.
- 9.3 This Amendment will be binding upon and inure to the benefit of Borrowers, Agent, and Lender and their respective successors and assigns.
- 9.4 This Amendment will in all respects be governed and construed in accordance with the laws of the State of Ohio.
- 9.5 This Amendment and the documents and instruments to be executed hereunder constitute the entire agreement among the parties with respect to the subject matter hereof and shall not be amended, modified or terminated except by a writing signed by the party to be charged therewith.
- 9.6 Each Borrower agrees to execute such other instruments and documents and provide Agent with such further assurances as Agent may reasonably request to more fully carry out the intent of this Amendment.
- 9.7 This Amendment may be executed in a number of identical counterparts. If so, each such counterpart shall collectively constitute one agreement. Any signature delivered by a party by facsimile transmission or other electronic means shall be deemed to be an original signature hereto.
- 9.8 No provision of this Amendment is intended or shall be construed to be for the benefit of any third party.
- 9.9 **THE PARTIES EACH HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AMENDMENT.**
- 9.10 **EACH BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT SUCH BORROWER MAY HAVE TO CLAIM OR RECOVER FROM THE AGENT OR ANY LENDER IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.**

Signature Page Follows

Executed as of the Effective Date

SYPRIS SOLUTIONS, INC.
as Borrower

By: /s/ John R. McGeeney
Name: John R. McGeeney
Title: Vice President, General Counsel, and Secretary

SYPRIS TECHNOLOGIES, INC.
SYPRIS ELECTRONICS, LLC
SYPRIS DATA SYSTEMS, INC.
SYPRIS TECHNOLOGIES MARION, LLC
SYPRIS TECHNOLOGIES KENTON, INC.
SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC
SYPRIS TECHNOLOGIES NORTHERN, INC.
SYPRIS TECHNOLOGIES SOUTHERN, INC. SYPRIS
TECHNOLOGIES INTERNATIONAL, INC.
as Borrowers

By: /s/ John R. McGeeney
Name: John R. McGeeney
Title: General Counsel

PNC BANK, NATIONAL ASSOCIATION,
as Lender and Agent

By: /s/ Jay Danforth
Name: Jay Danforth
Title: Vice President

[SIGNATURE PAGE TO AMENDMENT NO. 2 TO LOAN DOCUMENTS]

THIS INSTRUMENT, AND THE RIGHTS AND OBLIGATIONS EVIDENCED HEREBY, ARE SUBORDINATE IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN SUBORDINATION AGREEMENT DATED MARCH 12, 2015 BETWEEN PNC BANK, NATIONAL ASSOCIATION, AS AGENT, AND GILL FAMILY CAPITAL MANAGEMENT, INC., AND CONSENTED TO BY THE BORROWERS DEFINED THEREIN.

PROMISSORY NOTE

\$4,000,000.00

Louisville, Kentucky
March 12, 2015

FOR VALUE RECEIVED, each of the undersigned, **SYPRIS SOLUTIONS, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation ("Technologies"), **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company ("Electronics"), **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, and **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation (each a "Maker" and collectively, the "Makers"), hereby jointly and severally promise and agree to pay to the order of **GILL FAMILY CAPITAL MANAGEMENT, INC.**, a Delaware corporation with principal office and place of business at 101 Bullitt Lane, Suite 450, Louisville, Kentucky 40222 (the "Lender"), the principal sum of up to FOUR MILLION DOLLARS (\$4,000,000.00) (the "Loan"), together with interest thereon as provided below. The terms and provisions of this Promissory Note (this "Note") are as follows:

1. Calculation of Interest. From the date hereof to and until April 12, 2016, which date shall be the maturity date of this Note (the "Maturity Date"), the outstanding principal balance of this Note shall bear interest at the fixed rate per annum equal to eight percent (8.00%).

2. Payment of Principal and Interest. All principal and interest on this Note shall be due and payable in full on the Maturity Date.

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

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

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

6 . Security Agreements; Mortgages; Security for Note; Subordination Agreement. This Note is secured by, among other instruments, each of the following: [i] that certain Security Agreement of even date herewith by and between the Makers and the Lender (the “General Security Agreement”), [ii] that certain Patent Security Agreement of even date herewith by and among Technologies, Electronics, and the Lender (the “Patent Security Agreement”), [iii] that certain Trademark Security Agreement of even date herewith by and between Electronics and the Lender (the “Trademark Security Agreement”) (the General Security Agreement, the Patent Security Agreement and the Trademark Security Agreement are collectively referred to herein as the “Security Agreements”), and [iv] one or more mortgage(s) and deed(s) of trust executed and delivered by certain of the Makers to and for the benefit of the Lender with respect to real property owned by such Makers (collectively, the “Mortgages”)(the Security Agreements, Mortgages, and this Note may be referred to individually as a “Loan Instrument” and collectively as the “Loan Instruments”). This Note is subject to the terms and provisions of that certain Subordination Agreement of even date herewith by and between the Lender and PNC Bank, National Association (the “Senior Lender”), as consented to by the Makers (the “Subordination Agreement”).

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

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

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

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

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

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

8.1 Financial Statements. Each Maker shall furnish to the Lender all financial statements and other financial information in form and at the times required to be furnished to the Senior Lender under the Credit Agreement (as defined in the Subordination Agreement).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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IN WITNESS WHEREOF, the Makers agree to each of the terms set forth above and has executed this Loan Note as of the 12th day of March, 2015.

SYPRIS SOLUTIONS, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

SYPRIS ELECTRONICS, LLC,
a Delaware limited liability company

By: John R. McGeeney

Title: General Counsel

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES MARION, LLC,
a Delaware limited liability company

By: John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES KENTON, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

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

By: John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES NORTHERN, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES SOUTHERN, INC.,
a Delaware corporation

By: John R. McGeeney

Title: General Counsel

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

By: John R. McGeeney

Title: General Counsel

(the "Makers")

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:

)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS SOLUTIONS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS

)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:

)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:

)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

THIS INSTRUMENT, AND THE RIGHTS AND OBLIGATIONS EVIDENCED HEREBY, ARE SUBORDINATE IN THE MANNER AND TO THE EXTENT SET FORTH IN THAT CERTAIN SUBORDINATION AGREEMENT DATED MARCH 12, 2015 BETWEEN PNC BANK, NATIONAL ASSOCIATION, AS AGENT, AND GILL FAMILY CAPITAL MANAGEMENT, INC., AND CONSENTED TO BY THE BORROWERS DEFINED THEREIN.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Security Agreement") is made and entered into as of the 12th day of March, 2015, by and between (i) **SYPRIS SOLUTIONS, INC.**, a Delaware corporation ("Solutions"), **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation, **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company, **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware limited liability company, **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, and **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation, (each a "Borrower") and collectively the "Borrowers"), and (ii) **GILL FAMILY CAPITAL MANAGEMENT, INC.**, a Delaware corporation (the "Lender").

PRELIMINARY STATEMENT:

- A. The Lender has made available to the Borrowers a loan in the principal sum of Four Million Dollars (\$4,000,000.00) (the "Loan").
- B. The Loan is evidenced by that certain Promissory Note of even date herewith, jointly and severally made by the Borrowers, payable to the order of the Lender, and in the face principal amount of Four Million Dollars (\$4,000,000.00) (as amended, modified, restated, supplemented and renewed from time to time, the "Note").
- C. The obligation of the Lender to make the Loan to the Borrowers is expressly subject to the condition, among others, that the Borrowers execute and deliver this Security Agreement and grant to the Lender a second priority security interest in all of the Collateral described below.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the mutuality, receipt and sufficiency of which are hereby acknowledged, the Borrowers and the Lender hereby agree as follows:

1. Security Interest: Authorization to File Financing Statement. To secure the payment of the Note and all of the other indebtedness and obligations described in **Section 2** hereof, each Borrower hereby pledges, sells, assigns and transfers to the Lender, and hereby grants to the Lender a security interest in all of the following described collateral:

(a) Accounts and Accounts Receivable. All of such Borrower's existing and future "accounts" and "accounts receivable," being defined as all amounts owed to the Borrower from whatever source, whether now existing, hereafter arising or created and whenever and wherever acquired or arising, whether or not evidenced by a document, instrument or chattel paper (including electronic chattel paper), and including, without limitation, health-care-insurance receivables, if any, general intangibles relating to accounts, drafts and acceptances, credit card receivables, license fees, and all rights of the Borrower to payments for goods sold, rented or leased, or for services rendered by any person and all fees, charges, accounts, or other payments to which the Borrower may be entitled (hereinafter collectively referred to as the "Accounts Receivable");

(b) Inventory. All of such Borrower's existing and future "inventory," being defined as all goods (as defined in the hereinafter defined Kentucky UCC), merchandise and other personal property, other than farm products, of the Borrower, whether now or hereafter acquired and whenever and wherever situated, which are leased by the Borrower as lessor, held by the Borrower for sale or lease or to be furnished under a contract of service, are furnished under a contract of service, or which are supplies, raw materials, work in process or materials used or consumed in the Borrower's business, including without limitation, together with all software used in the operation thereof, whether or not the same constitutes embedded software (hereinafter collectively referred to as the "Inventory");

(c) Documents, Chattel Paper, Instruments, and Intangibles. All of such Borrower's existing and future cash, accounts, balances, credits, money, deposits, deposit accounts, chattel paper, documents, documents of title, bills of lading, drafts, instruments (including promissory notes), general intangibles (including without limitation, 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, custom lists, tax refunds, tax refund claims, and computer programs), all issued and outstanding equity interests of any subsidiary owned by any Borrower (excluding, however, equity interests in any foreign subsidiary of any Borrower), and investment property (including certificated and uncertificated securities, securities accounts, security entitlements, commodity accounts and commodity contracts), receivables and all other intangible personal property of whatever kind or type, together with the Borrower's entire right, title and interest in and to all insurance policies guaranties of payment and/or performance, letter of credit rights and other security instrument and supporting obligations and all proceeds thereof and all refunds of insurance premiums thereunder, and all federal, state and/or local tax refunds, regardless of whether any of same are now existing or are hereafter created or acquired by the Borrower (hereinafter collectively referred to as the "Intangibles");

(d) Equipment. All of such Borrower's existing and future equipment (including without limitation, all software used in the operation thereof, whether or not the same constitutes embedded software), machinery, motor vehicles, fittings, chattels, tools, furniture, furnishings, building materials, fixtures, trade fixtures, signs and other tangible personal property and assets of whatever kind or type, including without limitation, all heating, pipes, lighting, incinerating, waste removal equipment, generators, engines, tanks, motors, wiring, conduits, switchboards, radio, television antenna, microwave dish, security and alarm systems, plumbing, lifting, cleaning, fire prevention, fire extinguishing and fire warning, refrigerating, ventilating units and systems, communications equipment, air cooling and air conditioning equipment (including compressor), elevators, lifts, computer systems, hardware and software, carpeting, art work, lighting fixtures, millwork, together with all extensions, attachments, parts, accessories, repairs, substitution, replacements and additions thereto, and in every instance regardless of whether the same is now in existence or hereafter acquired or acquired by the Borrower and regardless of where the same is situated (hereinafter collectively referred to as the "Equipment");

(e) Leasehold Interests. All of such Borrower's existing and future right, title and interest in and to the premises leased by such Borrower.

(f) Supporting Evidence and Documents. All supporting evidence and documents relating to any of the foregoing property, including without limitation, computer programs, disks, tapes and related electronic data processing media, and all rights of such Borrower to retrieve the same from third parties, written applications, credit information, account cards, payment records, correspondence, delivery and installation certificates, invoice copies, delivery receipts, notes, and other evidence of indebtedness, insurance certificates and the like, together with all books of account, ledgers, and cabinets in which the same are reflected or maintained; and

(g) Accessions, Additions, Proceeds and Products. All accessions, attachments, parts, repairs and additions to, and substitutions and replacements of, any and all of the foregoing, and all proceeds and products of all the property described in this **Section 1**.

Each item or type of collateral described in this **Section 1** shall have the meaning ascribed thereto in the Uniform Commercial Code as enacted in the Commonwealth of Kentucky, as the same is revised, amended, modified and supplemented from time to time (the "Kentucky UCC"), to the extent the same is so defined therein. All of the property described in clauses (a) through (g) above is hereby collectively, and each item of which is hereinafter individually, referred to as the "Collateral". There is included within the term "Collateral" as used herein, all other property and interests therein of any kind hereafter acquired by any Borrower meeting or falling within the general description of the Collateral set forth herein.

Each Borrower authorizes the Lender to, at any time and from time to time, file in any one or more jurisdictions, financing statements that describe the Collateral, together with continuation statements thereof and amendments thereto, without the signature of the Borrower and which contain any information required by the Kentucky UCC, or the Uniform Commercial Code, as revised from time to time, applicable to such jurisdiction for the sufficiency or filing office acceptance of any financing statements, continuation statements or amendments.

2. Secured Obligations. Each Borrower has executed this Security Agreement and has granted to the Lender a security interest in all of the Collateral to secure (a) the payment of the entire unpaid principal of and all interest now accrued or hereafter to accrue on the Note, and (b) the payment of all other indebtedness of any Borrower to the Lender, whether now existing or hereafter created, arising or acquired, absolute or contingent, joint or joint and several, and due or to become due, under the Note, this Agreement or any other document, agreement, mortgage or other instrument executed in connection therewith (collectively, the "Loan Instruments") (the Note and all of the other indebtedness and obligations described in this **Section 2** are hereinafter collectively referred to as the "Secured Obligations").

3. Affirmative Covenants. Each Borrower hereby jointly and severally covenants and agrees with the Lender that such Borrower will observe and perform all of the following provisions until all of the Secured Obligations have been paid in full to the Lender, this Security Agreement has been terminated by the Lender and all Uniform Commercial Code financing statements filed in connection herewith have been terminated of record:

3.1 Defend the Collateral. The Borrower shall at its own expense, defend the Collateral against claims and demands of all persons and entities, and shall take or cause to be taken all actions necessary or appropriate to preserve, protect and maintain good right and title to all of the Collateral at all times.

3.2 Insurance. The Borrower shall at its own expense, obtain and maintain such insurance as is required pursuant to the terms of the Note and any other Loan Instrument. The Borrower hereby collaterally assigns to the Lender all rights of the Borrower to receive the proceeds of all of the insurance required herein, not to exceed the unpaid principal balance of and all accrued interest on all of the Secured Obligations. If the Borrower fails to obtain any of the insurance described in the Note, this Agreement or any other Loan Instrument, the Lender shall have the right, but not the obligation, to obtain the same at the Borrower's sole expense and all sums advanced by the Lender in obtaining such insurance shall bear interest at the rate set forth in the Note as applicable to overdue principal and/or accrued interest thereunder, and all such advances and interest thereon shall constitute part of the Secured Obligations, shall be secured by all of the Collateral with the same priority as the Note to the fullest extent permitted by applicable law and shall be due and payable in full to the Lender upon demand.

3.3 Maintenance of Collateral. The Borrower shall, at its own expense, take or cause to be taken all actions necessary or appropriate to preserve all of the tangible Collateral in good condition and repair, ordinary wear and tear excepted, and the Borrower shall from time to time make or cause to be made all necessary and proper repairs and replacements to the tangible Collateral so that at all times the same shall be fully preserved and maintained.

3.4 Use or Inspection of Collateral. The Borrower shall use the Collateral in complete compliance with all applicable laws, rules and regulations governing the use thereof. Upon reasonable advance notice, the Borrower shall permit the Lender and its officers, employees and agents to inspect the Collateral and all books and records of the Borrower pertaining thereto at all reasonable times and from time to time and the Borrower shall forthwith deliver to the Lender such information concerning the Collateral as the Lender may from time to time request in its sole and absolute discretion.

3.5 Change of Name and/or Location of the Collateral. The Borrower shall advise the Lender in writing at least thirty (30) days in advance of any change in the Borrower's principal place of business or registered office or the Borrower's other places of business, or the opening of any new place of business or any new location where any of the Collateral or any records concerning the same may be located, or any change in the Borrower's name or the adoption by the Borrower of a trade name, assumed name or fictitious name.

3.6 Collection of Accounts Receivable and Intangibles. Subject to the provisions of **Section 8** hereof, the Borrower shall, at its own expense, take or cause to be taken all reasonable steps to collect when due all of the Accounts Receivable and Intangibles of the Borrower.

3.7 Further Assurances. The Borrower shall, at its own expense, execute and deliver such Uniform Commercial Code financing statements, Uniform Commercial Code amendments, continuation statements, and such other documents and instruments and shall take such further actions as may be reasonably requested by the Lender to carry out more effectively the purposes of this Security Agreement and to perfect and continue the perfected status of the security interest in the Collateral granted to the Lender pursuant hereto.

3.8 Possession and Control. The Borrower shall have possession of the Collateral, except where otherwise expressly permitted by this Security Agreement, where the Lender is permitted by applicable law and chooses to perfect security interests by possession in addition to the filing of a financing statement, or where Collateral is in the possession of a third-party. To the extent required by Lender, the Borrower will join with the Lender in notifying the third-party of the Lender's security interests and obtaining an acknowledgment from the third-party that it is holding the Collateral for the benefit of the Lender. The Borrower will cooperate with the Lender in obtaining control with respect to Collateral consisting of deposit accounts, investment property, letter of credit rights and electronic chattel paper.

4. Negative Covenants. Each Borrower hereby jointly and severally covenants and agrees with the Lender that the Borrower will observe and perform all of the following provisions until all of the Secured Obligations have been paid in full to the Lender, this Security Agreement has been terminated by the Lender and all Uniform Commercial Code financing statements filed in connection herewith have been terminated of record:

4.1 Levies. The Borrower shall not permit any of the Collateral to be levied upon under any legal process.

4.2 Sale of Collateral. The Borrower shall not, without the prior written consent of the Lender in every specified instance, sell, transfer, dispose of, or further encumber any of the Collateral, except for the collection of Accounts Receivable in the ordinary course of business, the sale of Inventory in the ordinary course of business, the sale of Equipment no longer useable in the Borrower's business, and the divestitures required by PNC Bank (along with any successors and assigns thereof, the "Senior Lender") pursuant to each Borrower's loan documents therewith (collectively, the "Senior Loan Documents").

4.3 Location of the Collateral. The Borrower shall not, without at least thirty (30) days prior written notice to the Lender, change the location of any of the Collateral or the books and records of the Borrower pertaining thereto.

5. Representations and Warranties. Each Borrower jointly and severally represents and warrants to the Lender as follows, which representations and warranties shall be deemed to be continuing representations and warranties and shall survive the execution and deliver of this Security Agreement:

5.1 Liens. The Borrower is the legal and equitable owner of all Collateral, or has rights in or otherwise has the power to transfer the Collateral, and its interests therein are free and clear of all liens and security interests, except for the security interest created hereby, the lien of ad valorem property taxes not yet due and payable, and the security interests granted in the Senior Loan Documents.

5.2 Borrower Information. The exact legal name of the Borrower is as set forth in the initial paragraph of this Security Agreement, the State of Delaware is the state of organization of the Borrower, the Borrower's tax identification number, organizational number and principal place of business has been provided to the Lender. The Borrower will not move such principal place of business without giving the Lender thirty (30) calendar days prior written notice. The Borrower shall not change its name, identity or corporate structure so long as the Secured Obligations remain unpaid without the prior written consent of the Lender. The Borrower has not had any other organizational names except that which is listed in the initial paragraph of this Security Agreement.

6. Events of Default. Any "Event of Default" as defined and described in the Note shall be an Event of Default hereunder.

7. Remedies Upon Occurrence of Event of Default. Upon the occurrence of any Event of Default hereunder, the Lender may declare all of the Secured Obligations to be immediately due and payable and shall have all of the rights and remedies of a secured party under the Kentucky UCC and in any state where any of the Collateral may then be located, including without limitation, the right to take possession of the Collateral and, in addition thereto, the right to enter upon any premises upon which the Collateral or any part thereof may be situated and remove the same therefrom. The Lender may require each and every Borrower to make the Collateral (to the extent the same is movable) available to the Lender at a place to be designated by the Lender that is reasonably convenient to both the Lender and such Borrower. Unless the Collateral is perishable or threatens to decline rapidly in value or is of a type customarily sold on a recognized market, the Lender will give the Borrowers at least ten (10) days prior written notice of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. Any such notice shall be deemed to meet any requirement hereunder or under any applicable law, including without limitation the Kentucky UCC, that reasonable notification be given of the time and place of such sale or other disposition. After deducting all costs and expenses of collection, storage, custody, sale or other disposition and delivery, including reasonable legal costs and attorneys' fees and all other charges against the Collateral, the residue of the proceeds of any such sale or disposition shall be applied to the payment of the Secured Obligations in such order of priority as the Lender shall determine in its sole discretion, and any surplus shall be returned to the Borrowers or to any person or party lawfully entitled thereto (including, if applicable, any subordinated creditors of the Borrowers). In the event the proceeds of any sale, lease or other disposition of the Collateral hereunder are insufficient to pay all of the Secured Obligations in full, the Borrowers will be liable for the deficiency, together with interest thereon at the rate provided in the Loan Instruments as applicable to overdue principal and interest thereunder, and the costs and expenses of collection of such deficiency, including, to the extent permitted by law, reasonable legal costs and attorneys' fees, expenses and disbursements. If the Lender sells any of the Collateral upon credit, the Borrowers will be credited only with payments actually made by the purchasers thereof, received by the Lender and applied to the indebtedness of the Borrowers. In the event the purchaser of the purchased Collateral fails to pay for such Collateral, the Lender may resale the Collateral and the Borrowers shall be credited with the proceeds of the sale.

8. Rights of Lender to Use and Operate Collateral. Upon any taking of possession of the Collateral, as provided by **Section 7** hereof, the Lender may, from time to time, at the expense of the Borrowers, make all such repairs, replacements, alterations, additions and improvements to any of the Collateral as the Lender may deem proper. In any such case, the Lender shall have the right to manage and control the Collateral and to carry on the business and to exercise all rights and powers of the Borrowers with respect thereto as the Lender shall deem best, including without limitation, the right to enter into any and all such agreements with respect to the leasing and/or operation of the Collateral or any part thereof as the Lender may see fit, and the Lender shall be entitled to collect and receive all rents, issues, profits, revenues and other income of the same and every part thereof. Such rents, issues, profits, fees, revenues and other income shall be applied to pay the expenses of holding and operating the Collateral and of conducting the business thereof, and of all maintenance, repairs, replacements, alterations, additions and improvements to the Collateral, and to make all payments which the Lender may be required or may elect to make, if any, for taxes, assessments, insurance and other charges on the Collateral or any part thereof, and all other payments which the Lender may be required or authorized to make under any provision of this Security Agreement, including without limitation, reasonable legal costs and attorneys' fees. The remainder of such rents, issues, profits, fees, revenues and other income shall be applied to the payment of the Secured Obligations in such order of priority as the Lender shall determine in its sole discretion, and unless otherwise provided by law or by a court of competent jurisdiction, any surplus shall be returned to the Borrowers or to any person or party lawfully entitled thereto (including, if applicable, any subordinated creditors of the Borrowers). Without limiting the generality of the foregoing, the Lender shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction in any action taken by the Lender to enforce its rights and remedies hereunder in order to manage, protect and preserve the Collateral and to collect all rents, issues, profits, fees, revenues and other income thereof and apply the same to the payment of all expenses and other charges of such receivership, including without limitation, the compensation of the receiver, and to the payment of the Secured Obligations as aforesaid until a sale or other disposition of such Collateral shall be finally made and consummated.

9. Collections on Collateral by the Lender. Upon the occurrence of any Event of Default, the Lender may notify or may require the Borrowers to notify, but shall not be obligated to notify or require the Borrowers to notify, at any time and from time to time, account debtors obligated on any or all of each Borrower's then existing or thereafter arising Collateral, including without limitation, Accounts Receivable and Intangibles, to make payment directly to the Lender, and may take possession of all proceeds of any Collateral, including without limitation, Accounts Receivable and Intangibles in the Borrower's possession, and may take any other steps which the Lender deems necessary or advisable to collect any or all such Accounts Receivable, Intangibles or other Collateral or the proceeds thereof.

10. Waivers, etc. Each Borrower, on its own behalf and on behalf of its successors and assigns, hereby expressly waives presentment, demand, notice of protest and, except as otherwise provided herein or in any other Loan Instrument, all other demands and notices in connection with this Security Agreement or the enforcement of the rights of the Lender hereunder or in connection with any of the Secured Obligations or any Collateral. Each Borrower further waives any right it may have to require the Lender to pursue any third party for any Secured Obligation. No delay or omission on the part of the Lender in exercising any right granted hereunder shall operate as a waiver of such right or of any other right hereunder. Any waiver of any such right on any one occasion shall not be construed as a bar to waiver of any such right on such other future occasions. This Security Agreement and the security interest in the Collateral created hereby shall terminate when all of the Secured Obligations have been paid in full to the Lender and finally discharged in full. Each Borrower's waivers under this Section have been made voluntarily, intelligently, and knowingly and after the Borrower has been appraised and counseled by its attorney as to the nature thereof and its possible alternative rights.

11. Binding Effect; Severability; Counterparts. This Security Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns and the term "Lender" shall be deemed to include any other holder or holders of any of the Secured Obligations. This Security Agreement shall also bind all persons who become bound as debtors to this Security Agreement. In case a court of competent jurisdiction shall hold any provision in this Security Agreement to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby. This Security Agreement may be executed in any number of counterparts and by the different parties hereto or on separate counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one instrument.

12. Governing Law. This Security Agreement and the rights and obligations of the parties hereunder shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky without regard to its conflicts of law principles.

13. Cumulative Rights and Remedies. All rights and remedies of the Lender as set forth in this Security Agreement shall, to the fullest extent permitted by applicable law, be cumulative, and the exercise by the Lender of any right or remedy shall not be deemed to be an election of that right or remedy to the exclusion of any other right or remedy of the Lender.

14. Payment of Costs and Expenses. Each Borrower will pay any and all reasonable costs and expenses incurred by the Lender in connection with (a) enforcing this Security Agreement, (b) obtaining possession of the Collateral, (c) the protection and preservation of the Collateral, (d) the collection of the Note and the other Secured Obligations, and (e) any litigation involving the Collateral, and any benefit accruing to the Lender by virtue of the provisions hereof or the rights of the Lender hereunder.

15. Irrevocable Attorney-in-Fact. Each Borrower hereby irrevocably appoints the Lender as such Borrower's attorney in fact to do all acts and things which the Lender may deem necessary or appropriate in its sole and absolute discretion to perfect and continue the perfected security interest created by this Security Agreement and to protect the Collateral, including without limitation, the execution in the Borrower's name as its irrevocable attorney-in-fact of Uniform Commercial Code financing statements, amendments and continuation statements covering the Collateral and the filing and recordation of the same, and following the occurrence of an Event of Default hereunder, which Event of Default continues beyond any applicable grace period, to endorse, in the name of the Borrower, all checks, drafts and other instruments in the payment of the Borrower's Accounts Receivable and Intangibles, to give notices and receipts in the Borrower's name, to collect and bring any suit to collect or compromise and/or to settle any such Accounts Receivable and Intangibles and to perform such other acts in connection with such Accounts Receivable and Intangibles and/or the other Collateral as the Lender determines in its sole and absolute discretion to be necessary or appropriate to effectuate the purposes of this Security Agreement.

16. Future Advances. This Security Agreement secures all future advances or loans that may be made at any time by the Lender to the Borrowers; provided, however, it is understood by the parties hereto that the Lender is under no obligation to make any advances or loans to the Borrowers except pursuant to the terms and conditions of the Loan Agreement.

17. Notices. All notices required or permitted to be given hereunder shall be given in writing and shall be personally delivered or sent by facsimile, express courier service or by registered or certified United States mail, return receipt requested, postage prepaid, addressed as follows (or to such other address to which either party hereto shall have given the other written notice):

If to 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

cc: Middleton Reutlinger
2500 Brown & Williamson Tower
Louisville, Kentucky 40202
Attention: Thomas Ice
Telephone: (502) 625-2807
Facsimile: (502) 588-1971

If to the Lender: Gill Family Capital Management, Inc.
101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
Attention: Jeffrey T. Gill
Telephone: (502) 329-2017
Facsimile: (502) 329-2050

Copy to: Jeffrey A. Hamilton, Esq.
Reed Weitekamp Schell & Vice PLLC
500 West Jefferson Street
Suite 2400
Louisville, Kentucky 40202
Telephone: (502) 657-1302
Facsimile: (502) 562-2200

All notices shall be deemed given upon the earliest of (a) actual delivery in person, (b) one Business Day (as such term is defined in the Loan Agreement), after delivery to an express courier service, or (c) three Business Days after having been deposited in the United States mail, in accordance with the foregoing, or (d) the Business Day on which a facsimile has been sent and confirmed in accordance with the foregoing.

18. Time Is of The Essence. Time shall be of the essence in the performance of all of the Borrowers obligations and covenants under this Security Agreement.

19. Captions. The various section headings used in this Security Agreement are inserted for convenience of reference only and shall be ignored in construing the provisions hereof.

20. No Third Party Rights. Nothing contained in this Security Agreement shall operate for the benefit of or be construed to create or confer any rights in favor of any individuals, corporations, partnerships or other entities not a party to this Security Agreement (excluding the respective successors and assigns of the Borrowers and the Lender).

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

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

SYPRIS SOLUTIONS, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS ELECTRONICS, LLC,
a Delaware limited liability company

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES MARION, LLC,
a Delaware limited liability company

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES KENTON, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

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

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES NORTHERN, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

SYPRIS TECHNOLOGIES SOUTHERN, INC.,
a Delaware corporation

By: /s/ John R. McGeeney

Title: General Counsel

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

By: /s/ John R. McGeeney

Title: General Counsel

(each a "Borrower" and collectively the "Borrowers")

GILL FAMILY CAPITAL MANAGEMENT, INC.
a Delaware corporation

By: /s/ Jeffrey T. Gill

Title: Co-President & Treasurer

(the "Lender")

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS SOLUTIONS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12 day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS ELECTRONICS, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS DATA SYSTEMS, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MARION, LLC**, a Delaware limited liability company, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES KENTON, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES MEXICAN HOLDINGS, LLC**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES NORTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher
NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:
)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES SOUTHERN, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:
)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by John R. McGeeney, as the General Counsel of **SYPRIS TECHNOLOGIES INTERNATIONAL, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

COMMONWEALTH OF KENTUCKY

)

COUNTY OF JEFFERSON

) SS:
)

The foregoing instrument was subscribed, sworn to and acknowledged before me this 12th day of March, 2015, by Jeffrey T. Gill, as the Co-President and Treasurer of **GILL FAMILY CAPITAL MANAGEMENT, INC.**, a Delaware corporation, to be his free act and voluntary deed and the free act and voluntary deed of such company.

/s/ Andrea Luescher

NOTARY PUBLIC

[SEAL]

My Commission Expires: July 20, 2015

EXECUTIVE LONG-TERM INCENTIVE PROGRAM

2015 EMPLOYMENT AGREEMENT

THIS AGREEMENT, is effective as of [date of the agreement], by and between Sypris Solutions, Inc., a Delaware corporation (“Company”), and [participant Name] (“Employee”).

WHEREAS, the Company desires to recognize the Employee’s leadership and contribution to the long-term success of the Company and therefore is pleased to designate the Employee as a participant in the Company’s Executive Employee Long-Term Incentive Program (“ELTIP”) for 2015 the benefits of which include a contract of employment through March 4, 2016.

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

1. Termination Benefits. If, during the term of this Agreement, the Employee’s employment is terminated without Cause, then:

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

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

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

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

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

5. Term. This Agreement shall expire on March 4, 2016, unless earlier terminated by either party by written notice to the other, and this Agreement will not be renewed or extended. If the Employee is selected to participate in the ELTIP for subsequent years, the parties will execute a separate written agreement.

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

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

If to Employee: [Participant Name]
 [Participant Address]

If to Company: Attn: General Counsel
 Sypris Solutions, Inc.
 101 Bullitt Lane, Suite 450
 Louisville, KY 40222

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

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

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

SYPRIS SOLUTIONS, INC.

By: _____

Name: _____

Date: _____

EMPLOYEE

Signed: _____

Name: _____

Date: _____

**SYPRIS SOLUTIONS, INC.
SUBSIDIARIES OF THE COMPANY**

The Company's subsidiaries as of December 31, 2014 are as follows:

- (1) Sypris Electronics, LLC, a Delaware limited liability company.
- (2) Sypris Data Systems, Inc., a Delaware corporation.
- (3) Sypris Technologies, Inc., a Delaware corporation.
- (4) Sypris Technologies Marion, LLC, a Delaware limited liability company.
- (5) Sypris Technologies Kenton, Inc., a Delaware corporation.
- (6) Sypris Technologies Mexican Holdings, LLC, a Delaware limited liability company.
- (7) Sypris Technologies Mexico, S. de R.L. de C.V., a Mexican limited liability company.
- (8) Sypris Technologies Toluca, S.A. de C.V., a Mexican corporation.
- (9) Sypris Europe ApS, a Danish private limited liability company.
- (10) Sypris Technologies (UK) Ltd., a UK private limited company.
- (11) Sypris Technologies Northern, Inc., a Delaware corporation.
- (12) Sypris Technologies Southern, Inc., a Delaware corporation.
- (13) Sypris Technologies International, Inc., a Delaware corporation.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of Sypris Solutions, Inc.:

- (1) Registration Statement (Forms S-8 Nos. 333-07195, 33-94544, 333-07199, 333-52589, 333-62781, 333-52593, 333-77883, 333-87882 and 333-87880) pertaining to the Sypris Solutions, Inc. 1994 Stock Option Plan for Key Employees and the Sypris Solutions, Inc. Independent Directors' Stock Option Plan,
- (2) Registration Statement (Form S-8 No. 333-114982) pertaining to the Sypris Solutions, Inc. 2004 Equity Plan, and
- (3) Registration Statement (Form S-8 No. 333-166951) pertaining to the Sypris Solutions, Inc. 2010 Sypris Omnibus Plan;

of our report dated March 31, 2015, relating to the consolidated financial statements of Sypris Solutions, Inc., appearing in this Annual Report on Form 10-K of Sypris Solutions, Inc. for the year ended December 31, 2014.

/s/Crowe Horwath LLP

Louisville, Kentucky
March 31, 2015

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Forms S-8 Nos. 333-0711, 333-07195, 33-94544, 333-07199, 333-52589, 333-62781, 333-52593, 333-77883, 333-87882 and 333-87880) pertaining to the Sypris Solutions, Inc. 1994 Stock Option Plan for Key Employees and the Sypris Solutions, Inc. Independent Directors' Stock Option Plan,
- (2) Registration Statement (Form S-8 No. 333-114982) pertaining to the Sypris Solutions, Inc. 2004 Equity Plan, and
- (3) Registration Statement (Form S-8 No. 333-166951) pertaining to the Sypris Solutions, Inc. 2010 Sypris Omnibus Plan;

of our report dated March 11, 2014, with respect to the consolidated financial statements of Sypris Solutions, Inc., included in this Annual Report (Form 10-K) of Sypris Solutions, Inc. for the year ended December 31, 2014.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 31, 2015

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

I, Jeffrey T. Gill, certify that:

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

Date: March 31, 2015

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

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

I, Anthony C. Allen, certify that:

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

Date: March 31, 2015

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

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

In connection with the Annual Report of Sypris Solutions, Inc. (the Company) on Form 10-K for the period ending December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Sypris Solutions, Inc., that to his knowledge:

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

Date: March 31, 2015

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

Date: March 31, 2015

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

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

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

