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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, 2003.

☐ **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	**61-1321992**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark 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 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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ☒ No ☐

As of June 29, 2003, shares of the registrant's common stock held by non-affiliates (based upon the closing sale price of the registrant's common stock reported for such date on the Nasdaq National Market), had an aggregate market value of approximately $60,098,718. As of January 31, 2004 the registrant had 14,330,394 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Stockholders to be held April 27, 2004 are incorporated by reference into Part III to the extent described therein.

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In this Form 10-K, "Sypris," "SYPR," "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 Form 10-K are the property of their respective owners.

PART I

Item 1. Business

General

We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design, testing and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment. Revenue from our three core markets accounted for approximately 94% of our revenue during the year ended December 31, 2003, while revenue from our outsourced services accounted for approximately 83% of our revenue. We expect these percentages to increase in the future.

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 who embrace multi-year contractual relationships as a strategic component of their supply chain management. These contracts, many of which are sole-source by part number and are for terms of up to eight years, enable us to invest in leading-edge technologies to help our customers remain competitive. The productivity, flexibility and economies of scale that result become an important means for differentiating ourselves from the competition when it comes to cost, quality, reliability and customer service.

Aerospace & Defense Electronics. We are an established supplier of manufacturing services for the production of complex circuit cards, high-level assemblies and subsystems. We have long-term relationships with many of the leading aerospace & defense contractors, including Boeing Company, General Dynamics Corporation, Honeywell International, Inc., Lockheed Martin Corporation, Northrop Grumman Corporation and Raytheon Company. We manufacture these complex electronic assemblies under multi-year contracts for the missile guidance systems of the AMRAAM and Brimstone missile programs, and for the main color display systems for the cockpit of the AH-64D Apache Longbow attack helicopter. We also have a long-term relationship with the National Security Agency to design and build secure communications equipment and write encryption software. The defense budget for fiscal 2004 contains provisions to increase spending for missiles, smart weapons, sensors, surveillance, intelligence and secure communications, areas for which we have long provided essential services and products. Our aerospace & defense electronics business accounted for approximately 51% of net revenue in 2003.

Truck Components & Assemblies. We are the principal supplier of manufacturing services for the forging and machining of medium and heavy-duty truck axle shafts and other drive train components in North America. We produce these axle shafts and components under multi-year, sole-source contracts with ArvinMeritor, Inc. and Dana Corporation, the two primary providers of drive train assemblies for use by the leading truck manufacturers, including Ford Motor Company, Freightliner LLC, Mack Trucks, Inc., Navistar International Corporation, PACCAR, Inc. and Volvo Truck Corporation. We also supply Visteon Corporation with light axle shafts for Ford's F150, F250, F350 and Ranger series pickup trucks, Ford Expedition, Lincoln Navigator and the Ford Mustang GT. We continue to support our customers' strategies to outsource non-core operations by supplying additional components and providing additional value added operations for drive train assemblies. Our truck components & assemblies business accounted for approximately 31% of net revenue in 2003.

Test & Measurement Services. We provide technical services for the calibration, certification and repair of test & measurement equipment in the U.S. We have a multi-year, sole-source contract with the Federal Aviation Administration to calibrate and certify the equipment that is used to maintain the radar systems and directional beacons at over 500 airports in the U.S., the Caribbean and the South Pacific. We also have a multi-year, sole-source contract with the National Weather Service to calibrate the equipment that is used to maintain the NEXRAD Doppler radar systems at over 130 advanced warning weather service radar stations in 45 states, the Caribbean and Guam. We also have a multi-year contract with AT&T Corporation to provide calibration and certification services at over 300 of its central and field switching locations. We are seeing an increased interest by large companies in awarding multi-site contracts for calibration services in order to accelerate vendor reduction programs and reduce costs. Our test & measurement services business accounted for approximately 12% of net revenue in 2003.

Recent Developments

On December 31, 2003, we completed the first phase of a proposed two-phase transaction with Dana in which we entered into a new eight-year agreement to supply a wide range of drive train components for the light, medium and heavy-duty truck markets to Dana. In connection with this agreement, we acquired the property, plant, and equipment as well as certain component inventories associated with Dana's manufacturing plant in Morganton, North Carolina. In the proposed second phase of the transaction, which is evidenced by a letter of intent dated August 25, 2003, we expect to enter into an eight-year agreement with Dana for the supply of forged and machined components for use in the medium and heavy-duty truck markets effective as of the closing, which is expected to occur during 2004. As part of the proposed transaction, we plan to acquire a portion of Dana's manufacturing campus in Toluca, Mexico and certain production equipment currently located at other Dana facilities in the U.S.

On January 13, 2004, we signed a letter of intent with ArvinMeritor to supply trailer axle beams and a variety of drive train components to ArvinMeritor under a series of multi-year agreements, the first of which is expected to close during 2004, with the balance scheduled to occur during the next two to three years in accordance with a predetermined transition plan. As part of the proposed transaction, we plan to acquire ArvinMeritor's Kenton, Ohio plant that specializes in the manufacture of trailer axle beams. In addition, the proposed transaction provides for a five-year extension of an existing five-year supply agreement that is otherwise expected to expire on December 31, 2004 under which we supply ArvinMeritor with axle shafts for medium and heavy-duty trucks.

The proposed agreements with Dana and ArvinMeritor remain subject to due diligence, negotiation and execution of definitive agreements and board approvals among other contingencies, and in the case of ArvinMeritor's Kenton plant, the negotiation and approval of a new union collective bargaining agreement.

Industry Overview

We believe the trend toward outsourcing is continuing across a wide range of industries and markets as outsourcing specialists assume a strategic role in the supply chain of companies of all types and sizes. We expect the growth in outsourcing expenditures to continue increasing at a rate far higher than the expansion in the overall economy.

We believe the trend toward outsourcing is continuing because outsourcing frequently represents a more efficient, lower cost means for manufacturing a product or delivering a service when compared to more vertically integrated alternatives. While the rate of acceptance of the outsourcing model may vary by industry, we believe the following benefits of outsourcing are driving this general trend.

Reduced Total Operating Costs and Invested Capital. Outsourcing specialists are frequently able to produce products and/or deliver services at a reduced total cost relative to that of their customers because of the ability to allocate the expense for a given set of fixed capacity, including assets, people and support systems, across multiple customers with diversified needs. In turn, these outsourcing specialists can achieve higher utilization of their resources and achieve greater productivity, flexibility and economies of scale.

Access to Advanced Manufacturing Capabilities and Processes and Increased Productivity. The ability to use a fixed set of production assets for a number of customers enables outsourcing specialists to invest in the latest technology as a means to further improve productivity, quality and cycle times. The magnitude of these investments can be prohibitive absent the volume and reliability of future orders associated with having a broad array of customers for the use of those assets.

Focus on Core Competencies. Companies are under intense competitive pressure to constantly rationalize their operations, invest in and strengthen areas in which they can add the greatest value to their customers and divest or outsource areas in which they add lesser value. By utilizing the services of outsourcing specialists, these companies can react more quickly to changing market conditions and allocate valuable capital and other resources to core activities, such as research and development, sales and marketing or product integration.

Improved Supply Chain Management. We believe that the trend in outsourcing favors specialists who have the financial, managerial and capital resources to assume an increasingly greater role in the management of the

supply chain for the customer. By utilizing fewer and more capable suppliers, companies are able to greatly simplify the infrastructure required to manage these suppliers, thereby reducing their costs and improving margins.

Our Markets

Aerospace & Defense Electronics. The consolidation of defense contractors over the past decade has added to the increased demand for outsourcing specialists. The consolidated companies, some of which have developed highly leveraged balance sheets as a result of mergers and acquisitions, have been motivated to seek new ways to raise margins, increase profitability and enhance cash flow. Accordingly, outsourcing specialists, including Sypris, have been successful in building new relationships with companies that previously relied more on internal resources. We believe this trend will continue and that our extensive experience, clearances, certifications and qualifications in the manufacturing of aerospace & defense electronics will serve to differentiate us from many of the more traditional outsource suppliers. We also believe that we are well positioned to take advantage of additional outsourcing activity that may flow from the prime contractors that are awarded contracts related to increased defense appropriations and expenditures as a result of increased focus on national defense and homeland security.

The nature of providing outsourced manufacturing services to the aerospace & defense electronics industry differs substantially from the traditional commercial outsourced manufacturing services 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 certifications, security clearances and traceability standards that are comprehensive.

Truck Components & Assemblies. The truck components & assemblies market consists of the original equipment manufacturers, or OEMs, including DaimlerChrysler Corporation, Ford, Freightliner, General Motors Corporation, Mack, Navistar, PACCAR and Volvo, and a deep and extensive supply chain of companies of all types and sizes that are classified into different levels or tiers. Tier I companies represent the primary suppliers to the OEMs and includes ArvinMeritor, Dana, Delphi Automotive Systems Corporation, Eaton Corporation, and Visteon, among others. Many of the Tier I companies are confronted with excess capacity, high hourly wage rates, costly benefit packages and aging capital equipment. Below this group of companies reside numerous suppliers who either supply the OEMs directly or supply the Tier I companies. In all segments of the truck components & assemblies market, however, suppliers are under intense competitive pressure to improve product quality and to reduce capital expenditures, production costs and inventory levels.

In an attempt to gain a competitive advantage, many OEMs have been reducing the number of suppliers they utilize. These manufacturers are choosing stronger relationships with fewer suppliers who are capable of investing to support their operations. In response to this trend, many suppliers have combined with others to gain the critical mass required to support these needs. As a result, the number of Tier I suppliers is being reduced, but in many cases the aggregate production capacity of these companies has yet to be addressed. We believe that as Tier I suppliers seek to eliminate excess capacity, they will increasingly choose outsourcing as a means to enhance their financial performance and as a result, companies such as Sypris will be presented with new business and acquisition opportunities.

Test & Measurement Services. The widespread adoption of the International Organization for Standardization (ISO) and Quality Standards (QS), among others, has been underway for many years. A critical component of basic manufacturing discipline and these quality programs is the periodic calibration and certification of the test & measurement equipment that is used to measure process performance. The investment in this equipment and the skills required to support the calibration and certification process has historically been performed offsite by the manufacturers of the equipment, or onsite by internal operations, even though the productive use of the assets and people is difficult to justify since equipment is often certified on an annual, or in some cases, biennial basis.

We believe that test & measurement services will be increasingly outsourced to independent specialists who can use the manpower and equipment across a diversified base of customers, reduce investment requirements and improve profitability on a national scale.

Our Business Strategy

Our objective is to improve our leadership position in each of our core markets by increasing the number of multi-year contracts with related customers and investing in highly automated 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 will continue to focus on those markets where we have the expertise, qualifications and leadership position to sustain a competitive advantage. We have been an established supplier of manufacturing and technical services to major aerospace & defense companies and agencies of the U.S. Government for over 37 years. We are the principal supplier of medium and heavy-duty truck axle shafts in North America, and we are the sole provider of calibration, certification and repair services for equipment used by the Federal Aviation Administration to maintain the radar systems and directional beacons at each of the airports it serves in the U.S., the Caribbean and the South Pacific.

Dedicate our Resources to Support Strategic Partnerships. We will continue to dedicate our resources to support the needs of industry leaders who 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. In recent years, we have entered into multi-year manufacturing services agreements with Boeing, General Dynamics, Honeywell, Lockheed Martin, Northrup Grumman and Raytheon. We have also announced the award of sole-source supply agreements with ArvinMeritor, Visteon and Dana that run through year-end of 2004, 2006 and 2011, respectively, and we have executed a letter of intent with ArvinMeritor to extend that agreement through year end of 2009. Our success in establishing outsourcing partnerships with key customers has led to additional contracts and we believe that if we continue to successfully perform on these contracts, we will have additional growth opportunities with these and other customers.

Pursue the Strategic Acquisition of Customer-Owned Assets. We will continue to pursue the strategic acquisition of customer-owned assets that serve to consolidate our position of leadership in our core markets, create or strengthen our relationships with leading companies and expand our range of value-added services in return for multi-year supply agreements. Since these assets are integrated with our core businesses, we generally are able to use these assets to support other customers, thereby improving asset utilization and achieving greater productivity, flexibility and economies of scale. In recent years, we have completed two such transactions with Dana and have proposed transactions pending with Dana and ArvinMeritor.

Grow Through the Addition of New Value-Added Services. We will continue 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. We offer a variety of state-of-the-art machining capabilities to our customers in the truck components & assemblies market that enable us to reduce labor and shipping costs and minimize cycle times for our customers over the long-term. ArvinMeritor, Dana and Visteon have entered into contracts for these services, which we believe may provide us with significant additional opportunities for growth in the future.

Invest to Increase our Competitiveness and that of our Partners. We will continue to invest in advanced manufacturing and process technologies to reduce the cost of the services we provide for our customers on an ongoing basis. We continue to expand and automate the services we provide to our customers in the truck components & assemblies market, with approximately $59 million invested from 2000 to 2003. The automation substantially increased our output per man hour and enabled us to offer our customers reduced pricing that helped them to remain competitive on a global scale. Our ability to leverage this capability across a number of customers in the future will further improve our capacity utilization, absorption of overhead and reduce our manufacturing costs.

We believe that the number and duration of our strategic relationships enable us to invest in our business with greater certainty and with less risk than others who do not benefit from the type of longer term contractual commitments we receive from many of our major customers. The investments we make in support of these contracts 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.

Aerospace & Defense Electronics:	
Boeing	Complex circuit cards for the Brimstone missile guidance systems.
Honeywell	Complex circuit cards for the color display systems of the AH-64D Apache Longbow attack helicopter.
Lockheed Martin	Space electronics for the space shuttle and the international space station, and data systems for a fleet ballistic missile program.
National Security Agency	Secure communications equipment, recording systems and encryption software.
Raytheon	Complex circuit cards and high level assemblies for use in satellite communications systems, the AMRAAM (advanced, medium-range, air attack missile) missile guidance system, and secure tactical communication systems.
Truck Components & Assemblies:	
ArvinMeritor	Axle shafts for medium and heavy-duty trucks.
Dana	Axle shafts, drive train components and steer axle components for use in light, medium and heavy-duty trucks.
Visteon	Axle shafts for pickup trucks and sport utility vehicles.
Test & Measurement Services:	
AT&T	Calibration and certification services at over 300 central and field switching locations.
Federal Aviation Administration	Calibration and certification services at over 500 airports.
Lockheed Martin	Testing of electronic components for use in space and defense applications.
National Weather Service	Calibration and certification services for over 130 advanced warning weather radar stations.

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 both independent suppliers and from our customers in connection with performing our manufacturing services.

Our manufacturing capabilities are enhanced by advanced quality and manufacturing techniques, lean manufacturing, just-in-time procurement and continuous flow manufacturing, statistical process control, total quality management, stringent and real-time engineering change control routines and total cycle time reduction techniques.

Electronics Manufacturing Services. We provide our customers with a broad variety of 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, materials procurement, system assembly, testing and final system configuration.

Our manufacturing services contracts for the aerospace & defense electronics market are generally sole-source by part number. Where we are the sole-source provider by part number, we are the exclusive provider to our customer of certain products for the duration of the manufacturing contract.

Industrial Manufacturing Services. We provide our customers with a wide range of capabilities, including automated forging, extruding, machining, induction hardening, heat-treating and testing services to meet the exacting requirements of our customers. 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 & 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.

Technical Services

Test & Measurement Services. We calibrate, repair and certify the test & measurement equipment that is used to maintain wireless communication equipment, control tower radar and direction beacons, NEXRAD Doppler advanced warning weather service radar systems, digital oscilloscopes, microwave equipment and fiber optic measuring equipment, among others. The applications cover the maintenance of cellular communications systems, air traffic control systems, broadband telecommunication systems and quality certification programs in manufacturing operations. We also perform a wide-range of testing services on a contract basis, including radio frequency, microwave and mixed signal component testing, environmental testing, dynamics testing and failure analysis, among others. We provide our customers with services that exceed the scope of most manufacturing service companies, including software development, design services, prototype development, product re-engineering, feature enhancement, product ruggedization, cost reduction, product miniaturization, and electro-magnetic interference and shielding.

Products

In addition to our outsourced services, we provide some of our customers with specialized products including digital and analog data systems and encryption devices used in military applications, magnetic meters and sensors used in commercial and laboratory environments and high-pressure closures and joints used in pipeline and chemical systems. With the growth of our services business, our products business has increasingly become a smaller portion of our overall net revenue. We expect this trend to continue in the future.

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 offering. Our five largest customers in 2003, which accounted for 51% of net revenue, were ArvinMeritor, Dana, Honeywell, Raytheon and Visteon. Our five largest customers in 2002, which accounted for 50% of net revenue, were ArvinMeritor, Dana, Honeywell, Raytheon and Visteon. Our five largest customers in 2001, which accounted for 46% of net revenue, were ArvinMeritor, Dana, Honeywell, Lockheed Martin and Raytheon.

For the year ended December 31, 2003, the U.S. Government and Government Agencies, including the National Security Agency, collectively represented approximately 18% of our net revenue, Dana represented approximately 15% of our net revenue and Raytheon represented approximately 14% of our net revenue.

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 participation 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, reducing the amount of set-up time or material that may be required to produce the product, or by developing software that can automate the test and/or certification process. The award of contracts or programs can be a lengthy process, which in some circumstances can extend well beyond 12 months. In addition, we have and will continue to selectively acquire assets from our customers in exchange for multi-year supply agreements and then leverage the newly acquired manufacturing capabilities to additional customers.

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.

Backlog

Our order backlog at December 31, 2003 was $199.0 million as compared to order backlog at December 31, 2002 of $154.2 million. Backlog for the Electronics Group and the Industrial Group at December 31, 2003 was $125.8 million and $73.2 million, respectively. Backlog for the Electronics Group and the Industrial Group at December 31, 2002 was $115.4 million and $38.8 million, respectively. Backlog consists of firm purchase orders with scheduled delivery dates and quantities. Total backlog at December 31, 2003 included $160.2 million for orders that are expected to be filled within 12 months. Our backlog has varied from quarter to quarter and may vary significantly in the future as a result of the timing of significant new orders and/or shipments, order cancellations, material availability and other factors.

Competition

The outsourced manufacturing services 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 aerospace & defense electronics market, we compete primarily against companies including LaBarge, Inc., Primus Technologies Corporation, SMTEK International, Inc., Sparton Corporation and Teledyne Technologies Incorporated. In the truck components & assemblies market, we compete primarily against companies including Mid-West Forge, Inc., Spencer Forge and Machine, Inc. and Traxle Manufacturing, Inc., who serve as suppliers to many Tier I and smaller companies. In the test & measurement services market, we compete primarily against companies including SIMCO Electronics, Transcat, Inc., Davis Inotek Instruments, and a variety of small, local, independent laboratories. We may face new competitors in the future as the outsourcing industry evolves and existing or start-up companies develop capabilities similar to ours.

We believe that the principal competitive factors in our markets include the availability of capacity, technological capability, flexibility and timeliness in responding to design and schedule changes, price, quality, delivery and financial strength. Although we believe that we generally compete favorably with respect to each of these factors, some of our competitors are larger and have greater financial and operating resources than we do. Some of our competitors have greater geographic breadth and range of services than we do. We also face competition from manufacturing operations of our current and potential customers, who continually evaluate the relative benefits of internal manufacturing compared to outsourcing. We believe our competitive position to be good and the barriers to entry to be high in the markets we serve.

Suppliers

We attempt to utilize standard parts, components and materials that are available from multiple vendors. However, certain components and materials used in our manufacturing services are currently available only from single sources, and other components and materials are available from only a limited number of sources. Despite the risks associated with purchasing from single sources or from a limited number of sources, we have made the strategic decision to select single source or limited source suppliers in order to obtain lower pricing, receive more timely delivery and maintain quality control. In cases where unanticipated customer demand or supply shortages occur, we attempt to arrange for alternative sources of supply, where available, or defer planned production to meet the anticipated availability of the critical component or material.

Raw steel and fabricated steel parts are a major component of our cost of sales and net revenue for the truck components & assemblies business. We purchase the majority 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, such that we neither benefit from nor are harmed by any future changes in the price of steel.

There can be no assurance that supply interruptions will not slow production, delay shipments to our customers or increase costs in the future, any of which could adversely affect our financial results.

Research and Development

Our research and development activities are mainly related to our product lines that serve the aerospace & defense electronics market. Most of the expenditures related to our outsourced services are for process improvements and are not reflected in research and development expense. Accordingly, our research and development expense represents a relatively small percentage of our net revenue. We invested $3.1 million, $3.4 million and $4.2 million in research and development in 2001, 2002 and 2003, respectively. We also utilize our research and development capability to develop processes and technologies for the benefit of our customers.

Patents, Trademarks and Licenses

We own and are licensed under a number of patents and trademarks that we believe are sufficient for our operations. 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, including regulations concerning labor relations, export and import regulations, 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. Current costs of compliance are not 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 results of operations.

We are required to maintain U.S. Government security clearances at several of our locations. 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 any of our facilities, there can be no assurance that the approved status of our facilities will continue without interruption.

We are also subject to comprehensive and changing federal, state and local environmental requirements, including those governing discharges to the 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 our properties, 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, 2003, we had a total of approximately 1,730 employees, 1,260 engaged in manufacturing and providing our technical services, 60 engaged in sales and marketing, 190 engaged in engineering and 220 engaged in administration. Approximately 390 of our employees are covered by collective bargaining agreements with various unions that expire on various dates through 2006. Although we believe overall that our relations with our labor unions are positive, there can be no assurance that present and future issues with our unions will be resolved favorably or that we will not experience a work stoppage, which could adversely affect our 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 2. Properties

Our principal manufacturing services operations are engaged in electronics manufacturing services for our aerospace & defense customers and industrial manufacturing services for our truck components & 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	Market Served	Own or Lease (Expiration)	Approximate Square Feet	Certifications
Corporate Office:				
Louisville, Kentucky		Lease (2014)	10,800	
Manufacturing Facilities:				
Louisville, Kentucky	Truck Components & Assemblies	Own	467,000	QS 9000
Tampa, Florida	Aerospace & Defense Electronics	Lease (2007)	308,000	ISO 9001 AS 9100 NASA-STD-8739 MIL-Q-9858A MIL-STD-2000A MIL-STD 45662 MIL-STD 801D
Marion, Ohio	Truck Components & Assemblies	Own	255,000	QS 9000
Morganton, North Carolina	Truck Components & Assemblies	Own	350,000	QS 9000
Orlando, Florida	Test & Measurement Services	Own	62,000	ISO 9001 ISO 9002 ISO 17025/Guide 25 MIL-STD 750 MIL-STD 883 MIL-STD 202 MIL-STD 810
San Dimas, California	Aerospace & Defense Electronics	Lease (2015)	26,300	ISO 9001

In addition, we lease space in 21 other facilities primarily utilized to provide technical services, all of which are located in the U.S. We also own 10 ISO-certified mobile calibration units and one ISO-certified transportable field calibration unit that are utilized to provide test & measurement services at customer locations throughout the U.S., the Caribbean and the South Pacific. We believe that our facilities and equipment are in good condition and reasonably suited and adequate for our current needs.

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

Certification/Specification	Description
ISO 9001	A certification process comprised of 20 quality system requirements to ensure quality in the areas of design, development, production, installation and servicing of products.
ISO 9002	A certification process similar to the ISO 9001 requirements, but it applies principally to manufacturing services as opposed to engineering services.
AS 9100	A quality management system developed by the aerospace industry to measure supplier conformance with basic common acceptable aerospace quality requirements.
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.
ISO 17025/Guide 25	A certification process commonly referred to as A2LA, which sets out general provisions that a laboratory must address to carry out specific calibrations or tests and provides laboratories with direction for the development of a fundamental quality management system.
NASA-STD-8739	A specification for space programs designated by the National Aeronautics and Space Administration.
MIL	A specification that signifies specific functions or processes that are conducted in compliance with military specifications, such as a quality program, high-reliability soldering, calibration and metrology, and environmental testing.

Item 3. Legal Proceedings

We are involved from time to time in litigation and other legal or environmental proceedings incidental to our business. There are currently no material pending legal proceedings to which we are a party.

Ongoing environmental proceedings include the following:

- Our Marion, Ohio facility 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. We continue to test and assess this site to determine the extent of this contamination by the prior owners of the facility. Under our purchase agreement for this facility, Dana has agreed to indemnify us for environmental conditions that existed on the site as of closing and as to which we notified Dana prior to December 31, 2002.
- A leased facility we formerly occupied in Tampa, Florida is currently subject to remediation activities related to groundwater contamination involving methylene chloride and other volatile organic compounds which occurred prior to our use of the facility. The contamination extends beyond the boundaries of the facility. In December 1986, Honeywell, a prior operator of the facility, entered into a consent order with the Florida Department of Environmental Regulation under which Honeywell agreed to remediate the contamination, the full scope of which has not yet been determined. We purchased the assets of a business formerly located on this leased site and operated that business from 1993 until December 1994. Philips Electronics, the seller of those assets, has agreed to indemnify us with respect to environmental matters arising from groundwater contamination at the site prior to our use of the facility.

- 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 contamination involving petroleum compounds. We continue to test and assess this site to determine the extent of any contamination at this site. Under our purchase agreement for this facility, Dana has agreed to indemnify us for environmental violations that existed on the site as of closing and as to which we notify Dana prior to December 31, 2005.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2003.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National 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 National Market.

	High	Low
Year ended December 31, 2002:		
First Quarter	$16.35	$12.50
Second Quarter	$21.35	$15.30
Third Quarter	$16.03	$10.00
Fourth Quarter	$12.28	$ 9.94
Year ended December 31, 2003:		
First Quarter	$11.25	$ 6.88
Second Quarter	$10.75	$ 7.50
Third Quarter	$16.61	$10.25
Fourth Quarter	$17.55	$12.78

As of January 31, 2004, there were 838 holders of record of our common stock.

On September 22, 2002, our Board of Directors declared an initial quarterly cash dividend of $0.03 per common share outstanding. Cash dividends of $0.03 per common share have been paid quarterly since the initial dividend was declared in 2002. Dividends may be paid on common stock only when, as and if declared by our Board of Directors in its sole discretion.

Item 6. Selected Financial Data

The following selected financial data (in thousands except per share data) should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this Form 10-K. The selected financial data set forth below with respect to statements of income for each of the years in the three-year period ended December 31, 2003 and with respect to the balance sheets at December 31, 2003 and 2002, are derived from our audited financial statements. These financial statements are included elsewhere in this Form 10-K and the data below are qualified by reference to those financial statements and related notes. The statements of income data for the years ended December 31, 2000 and 1999 and the balance sheet data at December 31, 2001, 2000 and 1999 are derived from our audited financial statements not included in this Form 10-K.

	Years Ended December 31,				
	2003	2002[1]	2001[2]	2000	1999
Consolidated Income Statement Data:					
Net revenue	$276,605	$273,477	$254,640	$216,571	$202,130
Cost of sales	230,593	223,956	211,093	176,258	157,181
Gross profit	46,012	49,521	43,547	40,313	44,949
Selling, general and administrative	26,711	27,114	26,134	26,881	23,388
Research and development	4,166	3,354	3,054	3,574	6,409
Amortization of intangible assets	194	97	1,329	1,436	986
Special charges	—	—	—	2,945	—
Operating income	14,941	18,956	13,030	5,477	14,166
Interest expense, net	1,693	2,742	4,111	4,035	1,730
Other expense (income), net	230	(159)	(358)	(344)	(219)
Income before income taxes	13,018	16,373	9,277	1,786	12,655
Income taxes (benefit)	4,883	4,934	2,910	(1,398)	3,099
Net income	$ 8,135	$ 11,439	$ 6,367	$ 3,184	$ 9,556
Net income per share:					
Basic	$ 0.57	$ 0.87	$ 0.65	$ 0.33	$ 1.00
Diluted	$ 0.56	$ 0.84	$ 0.63	$ 0.32	$ 0.97
Cash dividends declared per common share	$ 0.12	$ 0.06	$ —	$ —	$ —
Shares used in computing per share amounts:					
Basic	14,237	13,117	9,828	9,671	9,515
Diluted	14,653	13,664	10,028	9,964	9,861

	December 31,				
	2003[3]	2002	2001	2000	1999
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 12,019	$ 12,403	$ 13,232	$ 14,674	$ 10,406
Working capital	80,516	77,593	67,325	58,602	53,705
Total assets	263,495	223,605	211,444	179,122	148,564
Current portion of long-term debt	3,200	7,000	7,500	2,500	5,400
Long-term debt, net of current portion	53,000	30,000	80,000	62,500	49,000
Total stockholders' equity	144,781	137,035	70,120	64,205	60,820

(1) On January 1, 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" which required us to discontinue the amortization of goodwill. See Note 1 of our consolidated financial statements for the year ended December 31, 2003 included elsewhere in this annual report.

(2) On May 31, 2001, we completed the acquisition of the net assets of Dana's Marion, Ohio facility and its results of operations are included from that date forward.

(3) On December 31, 2003, we completed the acquisition of the net assets of Dana's Morganton, North Carolina facility.

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

The following discussion of our results of operations and financial condition should be read together with the other financial information and consolidated financial statements included in this 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 "Forward Looking Statements" and elsewhere in this Form 10-K.

Overview

We are a diversified provider of outsourced services and specialty products. We perform a wide range of manufacturing, engineering, design, testing and other technical services, typically under multi-year, sole-source contracts with major companies and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment. Revenue from our three core markets accounted for approximately 94% of our revenue for the year ended December 31, 2003, while revenue from our outsourced services accounted for approximately 83% of our revenue. We expect these percentages to increase in the future.

We have four major operating subsidiaries that are grouped into two reportable segments, the Electronics Group and the Industrial Group. The Electronics Group is comprised of Sypris Data Systems, Inc., Sypris Electronics, LLC and Sypris Test & Measurement, Inc. Revenue from this group is derived primarily from the sale of manufacturing services, technical services and products to customers in the markets for aerospace & defense electronics and test & measurement services. The Industrial Group consists solely of Sypris Technologies, Inc., which generates revenue primarily from the sale of manufacturing services to customers in the market for truck components & assemblies and from the sale of products to the energy and chemical markets.

Our objective is to become the leading outsourcing specialist in each of our core markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment. We have focused our efforts on establishing long-term relationships with industry leaders who embrace multi-year contractual relationships as a strategic component of their supply chain management.

Recent Contract Awards. The pursuit of multi-year contractual relationships with industry leaders in each of our core market segments is a key component of our strategy. We focus primarily on those candidates that will enable us to consolidate positions of leadership in our existing markets, further develop strategic partnerships with leading companies, and expand our capability and capacity to increase our value-added service offerings. The quality of these contracts has enabled us to invest in leading-edge technologies that we believe will serve as an important means for differentiating ourselves in the future from the competition when it comes to cost, quality, reliability and customer service.

We recently announced the closing of a transaction with Dana as well as letters of intent for transactions we expect to close in 2004 with Dana and ArvinMeritor.

On December 31, 2003, we completed the first phase of a proposed two-phase transaction with Dana in which we entered into a new eight-year agreement to supply a wide range of drive train components for the light, medium and heavy-duty truck markets to Dana. In connection with this agreement, we acquired the property, plant, and equipment and certain component inventories associated with Dana's manufacturing plant in Morganton, North Carolina for a purchase price of approximately $22 million. In addition, the parties agreed to a three-year extension of an existing seven-year supply agreement that we originally entered into on May 31, 2001. In the proposed second phase of the transaction, which is evidenced by a letter of intent signed on August 25, 2003, we expect to enter into an eight-year agreement with Dana for the supply of forged and machined components for use in the medium and heavy-duty truck markets effective as of the closing, which is expected to occur during 2004. As part of the proposed transaction, we plan to acquire a portion of Dana's manufacturing campus in Toluca, Mexico and certain production equipment located at other Dana facilities in the U.S. The first phase of the transaction with Dana is expected to generate approximately $55 to $60 million of revenue per year, or approximately $440 million over the

term of the contract while the three-year contract extension currently represents approximately $50 million of revenue per year, or $150 million over the new period. Should we complete the second phase of the transaction with Dana successfully, the total outsourcing arrangement excluding the contract extension is expected to result in revenue of approximately $130 million per year, based upon current market conditions.

On January 13, 2004, we signed a letter of intent with ArvinMeritor to supply trailer axle beams and a variety of drive train components to ArvinMeritor under a series of multi-year agreements, the first of which is expected to close during 2004, with the balance scheduled to occur during the next two to three years in accordance with a predetermined transition plan. As part of the proposed transaction, we plan to acquire ArvinMeritor's Kenton, Ohio plant that specializes in the manufacture of trailer axle beams. In addition, the proposed transaction provides for a five-year extension of an existing five-year supply agreement that is otherwise expected to expire on December 31, 2004 under which we supply ArvinMeritor with axle shafts for medium and heavy-duty trucks. Should we complete the proposed transaction with ArvinMeritor successfully, the total outsourcing arrangement is expected to generate approximately $75 million of revenues per year, based upon current market conditions.

The proposed second phase of the Dana transaction and the proposed ArvinMeritor transaction remain subject to due diligence, negotiation and execution of definitive agreements and board approvals among other contingencies, and in the case of ArvinMeritor's Kenton plant, the negotiation and approval of a new union collective bargaining agreement.

The expected revenues from these transactions are based upon current market volumes and neither Dana nor ArvinMeritor have an obligation to purchase a particular level of services under either the recently executed or the proposed contracts and there can be no assurance that the expected revenue will be realized. The prices contained in these agreements for our services are fixed for an initial term and generally reduced thereafter in accordance with schedules contained in the agreements. We believe these price reductions will not materially affect our profitability. We purchase raw steel and fabricated steel parts for these agreements 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, such that we neither benefit from nor are harmed by any future changes in the price of steel. The agreements also provide for us to share in the benefits of any cost reduction suggestions that we make that are accepted by our customers.

Accounting Policies. Our significant accounting policies are described in Note 1 to the consolidated financial statements included elsewhere in this annual report. We believe our most critical accounting policies include revenue recognition and cost estimation on certain contracts for which we use percentage of completion methods of accounting, as described immediately below.

The complexity of the estimation process and all issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion methodologies affect the amounts reported in our financial statements. A number of internal and external factors affect our cost of sales estimates, including labor rate and efficiency variances, revised estimates of warranty costs, estimated future material prices and customer specification and testing requirement changes. If our business conditions were different, or if we used different assumptions in the application of this and other accounting policies, it is likely that materially different amounts would be reported in our financial statements.

Net Revenue. The majority of our outsourced services revenue is derived from manufacturing services contracts under which we supply products to our customers according to specifications provided under our contracts. We generally recognize revenue for these outsourced services, as well as our product sales, when we ship the products, at which time title generally passes to the customer.

Contract revenue in our Electronics Group is recognized using the percentage of completion method, generally using units-of-delivery as the basis to measure progress toward completing the contract. Revenue is recognized on these contracts when units are delivered to the customer, with unit revenue based upon unit prices as set forth in the applicable contracts. The costs attributed to contract revenue are based upon the estimated average costs of all units to be shipped. The cumulative average costs of units shipped to date are adjusted through current operations as estimates of future costs to complete change. Revenue under certain other multi-year fixed price

contracts is recorded using achievement of performance milestones or cost-to-cost as the basis to measure progress toward completing the contract. The basis for the measurement of progress toward completion is applied consistently to contracts with similar performance characteristics. Amounts representing contract change orders or claims are included in revenue when these costs are reliably estimated and realization is probable. We recognize all other revenue as product is shipped and title passes, or when the service is provided to the customer. Our net revenue includes adjustments for estimated product warranty and allowances for returns by our customers.

Generally, the percentage of completion method based on units of delivery is applied by our Electronics Group for outsourced services provided under multi-year contracts with aerospace & defense customers. Approximately 35%, 44% and 53% of total net revenue was recognized under the percentage of completion method based on units of delivery during 2003, 2002 and 2001, respectively. Approximately 5% of total net revenue was recognized under the percentage of completion method based on milestones or cost-to-cost during 2003.

Cost of Sales. Cost of sales consists primarily of our payments to our suppliers, compensation, payroll taxes and employee benefits for service and manufacturing personnel, and purchasing and manufacturing overhead costs. The contracts for which our Electronics Group recognizes net revenue under the percentage of completion method involve the use of estimates for cost of sales. We compare estimated costs to complete an entire contract to total net revenue for the term of the contract to arrive at an estimated gross margin percentage for each contract. Each month, the estimated gross margin percentage is applied to the cumulative net revenue recognized on the contract to arrive at cost of sales for the period.

These estimates require judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. These estimates are complicated and subject to many variables. Contract costs include material, labor and subcontract costs, as well as an allocation of indirect costs. For contract change orders, claims or similar items, we apply judgment in estimating the amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is considered probable.

Management reviews these estimates monthly and the effect of any change in the estimated gross margin percentage for a contract is reflected in cost of sales in the period in which the change is known. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known. Additionally, our reserve for excess and obsolete inventory is primarily based upon forecasted demand for our products and any change to the reserve arising from forecast revisions is reflected in cost of sales in the period the revision is made.

Impairments. Consistent with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment by calculating the estimated fair value of each business with which goodwill is associated. The estimated fair value is based on a discounted cash flow analysis that requires judgment in our evaluation of the business and establishing an appropriate discount rate and terminal value to apply in the calculations. In selecting these and other assumptions, for each business we consider historical performance, forecasted operating results, general market conditions and industry considerations specific to the business. We likely would compute a materially different fair value for a business if different assumptions were used or if circumstances were to change.

We evaluate long-lived assets for impairment and assess their recoverability based upon our estimate of future cash flows. If facts and circumstances lead us to believe that the cost of one of our assets may be impaired, we will write down that carrying amount to fair value to the extent necessary. In determining an estimate of future cash flows, we consider historical performance, forecasted operating results, general market conditions and industry considerations specific to the assets. We likely would compute a materially different estimate of future cash flows if different assumptions were used or if circumstances were to change.

Results of Operations

The tables presented below, which compare our results of operations from one year to another, present 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 sales. The columns present the following:

- The first two data columns in each table show the absolute results for each year 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 year to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one year to the next, that change is shown as a negative number in both columns.
- The last two columns in each table show the results for each period as a percentage of net revenue. In these two columns, the cost of sales and gross profit for each are given as a percentage of that segment's net revenue. These amounts are shown in italics.

In addition, as used in these tables, "NM" means "not meaningful."

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

	Years Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Years Ended December 31,	
	2003	2002	favorable (unfavorable)	favorable (unfavorable)	2003	2002
	(in thousands, except percentage data)					
Net revenue:						
Electronics Group	$180,733	$186,562	$ (5,829)	(3.1)%	65.3%	68.2%
Industrial Group	95,872	86,915	8,957	10.3	34.7	31.8
Total	276,605	273,477	3,128	1.1	100.0	100.0
Cost of sales:						
Electronics Group	144,467	148,766	4,299	2.9	*79.9*	*79.7*
Industrial Group	86,126	75,190	(10,936)	(14.5)	*89.8*	*86.5*
Total	230,593	223,956	(6,637)	(3.0)	83.4	81.9
Gross profit:						
Electronics Group	36,266	37,796	(1,530)	(4.0)	*20.1*	*20.3*
Industrial Group	9,746	11,725	(1,979)	(16.9)	*10.2*	*13.5*
Total	46,012	49,521	(3,509)	(7.1)	16.6	18.1
Selling, general and administrative	26,711	27,114	403	1.5	9.7	9.9
Research and development	4,166	3,354	(812)	(24.2)	1.5	1.3
Amortization of intangible assets	194	97	(97)	(100.0)	0.0	0.0
Operating income	14,941	18,956	(4,015)	(21.2)	5.4	6.9
Interest expense, net	1,693	2,742	1,049	38.3	0.6	1.0
Other expense (income), net	230	(159)	(389)	NM	0.1	(0.1)
Income before income taxes	13,018	16,373	(3,355)	(20.5)	4.7	6.0
Income taxes	4,883	4,934	51	1.0	1.8	1.8
Net income	$ 8,135	$ 11,439	$ (3,304)	(28.9)%	2.9%	4.2%

Net Revenue. Our backlog increased $44.8 million to $199.0 million at December 31, 2003, on $321.7 million in net orders in 2003 compared to $265.8 million in 2002. We expect to convert approximately 80% of the backlog at December 31, 2003 to revenue during 2004.

Net revenue decreased in the Electronics Group due to lower revenue from manufacturing services, partially offset by higher revenue from other outsourced services and product sales. Manufacturing services decreased $10.3 million because certain contracts with aerospace & defense customers were completed during 2002 which more than offset the revenue earned from new contract awards in 2003 and increased demand on certain other contracts. Net revenue from other outsourced services increased $3.9 million in 2003 due to an increase in engineering services. Net revenue from product sales increased $0.6 million in 2003 driven by higher quantities of data systems products, which benefited from higher spending by intelligence agencies. Backlog for our Electronics Group increased $10.4 million to $125.8 million at December 31, 2003, on $191.5 million in net orders in 2003 compared to $183.8 million in 2002. We expect to convert approximately 69% of the backlog at December 31, 2003 to revenue during 2004.

Net revenue in the Industrial Group increased due to higher sales of light axle shafts and new components for medium and heavy-duty trucks. We began full production of light axle shafts under our contract with Visteon during the second quarter of 2002 so 2003 benefited from the full year effect of this contract. In 2003, we began shipping to Dana additional drive train components parts for medium and heavy-duty trucks. Backlog for our Industrial Group increased $34.4 million to $73.2 million at December 31, 2003, on $130.2 million in net orders in 2003 compared to $82.0 million in 2002. Backlog and net orders in 2003 increased primarily due to the Dana contract that closed on December 31, 2003. We expect to convert substantially all this backlog at December 31, 2003 to revenue during 2004.

Gross Profit. Our Electronics Group experienced lower gross profit from manufacturing services and other outsourced services, partially offset by higher gross profit from products sales. Gross profit from manufacturing services decreased due to lower revenue and lower gross margins. Gross margins were lower primarily due to costs recognized during the third quarter related to warranty costs on an end-of-life program, expenses related to resolving technical problems on a custom manufacturing program and write-off of program costs related to the termination of an unprofitable contract. Gross profit from other outsourced services decreased due to lower gross margins in our test & measurement services business. Gross profit from product sales was higher due to the mix of higher value products and programs.

Gross profit for our Industrial Group decreased due to lower gross margins. Gross margins were lower due to equipment maintenance and efficiency issues for certain automated equipment and a higher concentration of lower-margin Class 5-7 truck components. The Industrial Group experienced a difficult third quarter in 2003 during which gross profit decreased $2.3 million as compared to the third quarter of 2002. During the third quarter of 2003, productivity for the Industrial Group decreased primarily as a result of the Northeast electricity blackout in August 2003 and lower sales quantities to Visteon and Dana. These lower sales quantities were driven by Visteon's longer than normal annual plant shutdown and Dana's rebalancing of inventory levels in anticipation of a potential labor-related work stoppage.

Selling, General and Administrative. Selling, general and administrative expense decreased $0.4 million in 2003 and decreased as a percentage of net revenue to 9.7% from 9.9% in 2002. We controlled our spending on selling, general and administrative in consideration of the 1.1% increase in net revenue from 2002 to 2003.

Research and Development. The increase in research and development costs is driven by development of a new data system product line within our Electronics Group. We expect to complete the development of these products in 2004, and sold limited quantities in 2003.

Amortization of Intangible Assets. Amortization of intangible assets increased in 2003 primarily due to certain identifiable intangible assets acquired during 2003.

Interest Expense, Net. Interest expense decreased in 2003 due to the repayment of debt and a lower weighted average interest rate. We used proceeds from our 2002 stock offering to repay $52.5 million of our outstanding debt, reducing our weighted average debt outstanding to $31.1 million during 2003 from $49.8 million during 2002. The weighted average interest rate decreased to 5.4% in 2003 from 5.8% in 2002 due to the July 2003 expiration of interest rate swap rate agreements with higher than market interest rates.

Income Taxes. Our effective income tax rate increased to 37.5% in 2003 from 30.1% for 2002. The lower effective tax rate in 2002 was primarily due to a reduction in the valuation allowance on deferred tax assets.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

	Years Ended December 31,		Year Over Year Change	Year Over Year Percentage Change	Results as Percentage of Net Revenue for the Years Ended December 31,	
	2002	2001	favorable (unfavorable)	favorable (unfavorable)	2002	2001
	(in thousands, except percentage data)					
Net revenue:						
Electronics Group	$186,562	$207,282	$ (20,720)	(10.0)%	68.2%	81.4%
Industrial Group	86,915	47,358	39,557	83.5	31.8	18.6
Total	273,477	254,640	18,837	7.4	100.0	100.0
Cost of sales:						
Electronics Group	148,766	169,897	21,131	12.4	*79.7*	*82.0*
Industrial Group	75,190	41,196	(33,994)	(82.5)	*86.5*	*87.0*
Total	223,956	211,093	(12,863)	(6.1)	81.9	82.9
Gross profit:						
Electronics Group	37,796	37,385	411	1.1	*20.3*	*18.0*
Industrial Group	11,725	6,162	5,563	90.3	*13.5*	*13.0*
Total	49,521	43,547	5,974	13.7	18.1	17.1
Selling, general and administrative	27,114	26,134	(980)	(3.7)	9.9	10.3
Research and development	3,354	3,054	(300)	(9.8)	1.3	1.2
Amortization of intangible assets	97	1,329	1,232	92.7	0.0	0.5
Operating income	18,956	13,030	5,926	45.5	6.9	5.1
Interest expense, net	2,742	4,111	1,369	33.3	1.0	1.6
Other (income) expense, net	(159)	(358)	(199)	(55.6)	(0.1)	(0.1)
Income before income taxes	16,373	9,277	7,096	76.5	6.0	3.6
Income taxes	4,934	2,910	(2,024)	(69.6)	1.8	1.1
Net income	$ 11,439	$ 6,367	$ 5,072	79.7%	4.2%	2.5%

Net Revenue. Our backlog decreased $8.1 million to $154.2 million at December 31, 2002, on $265.8 million in net orders in 2002 compared to $242.1 million in 2001.

Net revenue decreased in the Electronics Group due to lower revenue from manufacturing services and other outsourced services. Manufacturing services decreased $14.7 million due to lower aerospace & defense shipments during 2002 and the completion of a commercial contract in the fourth quarter of 2001. Net revenue from other outsourced services decreased $5.4 million in 2002 due to a 16% decline in revenue for test & measurement services. Weak economic conditions and a slowdown in the telecommunications, semiconductor, and commercial avionics markets negatively affected demand for test & measurement services from our customers. Net revenue from product sales decreased $0.6 million in 2002 due to reduced sales quantities for magnetics products. Backlog for our Electronics Group decreased $3.1 million to $115.4 million at December 31, 2002, on $183.8 million in net orders in 2002 compared to $183.5 million in 2001.

Net revenue in the Industrial Group increased $39.6 million in 2002 due to the full year effect of the May 2001 contract with Dana and the addition of a contract with Visteon. The contract with Dana for fully machined, medium and heavy-duty truck axle shafts and other drive train components, generated outsourced services revenue totaling $38.1 million in 2002, as compared to $16.5 million in 2001. Under the contract with Visteon we began supplying light axle shafts for pickup trucks and sport utility vehicles during the first quarter of 2002. Backlog for our Industrial Group decreased $5.0 million to $38.8 million at December 31, 2002, on $82.0 million in net orders in

2002 compared to $58.6 million in 2001. Net orders in 2002 increased primarily due to the contracts with Dana and Visteon.

Gross Profit. Gross profit was higher for our Electronics Group driven by higher gross margin as compared to 2001. Gross margin increased due to cost reductions, improved manufacturing efficiencies and a more favorable revenue mix in 2002 as compared to 2001. Most of the gross margin improvement was offset in gross profit by lower revenue.

Gross profit for our Industrial Group increased due to revenue growth from contracts with Dana and Visteon. While gross margin improved in 2002 compared to 2001, we believe start-up costs and manufacturing inefficiencies related to our initial production under the Visteon contract limited the gross profit contribution from this business.

Selling, General and Administrative. Selling, general and administrative expense increased in 2002 due to the additional management and administrative infrastructure to support the growth in our Industrial Group, partially offset by reduced selling expenses in our Electronics Group. During the fourth quarter of 2002, selling, general and administrative expense was 8.8% of net revenue, primarily due to a reduction in our incentive bonus expense based on performance measures defined in our incentive plans.

Research and Development. The increase in research and development costs is driven by development of a new data system product line within our Electronics Group.

Amortization of Intangible Assets. In 2002, we amortized intangible assets other than goodwill and indefinite-lived intangible assets. We recognized substantially less amortization expense in 2002 because amortization of goodwill and indefinite-lived intangible assets ceased when we adopted SFAS No. 142 effective January 1, 2002.

Interest Expense, Net. Interest expense decreased in 2002 due to the repayment of debt and a lower weighted average interest rate. We used proceeds from our stock offering during March and April 2002 to repay $52.5 million of our outstanding debt, reducing our weighted average debt outstanding to $49.8 million during 2002 from $74.5 million during 2001. The weighted average interest rate decreased to 5.8% in 2002 from 7.4% in 2001. There was no capitalized interest for 2002 as compared to $1.8 million for 2001.

Income Taxes. Our effective income tax rate decreased to 30.1% in 2002 from 31.4% for 2001. The lower effective tax rate was due to a reduction in the valuation allowance on deferred tax assets totaling $0.7 million in 2002 compared to $0.3 million in 2001.

Quarterly Results

The following table presents our unaudited condensed consolidated statements of income data for each of the eight quarters in the period ended December 31, 2003. We have prepared this data on the same basis as our audited consolidated financial statements and, in our opinion, include 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. The consolidated results of operations for any quarter are not necessarily indicative of the results to be expected for any subsequent period.

	2003				2002			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except per share data)							
Net revenue:								
Electronics Group	$35,689	$45,544	$46,468	$53,032	$44,076	$49,297	$46,341	$46,848
Industrial Group	23,226	25,077	22,430	25,139	18,457	24,212	24,416	19,830
Total	58,915	70,621	68,898	78,171	62,533	73,509	70,757	66,678
Cost of sales:								
Electronics Group	28,390	35,821	38,304	41,952	35,388	40,280	36,111	36,987
Industrial Group	20,574	21,759	21,025	22,768	16,016	20,347	20,672	18,155
Total	48,964	57,580	59,329	64,720	51,404	60,627	56,783	55,142
Gross profit:								
Electronics Group	7,299	9,723	8,164	11,080	8,688	9,017	10,230	9,861
Industrial Group	2,652	3,318	1,405	2,371	2,441	3,865	3,744	1,675
Total	9,951	13,041	9,569	13,451	11,129	12,882	13,974	11,536
Selling, general and administrative	6,149	7,036	6,925	6,601	6,514	7,188	7,522	5,890
Research and development	1,022	1,066	1,030	1,048	831	932	773	818
Amortization of intangible assets	21	21	67	85	51	3	21	22
Operating income	2,759	4,918	1,547	5,717	3,733	4,759	5,658	4,806
Interest expense, net	486	547	384	276	1,082	660	470	530
Other expense (income), net	67	85	65	13	(29)	(31)	(9)	(90)
Income before income taxes	2,206	4,286	1,098	5,428	2,680	4,130	5,197	4,366
Income taxes	827	1,607	412	2,037	855	1,325	1,663	1,091
Net income	$ 1,379	$ 2,679	$ 686	$ 3,391	$ 1,825	$ 2,805	$ 3,534	$ 3,275
Earnings per common share:								
Basic	$ 0.10	$ 0.19	$ 0.05	$ 0.24	$ 0.18	$ 0.20	$ 0.25	$ 0.23
Diluted	$ 0.10	$ 0.19	$ 0.05	$ 0.23	$ 0.17	$ 0.19	$ 0.24	$ 0.23
Shares used in computing earnings per common share:								
Basic	14,184	14,213	14,241	14,267	10,169	13,971	14,121	14,151
Diluted	14,407	14,430	14,799	14,868	10,742	14,696	14,621	14,478

Liquidity, Capital Resources and Financial Condition

Net cash provided by operating activities increased $13.7 million to $27.3 million in 2003. We made contributions to pension plans totaling $7.5 million in 2002, which included a voluntary contribution totaling $5.7 million, compared to contributions totaling less than $1.0 million in each of 2003 and 2001. Increases in our working capital resulted in a decrease in net cash flow totaling $1.0 million, $6.8 million and $8.1 million in 2003, 2002 and 2001, respectively.

Net cash used in investing activities increased $25.6 million to $45.8 million in 2003 driven by net assets acquired totaling $21.8 million in connection with the Dana Morganton transaction and capital expenditures for our Electronics Group and Industrial Group totaling $10.6 million and $11.8 million, respectively. Capital expenditures

for our Electronics Group were principally comprised of manufacturing, assembly and test equipment. Our Industrial Group's capital expenditures included forging, machining, and centralized tooling equipment in support of our truck components & assemblies operations. Capital expenditures for the Industrial Group in 2002 and 2001 totaled $12.0 million and $19.5 million, respectively, which included new forging and machining equipment to increase and expand the range of production capabilities. In 2001, the Industrial Group acquired certain assets of Dana's Marion, Ohio facility for $11.5 million, and received $5.4 million in proceeds from sale and leaseback transactions for certain machinery and equipment. Capital expenditures for the Electronics Group in 2002 and 2001 totaled $7.5 million and $7.9 million, respectively. We also received $1.4 million in 2001 for the sale of certain assets by our Electronics Group.

Net cash provided by financing activities increased $12.4 million to $18.2 million in 2003 due to borrowings in connection with assets acquired for the Dana Morganton transaction, partially offset by $1.7 million in dividends paid. In 2002, we received net proceeds totaling $55.7 million from our public stock offering that was used primarily to reduce debt. In 2001, we borrowed $22.5 million, primarily to fund capital expenditures and the acquisition of certain assets from Dana.

We had total availability for borrowings and letters of credit under the revolving credit facility of $68.8 million at December 31, 2003, which, when combined with our unrestricted cash balance of $12.0 million, provides for total cash and borrowing capacity of $80.8 million. Maximum borrowings on the revolving credit facility are $125.0 million, subject to a $15.0 million limit for letters of credit. The credit agreement includes an option to increase the amount of available credit to $150.0 million from $125.0 million, subject to the lead bank's approval. Borrowings under the revolving credit facility may be used to finance working capital requirements, acquisitions and for general corporate purposes, including capital expenditures. Most acquisitions require the approval of our bank group.

Our principal commitments at December 31, 2003 consisted of repayments of borrowings under the credit agreement and obligations under operating leases for certain of our real property and equipment. We also had purchase commitments totaling approximately $3.9 million at December 31, 2003, primarily for manufacturing equipment. The following table provides information about the payment dates of our contractual obligations at December 31, 2003, excluding current liabilities except for the current portion of long-term debt (amounts in thousands):

	2004	2005	2006	2007	2008	2009 & Thereafter
Revolving credit facility	$3,200	$ —	$ —	$ —	$53,000	$ —
Operating leases	6,428	6,489	5,963	5,590	4,489	2,947
Total	$9,628	$6,489	$5,963	$5,590	$57,489	$ 2,947

We believe that, without taking into account the proceeds from this offering, sufficient resources will be available to satisfy our cash requirements for at least the next twelve months. Cash requirements for periods beyond the next twelve months depend on our profitability, our ability to manage working capital requirements and our rate of growth. If we make significant acquisitions or if working capital and capital expenditure requirements exceed expected levels during the next twelve months or in subsequent periods, we may require additional external sources of capital. There can be no assurance that any additional required financing will be available through bank borrowings, debt or equity financings or otherwise, or that if such financing is available, it will be available on terms acceptable to us. If adequate funds are not available on acceptable terms, our business, results of operations and financial condition could be adversely affected.

Recent Accounting Pronouncements

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and 138. SFAS No. 133, and its subsequent amendments, requires us to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is

recognized in earnings. The ineffective portion of a derivative's change in fair value must be recognized currently in earnings. In 2001, we entered into interest rate swap agreements, which were deemed to be effective hedges in accordance with SFAS No. 133. These swap agreements expired in July 2003.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 141 also specifies criteria for the recognition of identifiable intangible assets separately from goodwill. We applied the provisions of SFAS No. 141 to all business combinations subsequent to the effective date.

Effective January 1, 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. We adopted the Interpretation in the fourth quarter 2003 and such adoption did not affect our financial statements.

Forward Looking Statements

This annual report contains forward-looking statements including statements concerning the future of our industries, product development, business strategy, the possibility of future acquisitions, continued acceptance and growth of our products and dependence upon significant customers. These statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or include other forward-looking information. You should not place undue reliance on these forward-looking statements.

Important factors could cause performance to differ materially from projected results contained in, or based upon, these statements, including: the discovery of, or failure to discover, material issues during due diligence; the failure to agree on the final terms of definitive agreements, long-term supply agreements, collective bargaining agreements, or related agreements or any party's breach of, or refusal to close the transactions reflected in, those agreements; the ability to successfully manage growth or contraction in the economy, or the commercial vehicle or electronics markets; access to capital on favorable terms as needed for operations or growth; the ability to achieve expected annual savings and synergies from past and future business combinations; competitive factors and price pressures; availability of third party component parts at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; changes in product mix; program changes, delays, or cancellations by the government or other customers; concentrated reliance on major customers or suppliers; cost and yield issues associated with the Company's manufacturing facilities; revisions in estimated costs related to major contracts; labor relations; risks inherent in operating abroad, including foreign currency exchange rates; performance of our pension fund portfolios; changes in applicable law or in the Company's regulatory authorizations, security clearances, or other legal rights to conduct its business, deal with its work force or export goods and services; adverse regulatory actions, or other governmental sanctions; risks of litigation, including litigation with respect to environmental or asbestos-related matters, customer or supplier claims, or stockholders; the effects (including possible increases in the cost of doing business) resulting from future war and terrorists activities or political uncertainties; natural disasters, casualties, utility disruptions, or the failure to anticipate unknown risks and uncertainties present in the Company's businesses; dependence on current management; as well as other factors included in the Company's periodic reports filed with the Securities and Exchange Commission.

In this annual report, we rely on and refer to information and statistics regarding the markets in which we compete. We obtained this information and these statistics from various third party sources and publications that are

not produced for the purposes of securities offerings or economic analysis. We have not independently verified the data and cannot assure you of the accuracy of the data we have included.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. All additional borrowings under our credit agreement bear interest at a variable rate based on the prime rate, the London Interbank Offered Rate ("LIBOR"), or certain alternative short-term rates, plus a margin (1.0% at December 31, 2003) based upon our leverage ratio. An increase in interest rates of 100 basis points would result in additional interest expense approximating $0.6 million on an annualized basis, based upon our debt outstanding at December 31, 2003. Fluctuations in foreign currency exchange rates have historically had little impact on us because the vast majority of our transactions are denominated in U.S. dollars. Inflation has not been a significant factor in our operations in any of the periods presented, and it is not expected to affect operations in the foreseeable future.

Item 8. Financial Statements and Supplementary Data

SYPRIS SOLUTIONS, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Sypris Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Sypris Solutions, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Louisville, Kentucky
January 30, 2004

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

	Years ended December 31,		
	2003	2002	2001
Net revenue:			
Outsourced services	$230,632	$229,629	$209,874
Products	45,973	43,848	44,766
Total net revenue	276,605	273,477	254,640
Cost of sales:			
Outsourced services	203,080	195,576	181,818
Products	27,513	28,380	29,275
Total cost of sales	230,593	223,956	211,093
Gross profit	46,012	49,521	43,547
Selling, general and administrative	26,711	27,114	26,134
Research and development	4,166	3,354	3,054
Amortization of intangible assets	194	97	1,329
Operating income	14,941	18,956	13,030
Interest expense, net	1,693	2,742	4,111
Other expense (income), net	230	(159)	(358)
Income before income taxes	13,018	16,373	9,277
Income tax expense	4,883	4,934	2,910
Net income	$ 8,135	$ 11,439	$ 6,367
Earnings per common share:			
Basic	$ 0.57	$ 0.87	$ 0.65
Diluted	$ 0.56	$ 0.84	$ 0.63
Shares used in computing earnings per common share:			
Basic	14,237	13,117	9,828
Diluted	14,653	13,664	10,028

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,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,019	$ 12,403
Accounts receivable, net	45,484	37,951
Inventory, net	61,932	64,443
Other current assets	11,370	9,187
Total current assets	130,805	123,984
Property, plant and equipment, net	106,683	75,305
Goodwill	14,277	14,277
Other assets	11,730	10,039
	$263,495	223,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 29,598	$ 23,356
Accrued liabilities	17,491	16,035
Current portion of long-term debt	3,200	7,000
Total current liabilities	50,289	46,391
Long-term debt	53,000	30,000
Other liabilities	15,425	10,179
Total liabilities	118,714	86,570
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $.01 per share, 981,600 shares authorized; no shares issued	—	—
Series A preferred stock, par value $.01 per share, 18,400 shares authorized; no shares issued	—	—
Common stock, non-voting, par value $.01 per share, 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value $.01 per share, 30,000,000 shares authorized; 14,283,323 and 14,158,077 shares issued and outstanding in 2003 and 2002, respectively	143	142
Additional paid-in capital	83,541	82,575
Retained earnings	63,443	57,017
Accumulated other comprehensive income (loss)	(2,346)	(2,699)
Total stockholders' equity	144,781	137,035
	$263,495	$223,605

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

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

	Years ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 8,135	$ 11,439	$ 6,367
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,831	11,386	9,856
Deferred income taxes	6,009	3,684	479
Provision for excess and obsolete inventory	832	727	432
Provision for doubtful accounts	191	231	122
Other noncash charges	846	339	59
Contributions to pension plans	(586)	(7,451)	(754)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(7,724)	1,576	(8,474)
Inventory	6,219	(4,559)	(3,519)
Other current assets	(2,427)	(863)	(416)
Accounts payable	3,154	(1,010)	3,648
Accrued and other liabilities	(205)	(1,898)	671
Net cash provided by operating activities	27,275	13,601	8,471
Cash flows from investing activities:			
Capital expenditures	(22,521)	(19,747)	(27,623)
Proceeds from sale of assets	175	211	6,816
Purchase of net assets of acquired entities	(23,300)	—	(11,486)
Changes in nonoperating assets and liabilities	(171)	(662)	(650)
Net cash used in investing activities	(45,817)	(20,198)	(32,943)
Cash flows from financing activities:			
Net increase (decrease) in debt under revolving credit agreements	19,200	(50,500)	22,500
Cash dividends paid	(1,709)	(424)	—
Proceeds from issuance of common stock	667	56,692	530
Net cash provided by financing activities	18,158	5,768	23,030
Net decrease in cash and cash equivalents	(384)	(829)	(1,442)
Cash and cash equivalents at beginning of year	12,403	13,232	14,674
Cash and cash equivalents at end of year	$ 12,019	$ 12,403	$ 13,232

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)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at January1, 2001	9,709,669	$ 97	$ 24,401	$40,060	$ (353)	$ 64,205
Net income	—	—	—	6,367	—	6,367
Adjustment in minimum pension liability, net of tax of $828	—	—	—	—	(1,124)	(1,124)
Change in fair value of interest rate swap agreements, net of tax of $309	—	—	—	—	(419)	(419)
Comprehensive income (loss)	—	—	—	6,367	(1,543)	4,824
Issuance of shares under Employee Stock Purchase Plan	52,206	1	256	—	—	257
Exercise of stock options	136,800	1	566	—	—	567
Stock option tax benefit	—	—	267	—	—	267
Balance at December 31, 2001	9,898,675	99	25,490	46,427	(1,896)	70,120
Net income	—	—	—	11,439	—	11,439
Adjustment in minimum pension liability, net of tax of $582	—	—	—	—	(873)	(873)
Change in fair value of interest rate swap agreements, net of tax of $99	—	—	—	—	70	70
Comprehensive income (loss)	—	—	—	11,439	(803)	10,636
Cash dividends, $0.06 per common share	—	—	—	(849)	—	(849)
Issuance of common shares	4,100,000	41	55,615	—	—	55,656
Issuance of shares under Employee Stock Purchase Plan	37,695	1	335	—	—	336
Exercise of stock options	123,983	1	758	—	—	759
Stock option tax benefit	—	—	377	—	—	377
Retire unvested restricted shares	(2,276)	—	—	—	—	—
Balance at December 31, 2002	14,158,077	142	82,575	57,017	(2,699)	137,035
Net income	—	—	—	8,135	—	8,135
Adjustment in minimum pension liability, net of tax of $2	—	—	—	—	4	4
Change in fair value of interest rate swap agreements, net of tax of $210	—	—	—	—	349	349
Comprehensive income	—	—	—	8,135	353	8,488
Cash dividends, $0.12 per common share	—	—	—	(1,709)	—	(1,709)
Issuance of shares under Employee Stock Purchase Plan	38,160	—	353	—	—	353
Exercise of stock options	87,086	1	456	—	—	457
Stock option tax benefit	—	—	157	—	—	157
Balance at December 31, 2003	14,283,323	$ 143	$ 83,541	$63,443	$ (2,346)	$ 144,781

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

SYPRIS SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

(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"). All significant 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, testing, and other technical services, typically under multi-year, sole-source contracts with corporations and government agencies in the markets for aerospace & defense electronics, truck components & assemblies, and for users of test & measurement equipment.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Contract inventory is stated at actual production costs, reduced by the cost of units for which revenue has been recognized. Gross contract inventory is considered work in process. Progress payments under long-term contracts are specified in the contracts as a percentage of cost and are liquidated as contract items are completed and shipped. Other inventory is stated at the lower of cost or market. The first-in, first-out method was used for determining the cost of inventory excluding contract inventory and certain other inventory, which was determined using the last-in, first-out method ("LIFO") (see Note 4). 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 on the basis of 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 respective lease term using the straight-line method. Expenditures for maintenance, repairs and renewals of minor items are expensed as incurred. Major renewals and improvements are capitalized.

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

Interest cost is capitalized for qualifying assets during the period in which the asset is being installed and prepared for its intended use. Capitalized interest cost is amortized on the same basis as the related depreciation.

Goodwill

Beginning in 2002 with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized, but instead tested at least annually for impairment. Prior to 2002, goodwill was amortized using the straight-line method over its estimated period of benefit of 15 years (see "Adoption of Recently Issued Accounting Standards" below). Goodwill is reported net of accumulated amortization of approximately $4,146,000 at December 31, 2003 and 2002.

Long-lived Assets

The Company evaluates long-lived assets for impairment and assesses their recoverability based upon anticipated future cash flows. If facts and circumstances lead the Company's management to believe that the cost of one of its assets may be impaired, the Company will write down that carrying amount to fair value to the extent necessary.

Revenue Recognition

A portion of the Company's business is conducted under long-term, fixed-price contracts with aerospace & defense companies and agencies of the U.S. Government. Contract revenue is recognized using the percentage of completion method, generally using units-of-delivery as the basis to measure progress toward completing the contract. The costs attributed to contract revenue are based upon the estimated average costs of all units to be shipped. The cumulative average costs of units shipped to date are adjusted through current operations as estimates of future costs to complete change (see "Contract Accounting" below). Revenue under certain other long-term fixed price contracts is recorded using achievement of performance milestones or cost-to-cost as the basis to measure progress toward completing the contract. Amounts representing contract change orders or claims are included in revenue when such costs are reliably estimated and realization is probable.

Revenue recognized under the percentage of completion method of accounting totaled approximately $111,341,000, $120,424,000 and $134,478,000 for the years ended December 31, 2003, 2002 and 2001, respectively. In 2003, approximately 88% of such amount was accounted for based on units of delivery and approximately 12% was accounted for based on milestones or cost-to-cost. In 2002 and 2001, substantially all such amounts were accounted for under the units-of-delivery method. All other revenue is recognized as product is shipped and title passes, or when services are rendered.

Contract Accounting

For long-term contracts, the Company capitalizes in inventory direct material, direct labor and factory overhead as incurred. Selling costs are expensed as incurred. Costs to complete long-term contracts are estimated on a monthly basis. Estimated margins at completion are applied to cumulative contract revenue to arrive at costs charged to operations.

Accounting for long-term contracts under the percentage of completion method involves substantial estimation processes, including determining the estimated cost to complete a contract. As contracts may require performance over several accounting periods, formal detailed cost-to-complete estimates are performed and updated monthly via performance reports. Management's estimates of costs-to-complete change due to internal and external factors, such as labor rate and efficiency variances, revised estimates of warranty costs, estimated future material prices and customer specification and testing requirement changes. Changes in estimated costs are reflected in gross profit in the period in which they are known. If increases in projected costs-to-complete are sufficient to create a loss contract, the entire estimated loss is charged to operations in the period the loss first becomes known.

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

Product Warranty Costs

The provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. The accrued liability for warranty costs is included in the caption "Accrued liabilities" in the accompanying consolidated 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 various departments or agencies of the U.S. Government, aerospace & defense companies under contract with the U.S. Government and a number of customers in diverse industries across geographic areas, primarily in North America. 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 43% of accounts receivable outstanding at December 31, 2003 are due from the Company's four largest customers.

The Company recognized revenue from contracts with the U.S. Government and its agencies of approximately $49,143,000, $44,185,000 and $40,046,000 during the years ended December 31, 2003, 2002 and 2001, respectively. The Company's largest customers for the year ended December 31, 2003 were Dana Corporation and Raytheon Company, which represented approximately 15% and 14%, respectively, of the Company's total net revenue. The Company's largest customers for the year ended December 31, 2002 were Raytheon Company and Dana Corporation, which represented approximately 19% and 14%, respectively, of the Company's total net revenue. The Company's largest customers for the year ended December 31, 2001 were Raytheon Company and Honeywell International, Inc., which represented approximately 21% and 11%, respectively, of the Company's total net revenue. No other single customer accounted for more than 10% of the Company's total net revenue for the years ended December 31, 2003, 2002 or 2001.

Stock Based Compensation

Stock options are granted under various stock compensation programs to employees and independent directors (see Note 11). The Company accounts for stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	Years ended December 31,		
	2003	2002	2001
	(in thousands, except for per share data)		
Net income	$ 8,135	$ 11,439	$ 6,367
Pro forma stock-based compensation expense, net of tax	1,624	1,591	1,390
Pro forma net income	$ 6,511	$ 9,848	$ 4,977
Pro forma earnings per common share:			
Basic	$ 0.46	$ 0.75	$ 0.51
Diluted	$ 0.44	$ 0.72	$ 0.50

Derivative Financial Instruments

In 2001, the Company entered into interest rate swap agreements, which were deemed to be effective hedges in accordance with SFAS No. 133, "Accounting of Derivative Instruments and Hedging Activities" (see Note 7). All

derivatives on the consolidated balance sheets are reported at fair value and changes in the fair value, net of income tax, were recognized in other comprehensive income (loss) on the consolidated statements of stockholders' equity.

Adoption of Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 141 also specifies criteria for the recognition of identifiable intangible assets separately from goodwill. The Company applied the provisions of SFAS No. 141 to all business combinations subsequent to the effective date (see Note 2).

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but will be reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The nonamortization of goodwill has increased the Company's net income and earnings per share beginning in 2002. Following are pro forma results assuming goodwill had not been amortized prior to January 1, 2002 (in thousands, except for per share data):

	Years ended December 31,		
	2003	2002	2001
Reported net income	$8,135	$11,439	$6,367
Adjustment for amortization of goodwill, net of tax	—	—	782
Adjusted net income	$8,135	$11,439	$7,149
Basic earnings per common share as reported	$ 0.57	$ 0.87	$ 0.65
Adjustment for amortization of goodwill, net of tax	—	—	0.08
Adjusted basic earnings per common share	$ 0.57	$ 0.87	$ 0.73
Diluted earnings per common share as reported	$ 0.56	$ 0.84	$ 0.63
Adjustment for amortization of goodwill, net of tax	—	—	0.08
Adjusted diluted earnings per common share	$ 0.56	$ 0.84	$ 0.71

There has been no change to the carrying value of the Company's goodwill since January 1, 2002. Goodwill, net of accumulated amortization, at December 31, 2003 for the Electronics Group and the Industrial Group was approximately $13,837,000 and $440,000, respectively. The Company's other intangible assets subject to amortization and the related amortization expense are not material to the Company's consolidated financial position or results of operations, respectively.

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The Company adopted the Interpretation in the fourth quarter 2003 and such adoption did not effect the financial statements.

(2) Acquisitions

On May 31, 2001, the Company acquired from Dana Corporation certain assets and liabilities of the Marion Forge plant. The business produces fully machined, medium and heavy-duty truck axle shafts and other drive train components for integration into subassemblies and is included with Sypris Technologies in the Industrial Group. The transaction was accounted for as a purchase, in which the purchase price of $11,486,000 was allocated

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

based on the fair values of the assets and liabilities acquired. The purchase price was allocated primarily to property, plant and equipment. The results of operations of the acquired business have been included in the consolidated financial statements since the acquisition date. The acquisition was financed by the Company's Credit Agreement (see Note 7).

On December 31, 2003, the Company acquired from Dana Corporation certain assets and liabilities of a plant that will expand Sypris Technologies' manufacturing capabilities in certain light, medium and heavy-duty truck steer axles and other drive train components. The transaction was accounted for as a purchase, in which the purchase price of $22,297,000 was allocated based on the fair values of the assets and liabilities acquired. The results of operations of the acquired business will be included in the consolidated financial statements beginning January 1, 2004. The acquisition was financed by the Company's Credit Agreement (see Note 7). The Company paid Dana $21,780,000 on the closing date and $517,000 in January 2004. Following are the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition, which are subject to refinement (in thousands):

Current assets	$ 4,540
Property, plant and equipment	17,746
Other assets	1,727
Total assets acquired	24,013
Current liabilities assumed	(1,716)
Net assets acquired	$22,297

Other assets represents the estimated fair value of an eight-year supply agreement with Dana Corporation that the Company will amortize on a straight-line basis over the life of the contract.

(3) Accounts Receivable

Accounts receivable consists of the following:

	December 31,	
	2003	2002
	(in thousands)	
Commercial	$39,978	$34,108
U.S. Government	6,100	4,366
	46,078	38,474
Allowance for doubtful accounts	(594)	(523)
	$45,484	$37,951

Accounts receivable from the U.S. Government includes amounts due under long-term contracts, all of which are billed at December 31, 2003 and 2002, of $4,508,000 and $2,930,000, respectively.

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

(4) Inventory

Inventory consists of the following:

	December 31,	
	2003	2002
	(in thousands)	
Raw materials	$22,394	$18,493
Work in process	15,854	14,769
Finished goods	3,052	4,588
Costs relating to long-term contracts and programs, net of amounts attributed to revenue recognized to date	36,569	34,778
Progress payments related to long-term contracts and programs	(9,851)	(2,737)
LIFO reserve	(940)	(1,007)
Reserve for excess and obsolete inventory	(5,146)	(4,441)
	$61,932	$64,443

The preceding amounts include inventory valued under the LIFO method that totaled approximately $11,476,000 and $12,663,000 at December 31, 2003 and 2002, respectively.

(5) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
	2003	2002
	(in thousands)	
Land and land improvements	$ 2,173	$ 1,736
Buildings and building improvements	23,420	19,132
Machinery, equipment, furniture and fixtures	148,733	119,740
Construction in progress	15,539	6,201
	189,865	146,809
Accumulated depreciation	(83,182)	(71,504)
	$106,683	$ 75,305

Depreciation expense totaled approximately $12,637,000, $11,280,000 and $8,468,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Approximately $3,488,000 and $494,000 was included in accounts payable for capital expenditures at December 31, 2003 and 2002, respectively.

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

(6) Accrued Liabilities

Accrued liabilities consists of the following:

	December 31,	
	2003	2002
	(in thousands)	
Employee benefit plan accruals	$ 5,219	$ 4,585
Salaries, wages and incentives	1,708	3,735
Other	10,564	7,715
	$17,491	$16,035

Included in other accrued liabilities are employee payroll deductions, advance payments, accrued operating expenses, accrued warranty expenses, accrued interest and other items, none of which exceed 5% of total current liabilities.

(7) Long-Term Debt

The Company has a credit agreement with a syndicate of banks (the "Credit Agreement") that was entered into in October 1999 and amended most recently in October 2003. The Credit Agreement provides for a revolving credit facility with an aggregate commitment of $125,000,000 through October 2008. We had total availability for borrowings and letters of credit under the revolving credit facility of $68,800,000 at December 31, 2003, which, when combined with our unrestricted cash balance of $12,019,000, provides for total cash and borrowing capacity of $80,819,000. The credit agreement includes an option to increase the amount of available credit to $150,000,000, subject to the lead bank's approval. Current maturities of long-term debt at December 31, 2003 and 2002 represent amounts due under a short-term borrowing arrangement included in the Credit Agreement. Standby letters of credit up to a maximum of $15,000,000 may be issued under the Credit Agreement, and no significant amounts were outstanding at December 31, 2003 and 2002.

Under the terms of the Credit Agreement, interest rates are determined at the time of borrowing and are based on the London Interbank Offered Rate plus a margin of 1.0% to 2.0%; or the greater of the prime rate or the federal funds rate plus 0.5%, plus a margin up to 0.75%. The Company also pays a fee of 0.20% to 0.25% on the unused portion of the aggregate commitment. The margins applied to the respective interest rates and the commitment fee are adjusted quarterly and are based on the Company's ratio of funded debt to earnings before interest, taxes, depreciation and amortization. The weighted average interest rate for outstanding borrowings at December 31, 2003 was 2.7%. The weighted average interest rates for borrowings during the years ended December 31, 2003, 2002 and 2001 were 5.4%, 5.8% and 7.4%, respectively.

The Credit Agreement contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charge coverage and leverage ratios and minimum levels of net worth. As of December 31, 2003, the Company was in compliance with all covenants.

On July 26, 2001, the Company entered into interest rate swap agreements with three banks that effectively converted a portion of its floating rate debt to a fixed rate basis for a period of two years, thus reducing the impact of interest rate changes on interest expense. The swap agreements, which expired on July 25, 2003, had a combined notional amount of $30,000,000 whereby the Company paid a fixed rate of interest of 4.52% and received a variable 30-day LIBOR rate. The differential paid or received was accrued as interest rates changed and was recognized as an adjustment to interest expense in the consolidated income statements. The aggregate fair market value of all interest rate swap agreements was approximately $559,000 at December 31, 2002, which was included in accrued liabilities on the consolidated balance sheet.

Interest incurred, net of amounts capitalized, during the years ended December 31, 2003, 2002 and 2001 totaled approximately $1,729,000, $2,923,000 and $4,021,000, respectively. The Company had no capitalized

interest in 2003 or 2002. Capitalized interest for the year ended December 31, 2001 was $1,763,000. Interest paid during the years ended December 31, 2003, 2002 and 2001 totaled approximately $1,328,000, $2,763,000 and $5,623,000, respectively.

(8) 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, 2003 and 2002 under the Credit Agreement approximates fair value because borrowings are for terms less than six months and have rates that reflect currently available terms and conditions for similar debt.

(9) Employee Benefit Plans

The Company sponsors noncontributory defined benefit pension plans (the "Pension Plans") covering certain employees of Sypris Technologies. 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. The Company's funding policy is to make the minimum annual contributions required by the applicable regulations; however, the Company made a voluntary contribution to the Pension Plans totaling $5,660,000 in 2002. The Pension Plans' assets are primarily invested in equity securities and fixed income securities.

The following table details the components of pension expense:

	Years ended December 31,		
	2003	2002	2001
	(in thousands)		
Service cost	$ 137	$ 172	358
Interest cost on projected benefit obligation	2,265	2,306	1,939
Net amortizations and deferrals	611	339	247
Expected return on plan assets	(2,430)	(2,329)	(1,961)
	$ 583	$ 488	$ 583

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

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

	December 31,	
	2003	2002
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$35,237	$31,983
Service cost	137	172
Interest cost	2,265	2,306
Actuarial loss	1,450	2,394
Benefits paid	(1,765)	(1,618)
Benefit obligation at end of year	$37,324	$35,237
Change in plan assets:		
Fair value of plan assets at beginning of year	$29,480	$24,789
Actual return on plan assets	3,958	(1,142)
Company contributions	586	7,451
Benefits paid	(1,765)	(1,618)
Fair value of plan assets at end of year	$32,259	$29,480
Funded status of the plans:		
Benefit obligation at end of year	$37,324	$35,237
Fair value of plan assets at end of year	32,259	29,480
Funded status of plan (underfunded)	(5,065)	(5,757)
Unrecognized actuarial loss	7,714	8,074
Unrecognized prior service cost	365	694
Net asset recognized	$ 3,014	$ 3,011
Balance sheet assets (liabilities):		
Prepaid benefit cost	$ 4,685	$ 4,876
Intangible asset	—	36
Accrued benefit liability	(5,425)	(5,661)
Accumulated other comprehensive loss	3,754	3,760
Net amount recognized	$ 3,014	$ 3,011
Pension plans with accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	$22,304	$20,622
Accumulated benefit obligation	$22,100	$20,284
Fair value of plan assets	$16,677	$14,627
Projected benefit obligation and net periodic pension cost assumptions:		
Discount rate	6.25%	6.75%
Rate of compensation increase	4.00%	4.00%
Expected long-term rate of return on plan assets	8.25%	8.50%
Weighted average asset allocation:		
Equity securities	63%	38%
Debt securities	37	62
Total	100%	100%

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

The Company uses November 30 as the measurement date for the Pension Plans. Total estimated contributions expected to be paid to the plans during 2004 range from $1,500,000 to $2,000,000. The expected long-term rates of return on plan assets for determining net periodic pension cost for 2003 and 2002 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 55-65% and fixed income securities ranging 35-45% of total investments.

The Company sponsors a defined contribution plan (the "Defined Contribution Plan") for substantially all 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 and provides discretionary contributions. Contributions to the Defined Contribution Plan in 2003, 2002 and 2001 totaled approximately $2,737,000, $2,267,000 and $1,933,000, respectively.

The Company has self-insured medical plans (the "Medical Plans") covering substantially all employees. The number of employees participating in the Medical Plans was approximately 1,325, 1,300 and 1,350 at December 31, 2003, 2002 and 2001, respectively. The Medical Plans limit the Company's annual obligations to fund claims to specified amounts per participant and in the aggregate. The Company is adequately insured for amounts in excess of these limits. Employees are responsible for payment of a portion of the premiums. During 2003, 2002 and 2001, the Company charged approximately $7,223,000, $6,677,000 and $5,890,000, respectively, to operations related to reinsurance premiums, medical claims incurred and estimated, and administrative costs for the Medical Plans. Claims paid during 2003, 2002 and 2001 did not exceed the aggregate limits.

(10) 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, 2003 are as follows (in thousands):

2004	6,428
2005	6,489
2006	5,963
2007	5,590
2008	4,489
2009 and thereafter	2,947
	$31,906

Rent expense for the years ended December 31, 2003, 2002 and 2001 totaled approximately $7,485,000, $7,387,000 and $5,550,000, respectively.

The Company entered into agreements for the sale and leaseback of certain specific manufacturing and testing equipment during 2001. The terms of the operating leases range from five to nine years and the Company has the option to purchase the equipment at the expiration of the respective lease term at a fixed price based upon the equipment's estimated residual value. Lease payments on these operating leases are guaranteed by the Company. Proceeds from the sale and leaseback transactions during 2001 were approximately $5,420,000 and the transactions resulted in a deferred loss of approximately $787,000. Deferred losses on sales and leaseback transactions are amortized on a straight-line basis over the term of the respective leases. Cumulative deferred losses, including deferred losses incurred prior to 2001, net of amortization, was approximately $835,000 and $1,039,000 as of December 31, 2003 and 2002, respectively. Future minimum annual lease commitments related to these leases are included in the above schedule.

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

As of December 31, 2003, the Company had outstanding purchase commitments of approximately $3,904,000, primarily for the acquisition of manufacturing equipment.

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.

(11) Stock Option and Purchase Plans

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. Options are exercisable in whole or in part up to two years after the date of grant and ending ten years after the date of grant. The following table summarizes option activity for the three years ended December 31, 2003:

	Shares	Exercise Price Range	Weighted Average Exercise Price
Balance at January 1, 2001	1,553,737	$1.72 - 31.00	$7.79
Granted	632,819	3.88 - 13.27	6.15
Exercised	(164,616)	1.72 - 8.75	3.06
Forfeited	(174,980)	6.25 - 11.76	8.21
Balance at December 31, 2001	1,846,960	1.72 - 31.00	7.61
Granted	362,391	9.95 - 19.00	14.32
Exercised	(127,561)	1.72 - 10.50	6.23
Forfeited	(144,425)	6.25 - 16.03	9.39
Balance at December 31, 2002	1,937,365	1.72 - 31.00	8.83
Granted	690,811	6.88 - 16.10	8.78
Exercised	(104,730)	1.72 - 10.50	5.04
Forfeited	(178,061)	3.36 - 16.03	9.17
Balance at December 31, 2003	2,345,385	$3.88 - 31.00	$8.96

The following table summarizes certain weighted average data for options outstanding and currently exercisable at December 31, 2003:

	Outstanding			Exercisable	
		Weighted Average			
Exercise Price Range	Shares	Exercise Price	Remaining Contractual Life	Shares	Weighted Average Exercise Price
$3.88 - $5.00	125,120	$ 4.63	5.6	102,870	$ 4.59
$5.12 - $7.00	438,970	6.14	5.2	103,590	6.19
$7.37 - $10.00	1,212,208	8.43	5.7	520,593	8.64
$10.06 - $15.00	466,794	12.19	6.0	79,069	10.87
$15.59 - $20.00	96,805	17.24	7.1	55,805	18.13
$23.00 - $31.00	5,488	27.38	1.3	5,488	27.38
Total	2,345,385	$ 8.96	5.7	867,415	$ 8.80

The Company's stock compensation program also provides for the grant of performance-based stock options to key employees ("Performance Options"). The terms and conditions of the Performance Options grants

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

provide for the determination of the exercise price and the beginning of the vesting period to occur when the fair market value of the Company's common stock achieves certain targeted price levels. Performance Options to purchase 116,000 shares and 56,000 shares of common stock were granted during 2003 and 2001, respectively. The Company did not grant Performance Options in 2002. Performance Options to purchase 28,000 shares, 49,000 shares and 32,000 shares of common stock were forfeited in 2003, 2002 and 2001, respectively. One targeted price level of the Performance Options was achieved in 2002, resulting in determination of the exercise price and beginning of the vesting period for options to purchase 52,000 shares of common stock. Performance Options for which the targeted price level has not been achieved total 403,000 shares, 315,000 shares and 416,000 shares at December 31, 2003, 2002 and 2001, respectively, and are excluded from disclosures of options outstanding.

The aggregate number of shares of common stock reserved for issuance under the Company's stock compensation programs as of December 31, 2003 and 2002 was 4,750,000. The aggregate number of shares available for future grant as of December 31, 2003 and 2002 was 1,375,011 and 2,013,261, respectively.

The Company applies APB 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options is at least equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value for options granted by the Company during 2003, 2002 and 2001 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Years ended December 31,		
	2003	2002	2001
Expected life (years)	7	7	8
Expected volatility	75.0%	74.8%	75.2%
Risk-free interest rates	3.69%	3.83%	4.93%
Expected dividend yield	0.95%	1.09%	—

The weighted average Black-Scholes value of options granted under the stock option plans during 2003, 2002 and 2001 was $5.76, $9.39 and $4.71 per share, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company has a stock purchase plan that provides substantially all employees who have satisfied the eligibility requirements the opportunity to purchase shares of the Company's common stock on a compensation deduction basis. The purchase price is the lower of 85% of the fair market value of the common stock on the first or last business day of the purchase period. Payroll deductions may not exceed $6,000 for any six-month cycle. The stock purchase plan expires January 31, 2006. At December 31, 2003 and 2002, there were 121,049 shares and 159,209 shares, respectively, available for purchase under the plan. During 2003, 2002 and 2001, a total of 38,160 shares, 37,695 shares and 52,206 shares, respectively, were issued under the plan.

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

(12) Stockholders' Equity

On March 26, 2002, the Company completed a public stock offering of 3,600,000 shares of its common stock and, on April 19, 2002, an additional 500,000 shares were issued through the exercise of an over-allotment option. The shares were sold at $14.50 per share and generated proceeds, after underwriting discounts and expenses, of approximately $55,656,000. Proceeds from the offering were primarily used to repay debt. On May 7, 2002, the Company's stockholders approved an amendment to increase the Company's authorized common stock from 20,000,000 shares to 30,000,000 shares.

The Company has a stockholder rights plan, under which each stockholder owns one right for each outstanding share of common stock owned. Each right entitles the holder to purchase one one-thousandth of a share of a new series of preferred stock at an exercise price of $63.00. The rights trade along with, and not separately from, the shares of common stock unless they become exercisable. If any person or group acquires or makes a tender offer for 15% or more of the common stock of the Company (except in transactions approved by the Company's Board of Directors in advance) the rights become exercisable, and they will separate, become tradable, and entitle stockholders, other than such person or group, to acquire, at the exercise price, preferred stock with a market value equal to twice the exercise price. If the Company is acquired in a merger or other business combination with such person or group, or if 50% of its earning power or assets are sold to such person or group, each right will entitle its holder, other than such person or group, to acquire, at the exercise price, shares of the acquiring company's common stock with a market value of twice the exercise price. The rights will expire on October 23, 2011, unless redeemed or exchanged earlier by the Company, and will be represented by existing common stock certificates until they become exercisable.

As of December 31, 2003, 18,400 shares of the Company's preferred stock were designated as Series A Preferred Stock in connection with the adoption of the stockholder rights plan. There are no shares of Series A Preferred Stock currently outstanding. The holders of Series A Preferred Stock will 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. The shares of Series A Preferred Stock shall not be redeemable. However, the Company may purchase shares of Series A Preferred Stock in the open market or pursuant to an offer to a holder or holders.

Cumulative losses recorded in other comprehensive income (loss) for adjustments in the minimum pension liability, net of tax, totaled $2,346,000, $2,350,000 and $1,477,000 at December 31, 2003, 2002 and 2001, respectively. Cumulative losses recorded in other comprehensive income (loss) for the aggregate fair market value of all swap agreements, net of tax, totaled $349,000 and $419,000 at December 31, 2002 and 2001, respectively.

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

(13) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." 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 financial statements.

The components of income tax expense (benefit) are as follows:

	Years ended December 31,		
	2003	2002	2001
	(in thousands)		
Current:			
Federal	$ (847)	$1,184	$2,161
State	(279)	66	270
	(1,126)	1,250	2,431
Deferred:			
Federal	4,938	3,427	706
State	1,071	257	(227)
	6,009	3,684	479
	$ 4,883	$4,934	$2,910

The Company files a consolidated federal income tax return which includes all subsidiaries. Income taxes paid during 2003, 2002 and 2001 totaled approximately $2,250,000, $3,656,000 and $1,962,000, respectively. The Company received approximately $1,760,000, $208,000 and $2,108,000 in federal income tax refunds during 2003, 2002 and 2001, respectively.

At December 31, 2003, the Company had approximately $9,862,000 of state net operating loss carryforwards available to offset future state taxable income. Such carryforwards reflect income tax losses incurred (in thousands) which will expire on December 31 of the following years:

2009	$2,839
2010	560
2011	5,999
2017	464
	$9,862

The following is a reconciliation of income tax expense to that computed by applying the federal statutory rate of 34% to income before income taxes:

	Years ended December 31,		
	2003	2002	2001
	(in thousands)		
Federal tax at the statutory rate	$4,426	$5,567	$3,154
State income taxes, net of federal tax benefit	522	646	238
Change in valuation allowance for deferred tax asset	—	(677)	(300)
Research and development tax credit	(146)	(330)	(338)
Other	81	(272)	156
	$4,883	$4,934	$2,910

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

Deferred income tax assets and liabilities are as follows:

	December 31,	
	2003	2002
	(in thousands)	
Deferred tax assets:		
Compensation and benefit accruals	$ 747	$ 1,190
Inventory valuation	1,201	1,042
State net operating loss carryforwards	560	689
Contract provisions	—	572
Accounts receivable allowance	226	199
Interest rate swap agreements	—	210
Other	—	103
	2,734	4,005
Deferred tax liabilities:		
Depreciation	(8,652)	(4,115)
Contract provisions	(240)	—
Defined benefit pension plan	(231)	(258)
Other	(200)	—
	(9,323)	(4,373)
Net deferred tax liability	$(6,589)	$ (368)

The valuation allowance for deferred tax assets decreased by $677,000 and $300,000 in 2002 and 2001, respectively. Management believes it is more likely than not that the Company's future earnings will be sufficient to ensure the realization of deferred tax assets for federal and state purposes.

(14) Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated by using the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options.

The following table presents information necessary to calculate earnings per common share:

	Years ended December 31,		
	2003	2002	2001
	(in thousands, except for per share data)		
Shares outstanding:			
Weighted average shares outstanding	14,237	13,117	9,828
Effect of dilutive employee stock options	416	547	200
Adjusted weighted average shares outstanding and assumed conversions	14,653	13,664	10,028
Net income applicable to common stock	$ 8,135	$ 11,439	$ 6,367
Earnings per common share:			
Basic	$ 0.57	$ 0.87	$ 0.65
Diluted	$ 0.56	$ 0.84	$ 0.63

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

(15) Segment Information

The Company's operations are conducted in two reportable business segments: the Electronics Group and the Industrial 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 Electronics Group provides a wide range of manufacturing and technical services for a diversified customer base as an outsourced service provider. The Electronics Group also manufactures complex data storage systems, magnetic instruments, current sensors, and other electronic products. 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. Revenue derived from outsourced services for the Electronics Group accounted for 52%, 55% and 67% of total net revenue in 2003, 2002 and 2001, respectively. Revenue derived from outsourced services for the Industrial Group accounted for 31%, 29% and 15% of total net revenue in 2003, 2002 and 2001, respectively. There was no intersegment net revenue recognized for all years presented. The following table presents financial information for the reportable segments of the Company:

	Years ended December 31,		
	2003	2002	2001
	(in thousands)		
Net revenue from unaffiliated customers:			
Electronics Group	$180,733	$186,562	$207,282
Industrial Group	95,872	86,915	47,358
	$276,605	$273,477	$254,640
Gross profit:			
Electronics Group	$ 36,266	$ 37,796	$ 37,385
Industrial Group	9,746	11,725	6,162
	$ 46,012	$ 49,521	$ 43,547
Operating income:			
Electronics Group	$ 12,062	$ 14,447	$ 12,903
Industrial Group	6,895	8,210	3,563
General, corporate and other	(4,016)	(3,701)	(3,436)
	$ 14,941	$ 18,956	$ 13,030
Total assets:			
Electronics Group	$121,560	$114,305	$121,228
Industrial Group	121,429	90,781	73,820
General, corporate and other	20,506	18,519	16,396
	$263,495	$223,605	$211,444
Depreciation and amortization:			
Electronics Group	$ 7,134	$ 6,885	$ 7,951
Industrial Group	5,425	4,224	1,694
General, corporate and other	272	277	211
	$ 12,831	$ 11,386	$ 9,856
Capital expenditures:			
Electronics Group	$ 10,621	$ 7,518	$ 7,917
Industrial Group	11,790	12,009	19,547
General, corporate and other	110	220	159
	$ 22,521	$ 19,747	$ 27,623

The Company's export sales from the U.S. totaled $22,250,000, $25,437,000 and $23,890,000 in 2003, 2002 and 2001, respectively.

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

(16) Quarterly Financial Information (Unaudited)

The following is an analysis of certain items in the consolidated income statements by quarter for the years ended December 31, 2003 and 2002:

	2003				2002			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(in thousands, except for per share data)							
Net revenue	$58,915	$70,621	$68,898	$78,171	$62,533	$73,509	$70,757	$66,678
Gross profit	9,951	13,041	9,569	13,451	11,129	12,882	13,974	11,536
Operating income	2,759	4,918	1,547	5,717	3,733	4,759	5,658	4,806
Net income	1,379	2,679	686	3,391	1,825	2,805	3,534	3,275
Earnings per common share:								
Basic	$ 0.10	$ 0.19	$ 0.05	$ 0.24	$ 0.18	$ 0.20	$ 0.25	$ 0.23
Diluted	$ 0.10	$ 0.19	$ 0.05	$ 0.23	$ 0.17	$ 0.19	$ 0.24	$ 0.23
Cash dividends declared per common share	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ —	$ —	$ 0.03	$ 0.03

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

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this annual report, 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. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2003, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

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 – Audit and Finance Committee," "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 Business 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 Business Conduct 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 "Governance of the Company – Compensation of Directors," "Governance of the Company – Compensation Committee Interlocks and Insider Participation," "Governance of the Company – Certain Relationships and Related Transactions," "Summary Compensation Table," "Option Grants in Last Fiscal Year," "Aggregated Option Exercises in Last Fiscal Year and Option Values on December 31, 2003," and "Employment Agreements" 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 sections of the Company's Proxy Statement titled "Stock Ownership of Certain Beneficial Owners" and "Equity Compensation Plan Information" 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 13. Certain Relationships and Related Transactions

The information required herein is incorporated by reference from the sections of the Company's Proxy Statement titled "Governance of the Company – Certain Relationships and Related Transactions," 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 Accountant 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, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this Report:

1. Financial Statements

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

2. Financial Statement Schedules

   Schedule II - Valuation and Qualifying Accounts

All other consolidated financial statement schedules have been omitted because the required information is shown in the consolidated financial statements or notes thereto or they are not applicable.

3. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed May 9, 2002 (No. 333-87880)).
3.2	Bylaws of the Company (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed May 9, 2002 (No. 333-87880)).
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).
4.2	Rights Agreement dated as of October 23, 2001 between the Company and LaSalle Bank National Association, as Rights Agent, including as Exhibit A the Form of Certificate of Designation and as Exhibit B the Form of Right Certificate (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on October 23, 2001 (Commission File No. 000-24020)).
10.1	Purchase and Sale Agreement among Honeywell Inc., Defense Communications Products Corporation (prior name of Group Technologies Corporation) and Group Financial Partners, Inc. dated May 21, 1989 (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.2	Purchase and Sale Agreement among Alliant Techsystems Inc., MAC Acquisition I, Inc. and Group Technologies Corporation dated December 31, 1992 (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326)).
10.3	Purchase and Sale Agreement among Philips Electronic North America Corporation and Group Technologies Corporation dated June 25, 1993 (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1 filed May 18, 1994 (Registration No. 33-76326).
10.4	Stock and Asset Purchase and Sale Agreement among Group Technologies Corporation, Group Technologies Mexican Holding Company, SCI Systems, Inc., SCI Systems de Mexico S.A. de C.V. and SCI Holdings, Inc. dated June 30, 1997 (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on July 15, 1997 (Commission File No. 000-24020)).

Exhibit Number	Description
10.5	Asset Purchase Agreement among Datatape Incorporated, Delta Tango, Inc., Metrum-D, Inc., Impactdata, Inc. and M. Stuart Millar dated November 12, 1997 (incorporated by reference to Exhibit 2.11 to the Company's Form 10-Q for the quarterly period ended June 28, 1998 filed on August 4, 1998 (Commission File No. 000-24020)).
10.6	Asset Purchase Agreement dated April 6, 2001 by and between Tube Turns Technologies, Inc. and Dana Corporation as amended by a First Amendment dated May 4, 2001 and as amended by a Second Amendment on May 15, 2001 (incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2001 filed on July 30, 2001 (Commission File No. 000-24020)).
10.7	Asset Purchase Agreement between Sypris Technologies, Inc. and Dana Corporation dated December 8, 2003.
10.8	1999 Amended and Restated Loan Agreement between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated October 27, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-K for the fiscal year ended December 31, 1999 filed on February 25, 2000 (Commission File No. 000-24020)).
10.8.1	2000A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated November 9, 2000 (incorporated by reference to Exhibit 10.6.1 to the Company's Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.8.2	2001A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Bell Technologies, Inc., Tube Turns Technologies, Inc., Group Technologies Corporation and Metrum-Datatape, Inc. dated February 15, 2001 (incorporated by reference to Exhibit 10.6.2 to the Company's Form 10-Q for the quarterly period ended April 1, 2001 filed on April 30, 2001 (Commission File No. 000-24020)).
10.8.3	2002A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated December 21, 2001 (incorporated by reference to Exhibit 10.6.3 to the Company's Form 10-K for the fiscal year ended December 31, 2001 filed on January 31, 2002 (Commission File No. 000-24020)).
10.8.4	2002B Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated July 3, 2002 (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q for the quarterly period ended June 30, 2002 filed on July 29, 2002 (Commission File No. 000-24020)).
10.8.5	2003A Amendment to Loan Documents between Bank One, Kentucky, NA, Sypris Solutions, Inc., Sypris Test & Measurement, Inc., Sypris Technologies, Inc., Sypris Electronics, LLC, Sypris Data Systems, Inc. and Sypris Technologies Marion, LLC dated October 16, 2003 (incorporated by reference to Exhibit 99.1 to the Company's Form 10-Q for the quarterly period ended September 28, 2003 filed on October 29, 2003 (Commission File No. 000-24040)).

Exhibit Number	Description
10.9	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)).
10.9.1	Agreement related to Fourth Renewal of Lease between Sweetwell Industries Associates, L.P. and Group Technologies Corporation dated November 1, 2000, regarding Tampa industrial park property (incorporated by reference to Exhibit 10.8.1 to the Company's Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.10	Lease between Metrum-Datatape, Inc. (assignee of Metrum, Inc.) and Alliant Techsystems, Inc. dated March 29, 1993 and amended July 29, 1993, May 2, 1994, November 14, 1995, December 4, 1996 and February 12, 1998 regarding 4800 East Dry Creek Road Property (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q for the quarterly period ended June 28, 1998 filed on August 4, 1998 (Commission File No. 000-24020)).
10.11	Lease between Sypris Data Systems, Inc. and Via Verde Venture, LLC. dated September 24, 2003 regarding 160 East Via Verde, San Dimas, California.
10.12*	Sypris Solutions, Inc. Stock Option Plan, Restated effective December 17, 1996, dated January 22, 1990 (incorporated by reference to Exhibit 10.22.2 to the Company's Form 10-K for the fiscal year ended December 31, 1996 filed on March 31, 1997 (Commission File No. 000-24020)).
10.13*	Sypris Solutions, Inc. 1994 Stock Option Plan for Key Employees 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. 333-87880)).
10.14*	Sypris Solutions, Inc. Share Performance Program For Stock Option Grants dated July 1, 1998 (incorporated by reference to Exhibit 10.28 to the Company's Form 10-Q for the quarterly period ended June 28, 1998 filed on August 4, 1998 (Commission File No. 000-24020)).
10.15*	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)).
10.16*	Sypris Solutions, Inc. Directors Compensation Program As Amended and Restated Effective February 25, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended March 30, 2003 filed on April 30, 2003 (Commission File No. 000-24020)).
10.17*	Sypris Solutions, Inc. Executive Bonus Plan, effective as of January 2, 2002, executed on or after April 1, 2002 (incorporated by reference to Exhibit 10.21 to the Company's Form 10-Q for the quarterly period ended March 31, 2002 filed on April 29, 2002 (Commission File No. 000-24020)).
10.18*	Sypris Solutions, Inc. Executive Bonus Plan, effective as of January 1, 2003 (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended March 30, 2003 filed on April 30, 2003 (Commission File No. 000-24020)).
10.19*	Employment Agreement by and between Metrum-Datatape, Inc. and G. Darrell Robertson dated February 28, 2000 (incorporated by reference to Exhibit 10.20 to the Company's Form 10-K for the fiscal year ended December 31, 2000 filed on March 2, 2001 (Commission File No. 000-24020)).
10.20	Underwriting Agreement dated March 20, 2002 among Sypris Solutions, Inc., Needham & Company, Inc. and A.G. Edwards & Sons, Inc. (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q for the quarterly period ended March 31, 2002 filed on April 29, 2002 (Commission File No. 000-24020)).

Exhibit Number	Description
21	Subsidiaries of the Company
23	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.

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K filed or furnished with the Securities and Exchange Commission:

On September 29, 2003, we furnished a Current Report on Form 8-K, attaching a press release dated September 29, 2003, reporting lower earnings forecast for 2003 and providing an initial outlook for 2004.

On October 22, 2003, we furnished a Current Report on Form 8-K, attaching a press release dated October 29, 2003, reporting our third quarter 2003 results of operations and financial condition.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 12, 2004.

SYPRIS SOLUTIONS, INC.
(Registrant)

/s/ Jeffrey T. Gill

(Jeffrey T. Gill)
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 12, 2004:

/s/ Robert E. Gill	Chairman of the Board
(Robert E. Gill)	
/s/ Jeffrey T. Gill	President, Chief Executive Officer and Director
(Jeffrey T. Gill)	
/s/ David D. Johnson	Vice President and Chief Financial Officer (Principal Financial Officer)
(David D. Johnson)	
/s/ Anthony C. Allen	Vice President of Finance and Information Systems (Principal Accounting Officer)
(Anthony C. Allen)	
/s/ Henry F. Frigon	Director
(Henry F. Frigon)	
/s/ R. Scott Gill	Director
(R. Scott Gill)	
/s/ William L. Healey	Director
(William L. Healey)	
/s/ Roger W. Johnson	Director
(Roger W. Johnson)	
/s/ Sidney R. Petersen	Director
(Sidney R. Petersen)	
/s/ Robert Sroka	Director
(Robert Sroka)	

SCHEDULE II

SYPRIS SOLUTIONS, INC.
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in thousands)		
Allowance for doubtful accounts:					
Year ended December 31, 2003	$ 523	$ 191	$ —	$ (120)[1]	$ 594
Year ended December 31, 2002	$ 775	$ 231	$ —	$ (483)[1]	$ 523
Year ended December 31, 2001	$ 679	$ 122	$ —	$ (26)[1]	$ 775
Reserve for inactive, obsolete and unsalable inventory:					
Year ended December 31, 2003	$ 4,441	$ 832	$ 328	$ (455)[2]	$ 5,146
Year ended December 31, 2002	$ 3,921	$ 727	$ —	$ (207)[2]	$ 4,441
Year ended December 31, 2001	$ 3,004	$ 432	$ 500[3]	$ (15)[2]	$ 3,921

(1) Uncollectible accounts written off.

(2) Inactive, obsolete and unsalable inventory written off.

(3) Excess and obsolete reserve assumed in acquisition.

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement is entered into as of December 8, 2003, by and between Sypris Technologies, Inc., a Delaware corporation ("Buyer"), and Dana Corporation, a Virginia corporation ("Dana").

This Agreement contemplates a transaction in which Buyer will purchase certain of the assets (and assume certain of the liabilities) of the Morganton Plant (the "Business") of Dana in return for cash. In return for this cash consideration and the assumption of certain liabilities, Dana has agreed to enter into an eight-year Supply Agreement to (i) preserve the existing business of the Business, (ii) transfer additional business to Buyer and its affiliates, and (iii) provide opportunities for Buyer and its affiliates to generate additional business with Dana.

This Agreement and the Supply Agreement are integral parts of the same transaction. Each is, in part, consideration for the other. It is Dana's intention to deliver, subject to market conditions, the estimated annual production volumes contemplated by Exhibit 1 and Exhibit 2 of the Supply Agreement to Buyer over the term of the Supply Agreement.

The Supply Agreement provides for Buyer to serve as the sole-source for the part numbers (and their replacements and/or substitutions, if any) listed on Exhibits 1 and 2, but Dana in no way guarantees that the actual production volumes to be received by Buyer will be equal to the estimated annual production volumes listed on Exhibits 1 and 2 of the Supply Agreement.

Under this Agreement, as provided more specifically herein, Dana will retain responsibility for all liabilities and obligations arising out of or related to the ownership or operation of the Acquired Assets or the business of the Business prior to Closing, including events related thereto which occur prior to Closing.

The Parties agree as follows:

1. Definitions.

1.1. *"Actual Cash Purchase Price"* is defined in §2.7 below.

1.2. *"Acquired Assets"* means all right, title, and interest in and to the following assets of Dana, other than the Excluded Assets, constituting and relating primarily to the Business:

(a) personal property leases listed in Part 1.2(a) of the Disclosure Letter (the "Personal Property Leases");

(b) those contracts including, without limitation, customer contracts, distributor agreements, agency agreements, royalty and license agreements and rights, purchase agreements, rights to use technology owned by others and all other agreements of whatever nature used by or affecting the Business, which are listed in Part 1.2 (b) of the Disclosure Letter (the "Purchased Contracts");

(c) inventory including, but not limited to, supplies, raw materials, component parts, work-in-progress and finished goods on hand, the most recently available list of which is listed in Part 1.2(c) of the Disclosure Letter (the "Inventory"), except for those raw materials or components, if any, which have been consigned to the Business by its customers under the consignment arrangements identified and described in Part 1.2(c) of the Disclosure Letter and transferred subject thereto and except for the inventory specifically associated with the Retained Products;

(d) equipment, dies, tooling, tooling fixtures, racks, spare parts, fittings, vans, trucks, trailers, office furniture, fixtures, supplies, process, maintenance and equipment drawings and other tangible personal property, including, without limitation, the personal property listed in Part 1.2(d) of the Disclosure Letter (the "Fixed Assets"), except for customer tooling which has been consigned to the Business by its customers (both unrelated customers and other facilities of Dana), the possession of which shall be transferred to Buyer subject to the terms of the consignment arrangements, if any, identified and described in Part 1.2(d) of the Disclosure Letter (and transferred subject thereto) and the terms and conditions of the Supply Agreement;

(e) on-site computer and telecommunications hardware and software owned and used primarily by Dana, which hardware is listed in Part 1.2(d) of the Disclosure Letter as Fixed Assets and which software is listed in Part 1.2(e) of the Disclosure Letter (the "Software"), but excluding software licensed on a Dana-wide basis, designated in Part 1.2(e) of the Disclosure Letter (the "Excluded Software");

(f) real property and improvements located thereon listed in Part 1.2(f) of the Disclosure Letter (the "Real Property");

(g) Trademarks and Trade Secrets, goodwill associated therewith, licenses and sublicenses granted and obtained with respect thereto, and rights thereunder, remedies against infringements thereof, and rights to protection of interests therein under the laws of all jurisdictions, including, without limitation, the intangible assets set forth in Part 1.2(g) of the Disclosure Letter;

(h) all operating data, books and records of Dana relating to the Business, including customer lists and information relating to customers and suppliers of the Business;

(i) to the extent permitted by law, all licenses, certificates, permits and other governmental authorizations relating to the Business, including, without limitation, those set forth in Part 1.2(i) of the Disclosure Letter (the "Licenses and Permits");

(j) all prepaid expenses to the extent that Buyer derives a benefit after Closing, as set forth on Part 1.2(j) of the Disclosure Letter;

(k) the Know-How and all other assets, whether tangible or intangible, which are used in, held by, or useful to the Business except for any Excluded Assets and except for any leases or contracts not included within the Personal Property Leases and the Purchased Contracts;

(l) a nonexclusive, worldwide, perpetual, fully-paid license to use the Process Patents; and

(m) a quantity of unused spare parts (that have been fully expensed and therefore has zero book value on the Estimated and Closing Balance Sheets) that is equal to the average of two month's usage, or roughly $130,000 of original cost, and a quantity of unused perishable tooling (that has been fully expensed and therefore has zero book value on the Estimated and Closing Balance Sheets) that is equal to the average of one month's usage, or roughly $160,000 of original cost and the balance of which is carried by vendors to Dana).

1.3. *"Adverse Consequences"* means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, liabilities, obligations, taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses.

1.4. *"Affiliate"* is defined in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended.

1.5. *"Assumed Liabilities"* means the following liabilities and obligations directly related to the ownership of the Acquired Assets or the operation of the business of the Business, but excluding any Excluded Liabilities, and no others:

(a) all liabilities and obligations of Dana which arise or (to the extent reflected on the Closing Balance Sheet) are to be performed after the Closing Date (except for those relating to pre-Closing defaults (including actions, events or practices which may be the basis for a claim of such a pre-Closing default)) under any Purchased Contract or Personal Property Lease;

(b) any operating liabilities (if required by GAAP to be reflected on the Closing Balance Sheet, then to the extent reflected on the Closing Balance Sheet) that have been specifically agreed to by the parties in order to facilitate the smooth transfer of the manufacturing operation of the Business and which are listed in Part 1.5(b) of the Disclosure Letter;

(c) all warranty liability arising from services performed by Buyer or the Business with respect to products marked with a code or other device indicating manufacture after the Closing Date;

(d) any liability or obligation resulting from workers' compensation claims having a date of injury (or, in the case of a claim relating to illness or occupational disease, the last significant exposure, except to the extent the illness or occupational disease was caused by a breach of representation under this Agreement and Buyer makes a claim for indemnification under the applicable survival period) after the Closing Date and any liabilities resulting from any such claims to the extent arising out of any violation of environmental laws occurring after the Closing; and

(e) all liabilities and obligations of or related to the Acquired Assets arising after the Closing Date to the extent such liabilities and obligations resulted from circumstances and/or events occurring after the Closing Date.

1.6. *"Business"* is defined in the preface above.

1.7. *"Buyer"* is defined in the preface above.

1.8. *"Closing"* is defined in §2.5 below.

1.9. *"Closing Balance Sheet"* means a statement prepared in accordance with Section 2.7 on a consistent basis with the Estimated Closing Balance Sheet, in accordance with GAAP, that reflects as of the Closing Date the sum of (a) the actual book value of the inventory (before reserves), (b) the actual net book value of the PP&E (net of accumulated depreciation), and (c) the actual book value of the prepaid expenses listed on Part 1.2(j) of the Disclosure Letter; less the actual book value of the Assumed Liabilities listed on Part 1.5(b) of the Disclosure Letter (the "Actual Cash Purchase Price").

1.10. *"Closing Date"* is defined in §2.5 below.

1.11. *"Code"* means the Internal Revenue Code of 1986, as amended.

1.12. *"Confidential Information"* means any information concerning the businesses and affairs of Dana or of the Business that is not already generally available to the public.

1.13. *"Dana"* is defined in the preface above.

1.14. *"Disclosure Letter"* is defined in §3 below.

1.15. *"Employee Benefit Plan"* means each bonus, pension (as defined in ERISA §3(2)), profit sharing, deferred compensation arrangement, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization,

medical, employment, consulting, termination or indemnification agreement, welfare or other plan, arrangement or understanding (whether or not legally binding), including multi-employer plans as defined in ERISA §3(37), providing compensation or benefits to any current or former employee, officer or director of Dana maintained, or contributed to, by Dana.

1.16. *"Encumbrance"* means any charge, claim, community property interest, equitable interest, lien, option, pledge, security interest, right of first refusal or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

1.17. *"Environment"* means soil, land surface or subsurface strata, surface waters (including navigable waters, streams, ponds, drainage basins and wet lands), ground waters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

1.18. *"Environmental, Health and Safety Requirements"* means all federal, state, local and foreign statutes, regulations, ordinances and similar provisions having the force or effect of law, all judicial and administrative orders and determinations, and all common law concerning public health and safety, worker health and safety, and pollution or protection of the Environment, including, without limitation, all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise or radiation.

1.19. *"Environmental, Health and Safety Liabilities"* means any cost, damage, expense, liability, obligation or other responsibility arising pursuant to Environmental, Health and Safety Requirements and consisting of or relating to:

(a) any environmental, health or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products);

(b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial, or inspection costs and expenses arising under Environmental, Health and Safety Requirements;

(c) financial responsibility under Environmental, Health and Safety Requirements for cleanup costs or corrective action, including any investigation, cleanup, removal, containment, or other remediation or response actions ("Cleanup") required by applicable Environmental, Heath and Safety Requirements (whether or not such Cleanup has been required or requested by any governmental body or any other Person) and for any natural resource damages; or

(d) any other compliance, corrective, investigative or remedial measures required under Environmental, Health and Safety Requirements.

The terms "removal," "remedial," and "response action," include the types of activities covered by the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §9601 et seq., as amended ("CERCLA").

1.20. *"Environmental Law"* means any applicable federal, state, local or foreign law (including common law), judicial decision, permit, statute, ordinance, rule, regulation, code, order, judgment, decree or injunction relating to (a) the protection of the Environment (including, without limitation, air, water, vapor, surface water, groundwater, drinking water and surface water and surface or subsurface land), (b) the exposure to, or the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, protection, release or disposal of, pollutants, contaminants, wastes or chemicals or any

toxic, radioactive, ignitable, corrosive, reactive or otherwise Hazardous Substance, waste or Material or (c) the effect of the environment on human health or safety.

1.21. *"Estimated Cash Purchase Price"* is defined in §2.3 below.

1.22. *"Estimated Closing Balance Sheet"* means an estimated balance sheet of the Business prepared by Dana and accepted by Buyer in accordance with GAAP reflecting the estimated net book value of the sum of: (a) the inventory (before reserves), (b) the PP&E (net of accumulated depreciation), and (c) the prepaid expenses listed on Part 1.2(j) of the Disclosure Letter; less the estimated book value of the Assumed Liabilities listed on Part 1.5(b) of the Disclosure Letter as of the Closing Date.

1.23. *"ERISA"* means the Employee Retirement Income Security Act of 1974, as amended.

1.24. *"Excluded Assets"* means:

(a) any cash and cash equivalents presented on a basis consistent with the Financial Statements, whether on deposit or in lock boxes or otherwise;

(b) any accounts receivable and intercompany accounts;

(c) the Excluded Software;

(d) customer-owned and supplier-owned equipment and tooling, including those items listed on Part 1.24(d) of the Disclosure Letter;

(e) all returnable containers;

(f) all unused perishable tooling and all unused spare parts in excess of the amounts referred to in Section 1.2(m);

(g) all prepaid expenses listed on Part 1.2(j) of the Disclosure Letter;

(h) all tax refund claims, to the extent relating to periods prior to the Closing Date;

(i) any rights of Dana in and with respect to the assets associated with its Employee Benefit Plans;

(j) any of the rights of Dana under this Agreement (or under any side agreement between Dana on the one hand and Buyer on the other hand entered into on or after the date of this Agreement);

(k) any capitalized Oracle costs, non-deployed assets (including those stored in the "Butler Shed"), and all equipment used exclusively for the production of those Retained Products other than Mack, including those items listed on Part 1.24(k) of the Disclosure Letter; and

(l) all inventory, tooling (perishable or durable) and spare parts used exclusively for the production of Parts for the Retained Products.

1.25. *"Excluded Liabilities"* means:

(a) any intra-company obligation between the Business, Dana and any other Affiliate of Dana;

(b) any accounts payable or accrued liabilities existing on the Closing Date (including work completed, but not yet invoiced) (other than those liabilities specifically assumed under §1.5(a) or (b);

(c) any liability or obligation of Dana for any local, state or federal income, personal property, real property or other tax, assessment or levy of any kind;

(d) any current or long-term liability or obligation of Dana with respect to indebtedness for borrowed money;

(e) any liability or obligation of Dana with respect to occurrences prior to the Closing Date;

(f) any liability or obligation of Dana for any injury to or death of any person or damage to or destruction of any property, whether based on negligence, strict liability, enterprise liability, products liability or any other legal or equitable theory (including consequential damages) arising from products manufactured or sold or services rendered by Dana on or prior to the Closing Date, in all cases;

(g) any liability of Dana for (i) occurrences prior to the Closing Date with respect to any past or present employee which could give such employee a cause of action against Dana, including, but not limited to, any employment discrimination claims, (ii) any claims, damages, liability or other amounts with respect to Employee Benefit Plans, arising at any time, and (iii) expenses paid or payable to former employees whose employment has been terminated by Dana prior to the Closing Date;

(h) any action, suit, claim or proceeding against Dana based on facts or circumstances occurring prior to the Closing Date;

(i) any liability or obligation of Dana arising prior to the Closing Date with respect to the Personal Property Leases and the Purchased Contracts, whenever asserted, that arises as a result of a breach or violation thereof occurring prior to the Closing Date;

(j) any liabilities resulting from medical coverage, dental coverage and/or disability coverage of Dana's employees and former employees with respect to claims at any time for any former employee who is retired as of the Closing, and with respect to claims for any employee who is on a personal medical leave or long term disability leave as of the Closing, for all claims incurred during such leave both before and after the Closing (with respect to the foregoing, Dana shall bear these liabilities as set forth in Section 6.14), and with respect to any claims incurred prior to the Closing Date, whether or not reported as of the Closing Date. A claim shall be deemed to have been incurred when the service is provided; provided, however, a claim for a hospitalization stay (and medical treatment during such stay) which begins prior to the Closing Date and which ends after the Closing Date shall be deemed to have been incurred prior to the Closing Date;

(k) any liability or obligation of Dana resulting from workers' compensation claims having a date of injury (or, in the case of a claim relating to illness or occupational disease, the last significant exposure) prior to the Closing Date and any liabilities resulting from any such claims arising out of any violation of environmental laws occurring prior to the Closing;

(l) any liability or obligation of Dana arising from events occurring prior to the Closing Date with respect to the property or assets of third parties which may be in its possession or control;

(m) any liability or obligation of Dana arising out of any violation by Dana of Environmental, Health and Safety Requirements or relating to Hazardous Activity, Hazardous Materials or environmental matters;

(n) any action, suit, claim or proceeding against Dana for infringement of a third party's intellectual property rights based upon facts or circumstances occurring prior to the Closing Date;

(o) any liabilities resulting from agreements made between Dana and its employees for purposes of assisting Dana with the divestiture of the Business, including, without limitation, pay-to-stay contracts, contracts which pay a commission based upon the completion of the

divestiture by Dana and agreements to pay a bonus based upon the completion of a sale of the Business;

(p) any liability resulting from any lease for real property;

(q) any liability or obligation of Dana accruing on or before the Closing Date relating to unpaid wages, salaries, service bonuses, incentive bonuses, "personal excuse day" benefits or other benefits (including taxes and allowances, if any) or any other employee cost whatsoever for any and all individuals and any liability or obligation under the Employee Benefit Plans (other than those specific liabilities or obligations assumed under §1.5(b)).

(r) any liability, obligation or costs related to the reduction or termination of the production of Retained Products, including without limitation, fifty percent of the costs associated with reductions in the employee force pursuant to Section 6.19, all of the costs of removal of the equipment pursuant to Section 6.14, and similar costs or expenses related to such operations;

(s) all warranty liability arising from any product marked with a code or other device indicating manufacture prior to the Closing Date; and

(t) any other liability of Dana not reflected on the Closing Balance Sheet, other than those liabilities specifically assumed under §1.5.

1.26. *"Financial Statements"* is defined in §3.6 below.

1.27. *"GAAP"* means United States generally accepted accounting principles, consistently applied, as in effect from time to time; provided, however, that for purposes of the Closing Balance Sheet, no assets will be considered "impaired" that were not so considered on the Estimated Closing Balance Sheet.

1.28. *"Governmental Entity"* means any government or any court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or agency, whether Federal, state, local or foreign.

1.29. *"Hazardous Activity"* means the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use (including any withdrawal or other use of groundwater) of Hazardous Materials in, on, under, about or from the facilities of the Business or any part thereof into the Environment, and any other act, business, operation or thing that is regulated by any Environmental, Health and Safety Requirements or Environmental Law.

1.30. *"Hazardous Materials"* means any waste or other substance that is listed, defined, designated, or classified as or otherwise determined to be hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental, Health and Safety Requirements, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

1.31. *"Hazardous Substances"* means any hazardous substances within the meaning of 101(14) of CERCLA, 42 U.S.C. §9601(14), or any pollutant, contaminant, waste chemical or other toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substance, waste or material that, in each case, is regulated under any Environmental Law, including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons, asbestos-containing materials, polychlorinated biphenyls and urea formaldehyde.

1.32. *"Intellectual Property Rights"* means the Trademarks and Trade Secrets and other similar rights in technology that are owned, used or controlled by Dana and used in, held by or useful primarily to the business of the Business.

1.33. *"Key Employee"* means any of the following individuals: Brad Kendall, Scott Jackson, Paul Ingle, Todd McGee, Bob Patrick and Scott McDougal.

1.34. *"Know-How*" means all proprietary and non-proprietary know-how and information used in or useful to the business of the Business on the Closing Date including, without limitation (a) design drawings, (b) specifications and performance criteria, (c) operating instructions and maintenance manuals, (d) manufacturing and service information, including production documentation, methods, layouts and supplier and cost information, (e) copies of on-site computer software and related documentation that pertain to the operation of the business of the Business, including, without limitation, available source and object code listings, (f) prototypes, models or samples, (g) computer-aided design or computer-aided manufacturing data, (h) information related to the business of the Business communicated to Dana in meetings or conferences regarding customers and/or products, but excluding any proprietary internal correspondence, (i) files relating to applications for Intellectual Property Rights, and (j) all files relating to customers and other tangible materials that are used in or useful to the business of the Business on the Closing Date.

1.35. *"Knowledge"* means the actual knowledge, after reasonable investigation, of the Key Employees, Greg DiMarco, Trisha Schachtschneider, Bill Hennessy, Bill Gieseler, and Robert Steimle.

1.36. *"Most Recent Balance Sheet"* means the balance sheet contained within the Most Recent Financial Statements.

1.37. *"Most Recent Financial Statements"* is defined in §3.6 below.

1.38. *"Most Recent Fiscal Month End"* is defined in §3.6 below.

1.39. *"Most Recent Fiscal Year End"* is defined in §3.6 below.

1.40. *"Ordinary Course of Business"* means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

1.41. *"Parts"* is as defined in the Supply Agreement.

1.42. *"Party"* means either Buyer or Dana. "Parties" means both Buyer and Dana.

1.43. *"Permitted Encumbrances"* means Encumbrances (other than Encumbrances imposed under ERISA or any Environmental, Health and Safety Requirements) for ad valorem taxes or other similar assessments or charges of governmental bodies that are not yet due and payable.

1.44. *"Person"* means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

1.45. *"Pre-Closing Environmental Liability"* means any and all liabilities, whether accrued, contingent, absolute, determined, determinable, known, unknown or otherwise, arising under or relating to Environmental Laws or relating to Hazardous Substances and arising from events occurring or conditions existing prior to the Closing Date in connection with the Acquired Assets.

1.46. *"Process Patents"* means all patents and other intellectual property of Dana relating to manufacturing processes used in the Business, to the extent necessary to carry out the operations of the Business as conducted on the Closing Date. "Process Patents" does **not** include any patents or other intellectual property relating to the design, function, or other aspects of the Parts themselves.

1.47. *"PP&E"* means all property, plant and equipment of the Business, excluding any Excluded Assets or Excluded Liabilities.

1.48. *"Purchase Price Adjustment"* is defined in §2.7 below.

1.49. *"Release"* means any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping or other releasing into the Environment, whether intentional or unintentional.

1.50. *"Remedial Action"* means any action to investigate, evaluate, assess, test, monitor, remove, respond to, treat, abate, remedy, correct, clean-up or otherwise remediate the release or presence of any Hazardous Substance.

1.51. *"Retained Products"* means Mack, Navistar I-Beam, Trac-loc and M80 products.

1.52. *"Slow Inventory"* is defined in §6.5(a) below.

1.53. *"Subsidiary"* means any corporation with respect to which a specified Person (or a Subsidiary thereof) owns a majority of the common stock or has the power to vote or direct the voting of sufficient securities to elect a majority of the directors.

1.54. *"Supply Agreement"* means the Supply Agreement by and between the Parties and Torque-Traction Manufacturing Technologies, Inc., an Ohio corporation, in the form attached as Exhibit 7.1A.

1.55. *"Taxes"* means (a) any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax or governmental charge of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not, (b) any liability for the payment of any amounts of the type described in clause (a) of this §1.55 as a result of being a member of an affiliated, consolidated, combined or unitary group for any period, and (c) any liability for the payment of any amounts of the type described in clauses (a) or (b) of this §1.55 as a result of any express or implied obligation to indemnify any other person or as a result of any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for taxes of a predecessor or transferor entity.

1.56. *"Tax Return"* means any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

1.57. *"Third Party Claim"* is defined in §8.6(a) below.

1.58. *"Trademarks"* means the unregistered common law trademark "Morganton Plant" and the goodwill associated therewith, and all trade dress and product configurations that are used or intended to be used by Dana (and not by any other entity or business group within Dana) to identify the business of the Business or any part thereof.

1.59. *"Trade Secrets"* means all proprietary information used in, held by or useful to Dana for use in the business of the Business and that (a) derives independent economic value, actual or potential, from being generally known to, and not being readily ascertainable by, third parties who can obtain economic value from its disclosure or use, and (b) is the subject of efforts by Dana that were reasonable under the circumstances to maintain its secrecy, such as, without limitation, proprietary specifications, formulas, drawings, models, blue prints, software, production techniques and processes, retail and wholesale customer lists, vendor lists, compilations, merchandising information, cost and pricing information, business systems and methods and information regarding future business opportunities.

2. Basic Transaction.

2.1. *Purchase and Sale of Assets.* On and subject to the terms and conditions of this Agreement, Buyer shall purchase from Dana, and Dana shall sell, transfer, assign, convey, and deliver to Buyer, all of the Acquired Assets at the Closing for the consideration specified below in this §2.

2.2. *Assumption of Liabilities.* From and after the Closing, Buyer shall assume and become responsible for all of the Assumed Liabilities. Buyer will not assume or have any responsibility, however, with respect to any other obligation or liability of Dana not included within the definition of Assumed Liabilities.

2.3. *Estimated Cash Purchase Price.* The Estimated Cash Purchase Price for the sale and transfer of the Acquired Assets will be equal to the net book value result reflected on the Estimated Closing Balance Sheet, plus $3,000,000 (the "Estimated Cash Purchase Price").

2.4. *Manner of Payment.* Buyer shall pay the Estimated Cash Purchase Price by wire transfer in immediately available funds to an account specified by Dana on the Closing Date.

2.5. *The Closing.* The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Dana in Toledo, Ohio, effective as of 11:59 p.m. on December 31, 2003, subject to the satisfaction or waiver of all conditions set forth in Section 7, or such other date as the Parties may mutually determine (the "Closing Date").

2.6. *Deliveries at the Closing.* At the Closing, (a) Dana will deliver to Buyer the various certificates, instruments, and documents referred to in §7.1 below; (b) Buyer will deliver to Dana the various certificates, instruments, and documents referred to in §7.2 below; (c) Dana will execute, acknowledge (if appropriate), and deliver to Buyer (i) a general warranty deed for the Real Property in substantially the form of Exhibit 2.6A; (ii) an assignment and assumption agreement in substantially the form attached hereto as Exhibit 2.6B (the "Assignment and Assumption Agreement"); and (iii) such other instruments of sale, transfer, conveyance, and assignment as Buyer and its counsel reasonably may request; (d) Buyer will execute, acknowledge (if appropriate), and deliver to Dana (i) the Assignment and Assumption Agreement; and (ii) such other instruments of assumption as Dana and its counsel reasonably may request; and (e) Buyer will deliver to Dana the Estimated Cash Purchase Price.

2.7. *Purchase Price Adjustment.* Within ten (10) business days after the Closing Date, Buyer shall deliver to Dana a report showing the Closing Balance Sheet and the calculation of the Actual Cash Purchase Price. After receipt of such report and for a period of up to ten (10) business days thereafter, Dana and/or Dana's accountants shall be afforded the opportunity to review Buyer's report, and Buyer shall make available to Dana and Dana's accountants all working papers, data, and other related information requested by Dana and Dana's accountants. If, within ten (10) business days after such review, Buyer and Dana cannot agree on the report, then unless otherwise agreed, the Parties shall submit the dispute for resolution as provided below. If (a) the Estimated Cash Purchase Price is greater than (b) the Actual Cash Purchase Price, then Dana shall pay the difference of (a) minus (b) to the Buyer; however, if (a) the Estimated Cash Purchase Price is less than (b) the Actual Cash Purchase Price, then the Buyer shall pay the difference of (b) minus (a) to Dana (the amount of such difference in either case shall be referred to as the "Purchase Price Adjustment") within ten (10) business days after delivery of such Closing Balance Sheet. The Purchase Price Adjustment will be conclusive and binding on the Parties unless Dana notifies Buyer in writing that Dana objects to the Closing Balance Sheet and the basis of such objection within ten (10) business days after (x) the delivery of such Closing Balance Sheet, or (y) the resolution of the dispute, if any, whichever is later. (The "Actual Cash Purchase Price" will be calculated in the same manner as the Estimated Cash Purchase Price, except that the Closing Balance Sheet will be substituted for the Estimated Closing Balance Sheet. The Actual Cash Purchase Price, plus the book value of the Assumed Liabilities, shall be referred to herein as the "Purchase Price.") Any dispute arising under this Section shall be submitted to independent public accountants mutually

acceptable to Dana and Buyer, who shall promptly resolve the disputed matters according to the provisions of this Agreement and complete the Closing Balance Sheet. Such independent public accountants shall be furnished with the Parties' computations with respect to the matter in controversy and shall have access to all working papers, data and other information as it shall request to enable it to determine the resolution of the disputed matters in accordance herewith. The independent public accountant shall report to Dana and Buyer its determination as expeditiously as possible and in no event later than thirty (30) days after its acceptance of its duties hereunder. The determination by such independent public accountants of any such dispute of the Closing Balance Sheet and Actual Cash Purchase Price shall be final and binding on all of the Parties to this Agreement. Each of Dana and Buyer shall pay a fraction of the cost of such independent public accountants, the numerator of which is the dollar amount of the issues decided in the other Party's favor, and the denominator of which is the dollar amount of all disputed matters.

2.8. *Defined Benefit Plan Matters.* Dana shall make all reportable event filings with the Pension Benefit Guaranty Corporation which are required, if any, because of actions taken by Dana or because of events occurring before the Closing Date, in a timely manner, and shall provide a copy of all such reportable event filings to Buyer.

2.9. *Allocation.* The Parties agree to allocate the Actual Cash Purchase Price (and all other capitalizable costs) among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the allocation schedule attached hereto as Exhibit 2.9. The sale of inventory to Dana from the Buyer pursuant to §6.5 shall be treated as an adjustment to the inventory portion of the Actual Cash Purchase Price.

2.10. *Transfers of Personal Property Leases and Contracts.* To facilitate the assignment or transfer of the Personal Property Leases and Purchased Contracts, Dana shall execute such documents of assignment or transfer as may be prepared by Buyer that are necessary or appropriate for evidencing or recording the assignments or transfers to Buyer. Subject to the terms of §2.14 hereof, in the event any assignment or transfer of any Personal Property Lease or Purchased Contract cannot be obtained, Dana and Buyer shall enter into a license, sublicense, lease or independent contractor agreement, agency or other relationship with respect thereto with the intent of providing the same benefits and obligations to Buyer as if such assignment or transfer had occurred.

2.11. *Transfer of Know-How.* The communication of transferred Know-How from Dana to Buyer shall occur primarily through Buyer's acquisition of property and employment of personnel of the Business. In addition, in order to facilitate the transfer of such Know-How, Dana shall use reasonable efforts, for a period of three years from the Closing Date, to provide Buyer, upon Buyer's request, copies of any documents or other information in Dana's possession, defining or specifying the subject matter, nature and extent of the Know-How and take such other action as the parties mutually agree is reasonable and necessary or appropriate to effectuate the transfer of such Know-How.

2.12. *Assignment of Intellectual Property Rights.* On the Closing Date, Dana shall execute and deliver assignments with respect to the Intellectual Property Rights, including all goodwill associated therewith, as necessary to perfect ownership, including record ownership, in and to the Intellectual Property Rights, including all goodwill associated therewith.

2.13. *Risk of Loss.* The risk of loss and all obligations to insure the Acquired Assets shall remain with Dana until the Closing and shall be assumed by the Buyer at the time of Closing.

2.14. *Assumption of Contractual Rights and Obligations Related Thereto.* At the time of Closing, Buyer shall assume the obligations pursuant to the Personal Property Leases and the Purchased Contracts (collectively, the "Transferred Rights, Obligations and Agreements") to the extent set forth in §1.5 hereof.

2.15. *Efforts.* Buyer shall use commercially reasonable efforts (without the obligation to incur any undue expense) to assume and perform all of the obligations under the Transferred Rights, Obligations and Agreements. To the extent that the assignment or novation of any of the Transferred Rights, Obligations and Agreements, or the assignment under §2.1 above, shall require the consent of any other party (or in the event that any of the same shall be non-assignable), neither the agreements contemplated by this Agreement nor any actions taken hereunder pursuant to the provisions of any such agreements shall constitute an assignment or novation or an agreement to assign or novate if such assignment or novation or attempted assignment or novation would constitute a breach thereof or result in the loss or diminution thereof; provided, however, that in each such case, Dana and Buyer shall use commercially reasonable efforts (without the obligation to incur any undue expense) to obtain the consent of such other party to an assignment or novation to Buyer. Notwithstanding the foregoing, it shall be a condition to closing that any consents required for the assignment of the Transferred Rights, Obligations and Agreements designated by Buyer shall have been obtained on terms and conditions satisfactory to Buyer, in its reasonable discretion.

If such consent is not obtained, Dana shall cooperate with Buyer in any reasonable arrangement designed to provide Buyer with the benefits under any such Transferred Rights, Obligations and Agreements, including appointing Buyer to act as its agent to perform all of Dana's obligations under such Transferred Rights, Obligations and Agreements and to collect and promptly remit to Buyer all compensation payable pursuant to those Transferred Rights, Obligations and Agreements and to enforce, for the account and benefit of Buyer, any and all rights of Dana against any other person arising out of the breach or cancellation of such Transferred Rights, Obligations and Agreements by such other person or otherwise (any and all of which arrangements shall constitute, as between the parties hereto, a deemed assignment or transfer); provided that, to the extent that Buyer requires Dana to undertake any services or take any actions in furtherance of the performance of such Transferred Rights, Obligations and Agreements, any such services or actions shall be the subject of a separate agreement that the parties shall, in good faith, negotiate as promptly as possible and which shall be mutually acceptable to the parties. Each party shall be responsible for all of its costs and expenses incurred by it in connection with the actions required of it under this §2.15.

3. Representations and Warranties of Dana.

Dana represents and warrants to Buyer that the statements contained in this §3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this §3), except as set forth in the letter delivered by Dana to Buyer (the "Disclosure Letter"). The Disclosure Letter will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this §3.

3.1. *Organization of Dana.* Dana is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Virginia with full power and authority to conduct the business of the Business as it is now being conducted, to own or use the properties and assets of the Business that it purports to own or use, and to perform all of its obligations under the contracts related to the Business. Dana is duly qualified to transact business and is in good standing in each jurisdiction in which the ownership or leasing of the properties of the Business or the conduct of the business of the Business makes such qualification necessary.

3.2. *Authorization of Transaction.* Dana has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of Dana. This Agreement constitutes the valid and legally binding obligation of Dana, enforceable in accordance with its terms and conditions.

3.3. *Noncontravention.* Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in §2.2 above), will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Dana is subject or any provision of the charter or bylaws of Dana or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Dana is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Encumbrance upon any of its assets). Except as set forth in Part 3.3 of the Disclosure Letter, Dana is not required to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Person, including any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in §2.2 above).

3.4. *Brokers' Fees.* Dana has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

3.5. *Title to Assets.* Dana has good and marketable title to, or a valid leasehold interest in, the properties and assets primarily used by or related to the Business, or reflected as owned or leased and used by the Business in the books and records of Dana, or shown on the Most Recent Balance Sheet, and all properties and assets acquired after the date thereof, free and clear of all Encumbrances (except Permitted Encumbrances), except for properties and assets disposed of in the Ordinary Course of Business since the date of the Most Recent Balance Sheet. Without limiting the generality of the foregoing, the Business has good and marketable title to all of the Acquired Assets, free and clear of any Encumbrances (except Permitted Encumbrances) or restriction on transfer.

The Real Property is not subject to any rights of way, building use restrictions, exceptions, variances, reservations or limitations of any nature except, (i) minor imperfections of title, if any, none of which materially detracts from the value or impairs the use of the property subject thereto or impairs the operation of Dana, and (ii) zoning laws and other land use restrictions that do not impair the contemplated use of the property subject thereto. All buildings, plants and structures owned by Dana related to the Business lie wholly within the boundaries of the Real Property, have adequate access to public roads without crossing the property of a third party and do not encroach upon the property of, or otherwise conflict with the property rights of, any third Person.

3.6. *Financial Statements.* Attached hereto as Exhibit 3.6 are the following financial statements (collectively the *"Financial Statements"*): (i) balance sheets and statements of income of and for the fiscal year ended December 31, 2002 (the *"Most Recent Fiscal Year End"*), for the Business; and (ii) balance sheets and statements of income (the *"Most Recent Financial Statements"*) as of and for the eleven months ended November 30, 2003 (the *"Most Recent Fiscal Month End"*), for the Business. The Financial Statements (i) have been prepared from and are in accordance with Dana's books and records, (ii) are complete and correct and fairly and accurately present, in accordance with GAAP, consistently applied (except as otherwise noted), the financial condition of the Business as of such dates and the results of operations of the Business for such periods, and (iii) were prepared in accordance with GAAP (except as otherwise noted) and Dana's accounting practices, policies and procedures, applied on a consistent basis throughout the periods indicated.

3.7. *Events Subsequent to Most Recent Fiscal Year End.* Except as disclosed in Part 3.7 of the Disclosure Letter, since the Most Recent Fiscal Year End, there has not been any material adverse change in the business, financial condition, operations or results of operations of the Business taken as a whole. Without limiting the generality of the foregoing, since that date and as it relates to the Business:

(a) Dana has not sold, leased, transferred, or assigned any material assets, tangible or intangible, outside the Ordinary Course of Business;

(b) Dana has not entered into any material agreement, contract, lease, or license outside the Ordinary Course of Business;

(c) no party (including Dana) has accelerated, terminated, made material modifications to, or cancelled any material agreement, contract, lease, or license to which the Business is a party or by which it is bound;

(d) Dana has not made any material capital expenditures outside the Ordinary Course of Business;

(e) Dana has not made any material capital investment in, or any material loan to, any other Person outside the Ordinary Course of Business;

(f) Dana has not granted any license or sublicense of any rights under or with respect to any Intellectual Property;

(g) Dana has not experienced any material damage, destruction, or loss (whether or not covered by insurance) to its property;

(h) Dana has not made any loan to, or entered into any other transaction with, any of the employees of Dana;

(i) Dana has not entered into any employment contract or collective bargaining agreement, written or oral, or modified the terms of any existing such contract or agreement;

(j) Dana has not granted any increase in the base compensation of any of its employees outside the Ordinary Course of Business;

(k) Dana has not adopted, amended, modified, or terminated any bonus, profit-sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of the employees of Dana, or taken any such action with respect to any other Employee Benefit Plan;

(l) Dana has not made any other material change in employment terms for any of its employees;

(m) Dana has not paid any amount to any third party with respect to any liability or obligation (including any costs and expenses Dana has incurred or may incur in connection with this Agreement and the transactions contemplated hereby) which would not constitute an Assumed Liability if in existence as of the Closing; and

(n) Dana has not committed to any of the foregoing.

3.8. *Undisclosed Liabilities.* Except as disclosed in Part 3.8 of the Disclosure Letter, as it relates to the Business, Dana has no material liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due, including any liability for taxes), and unless otherwise reflected or reserved against in the Financial Statements, Dana has no obligations or liabilities, whether fixed or contingent.

3.9. *Legal Compliance.*

(a) As relates to the Business, except as set forth in Part 3.9 of the Disclosure Letter and without reference to any matters covered by §3.24:

(i) Dana is in compliance in all material respects with each legal requirement applicable to it or to the conduct of the business of the Business or the ownership or use of any of its assets related to the Business, including, without limitation, the International Traffic in Arms Regulations, 58 FR 39283;

(ii) no event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a material violation by Dana of, or a material failure on the part of Dana to comply with, any legal requirement related to the business of the Business; and

(iii) Dana has not received any notice or other communication from any governmental body or any other Person regarding any violation of, or failure to comply with, in any material respect, any legal requirement related to the business of the Business, which is outstanding or unresolved as of the date hereof.

(b) Part 3.9 of the Disclosure Letter contains a complete and accurate list of each governmental authorization related to the Business that is held by Dana. Each governmental authorization listed or required to be listed in Part 3.9 of the Disclosure Letter is valid and in full force and effect. Except as set forth in Part 3.9 of the Disclosure Letter:

(i) Dana is in compliance in all material respects with all of the terms and requirements of each such governmental authorization held by it;

(ii) no event has occurred or circumstance exists that may (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a violation of or a failure to comply in any material respect with any term or requirement of any governmental authorization listed or required to be listed in Part 3.9 of the Disclosure Letter, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation or termination of, or any modification to, any governmental authorization listed or required to be listed in Part 3.9 of the Disclosure Letter;

(iii) Dana has not received at any time any written notice or other written communication from any governmental body regarding (A) any violation of or failure to comply in any material respect with any term or requirement of any governmental authorization related to the business of the Business, or (B) any actual, proposed, possible, or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any governmental authorization related to the business of the Business, which is outstanding or unresolved as of the date hereof; and

(iv) all applications required to have been filed for the renewal of the governmental authorizations listed or required to be listed in Part 3.9 of the Disclosure Letter have been duly filed on a timely basis with the appropriate governmental bodies, and all other filings required to have been made with respect to such governmental authorizations have been duly made on a timely basis with the appropriate governmental bodies.

Dana has all of the governmental authorizations necessary to permit Dana to lawfully conduct and operate the business of the Business in the manner it currently conducts and operates the business and to permit Dana to own and use the assets of the Business in the manner in which it currently owns and uses such assets.

3.10. *Real Property.* Part 1.2(f) of the Disclosure Letter lists and describes briefly all real property owned by Dana and used by the Business. With respect to the Real Property:

(a) Dana has good and marketable title to the Real Property, free and clear of any Encumbrance, easement, covenant, or other restriction, except for Permitted Encumbrances and those matters permitted under §3.5 or shown as permitted exceptions on Part 3.10 of the Disclosure Letter;

(b) there are no pending or, to Dana's Knowledge, threatened condemnation proceedings, law suits, or administrative actions relating to the Real Property, or other matters affecting materially and adversely the current use, occupancy, or value thereof;

(c) the legal description for the Real Property contained in the deed thereof describes such parcel fully and adequately, the buildings and improvements are located within the boundary lines of the described parcels of land, are not in violation of applicable setback requirements, zoning laws, and ordinances (and none of the properties or buildings or improvements thereon are subject to "permitted non-conforming use" or "permitted non-conforming structure" classifications), and do not encroach on any easement which may burden the land and there have been no significant improvements to the Real Property since November 5, 2003, the date of the survey provided pursuant to Section 5.7;

(d) all facilities have received all approvals of governmental authorities (including material licenses and permits) required in connection with the ownership or operation thereof, and have been operated and maintained in accordance with applicable laws, rules, and regulations in all material respects;

(e) there are no leases, subleases, licenses, concessions, or other agreements, written or oral, granting to any party or parties the right of use or occupancy of any portion of the Real Property;

(f) there are no outstanding options or rights of first refusal to purchase the Real Property, or any portion thereof or interest therein;

(g) there are no parties (other than the Business) in possession of the Real Property; and

(h) the Real Property is not situated in a flood plain or flood hazard area.

3.11. *Intellectual Property.*

(a) Intellectual Property Rights – The term "Intellectual Property Rights" includes all right, title and interest of Dana in the Trademarks and the Trade Secrets.

(b) Agreements – Part 3.11 of the Disclosure Letter contains a complete and accurate list and summary description, including all royalties paid or received by Dana, of all contracts relating to the Intellectual Property Rights to which Dana is a party or by which Dana is bound, except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs with a value of less than $1,000 under which Dana is the licensee. There are no outstanding and, to Dana's Knowledge, no threatened disputes or disagreements with respect to any such contract.

(c) Know-How Necessary for the Business – The Intellectual Property Rights, combined with the license described in §1.2(l), are all those necessary for the operation of the Business. Dana is the owner of all right, title and interest in and to each item of Intellectual Property Rights free and clear of all liens, security interests, charges, encumbrances, equities and other adverse claims, and has the right to use without payment to a third party all of the Intellectual Property Rights.

(d) Trademarks.

(i) Part 3.11(d) of the Disclosure Letter contains a complete and accurate list and summary description of all Trademarks, none of which have been registered with the United States Patent and Trademark Office. Dana is the owner of all right, title and interest in and to each of the Trademarks, free and clear of all liens, security interests, charges, encumbrances, equities and other adverse claims.

(ii) To Dana's Knowledge there is no potentially interfering trademark or trademark application of any third party.

(iii) No Trademark is infringed or, to Dana's Knowledge has been challenged or threatened in any way. None of the Trademarks used by Dana in the business of the Business infringes or is alleged to infringe any trade name, trademark or service mark of any third party.

(e) Trade Secrets.

(i) Dana has taken all reasonable precautions to protect the secrecy, confidentiality and value of the Trade Secrets.

(ii) Dana has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets. The Trade Secrets are not part of the public knowledge or literature, and to Dana's Knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other than Dana) or to the detriment of Dana. No Trade Secret is subject to any adverse claim or has been challenged or to the Knowledge of Dana threatened in any way.

(f) Patents.

(i) As relates to the Process Patents, there is no potentially interfering patent or patent application of any third party.

(ii) None of the Process Patents is infringed or has been challenged or threatened in any way. None of the products manufactured and sold, nor any process or know-how used, in connection with the business of the Business infringes or is alleged to infringe any patent or other proprietary right of any Person.

3.12. *Tangible Assets.* Except as disclosed in Part 3.12 of the Disclosure Letter the buildings, plants and structures of Dana related to the Business are structurally sound and are in good operating condition and repair (normal wear and tear excepted) and are adequate for the uses in which they are being put, and none of such buildings, plants or structures is in need of repairs or maintenance except for ordinary routine maintenance and repairs that are not material in nature or costs. The buildings, plants, structures and equipment of Dana related to the Business are sufficient for the conduct of the current business of the Business and are adequately served by utilities. Except as disclosed in Part 3.12 of the Disclosure Letter, the equipment of Dana related to the Business is in good operating condition and repair, normal wear and tear excepted, and none of such equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost.

3.13. *Inventory.* The Inventory consists of raw materials and supplies, manufactured and processed parts, work in process, and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, consists of a quality and quantity usable and salable in the ordinary course of business, and none of which is damaged, defective, or subject to shrinkage.

3.14. *Warranty.* Each product manufactured, sold, licensed or delivered, and each service provided, by Dana through the Closing related to the Business or its business has been in conformity in all material respects with all applicable contractual commitments and applicable laws and all express and implied warranties to customers. Except as provided in Part 3.14 of the Disclosure Letter, under the historic warranty experience of Dana, Dana has not been required, pursuant to GAAP, to create a reserve for product or service warranty claims of the Business or its business except as set forth in the Financial Statements. No product manufactured, sold, licensed, serviced or delivered, or service provided, by Dana prior to Closing related to the Business or its business is subject to any guaranty, warranty or other indemnity beyond the applicable standard terms and conditions of sale, service or licensing. Part 3.14 of the Disclosure Letter sets forth the standard terms and conditions of sale, service or license for Dana products and services of the Business (including applicable guaranty, warranty and indemnity provisions). Part 3.14 of the Disclosure Letter also sets forth a description of any product liability claims asserted against Dana since January 1, 1998 related to the products or services of the Business.

3.15. *Contracts.* Part 3.15 of the Disclosure Letter lists the following contracts and other agreements relating to the Business to which Dana is a party or which provide compensation or benefits to employees, former employees, officers or directors of Dana related to the Business:

(a) any agreement (or group of related agreements) for the lease of personal property to or from any Person providing for lease payments in excess of $50,000 per annum;

(b) any agreement (or group of related agreements) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one year, or involve consideration in excess of $100,000;

(c) any agreement concerning a partnership or joint venture;

(d) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation, in excess of $50,000;

(e) any agreement concerning confidentiality or noncompetition;

(f) any Employee Benefit Plan;

(g) any collective bargaining agreement;

(h) any agreement for the employment of any individual on a full-time, part-time, consulting, or other basis or providing severance benefits;

(i) any agreement under which it has advanced or loaned any amount to any of the directors, officers, and employees of Dana or its Subsidiaries;

(j) any agreement under which the consequences of a default or termination could have a material adverse effect on the business, financial condition, operations, results of operations, or future prospects of the Business; or

(k) any other agreement (or group of related agreements) the performance of which involves consideration in excess of $50,000.

Dana has delivered to Buyer a correct and complete copy of each written agreement listed in Part 3.15 of the Disclosure Letter (as amended, if any, to date) and a written summary setting forth the material terms and conditions of each oral agreement referred to in Part 3.15 of the Disclosure Letter. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect; (B) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under any material provision of the agreement; and (C) no party has repudiated any material provision of the agreement.

3.16. *Litigation.*

(a) Except as set forth in Part 3.16 of the Disclosure Letter as relates to the Business, there is no pending proceeding:

(i) that has been commenced by or against Dana or any of the assets of Dana and that relates to the Business; or

(ii) that challenges, or seeks to prevent any of the transactions contemplated by this Agreement.

To the Knowledge of Dana, no such proceeding has been threatened. Dana has delivered or made available to Buyer copies of all pleadings, correspondence and other documents relating to each proceeding listed in Part 3.16 of the Disclosure Letter.

(b) Except as set forth in Part 3.16 of the Disclosure Letter as relates to the business of the Business:

(i) there is no order to which Dana, or any of its assets is subject;

(ii) Dana is not subject to any order that relates to its business, or any of the assets it owns or uses; and

(iii) to the Knowledge of Dana, no officer, director, agent or employee of Dana is subject to any order that prohibits such officer, director, agent or employee from engaging in or continuing any conduct, activity or practice relating to the business of the Business.

(c) Except as set forth in Part 3.16 of the Disclosure Letter:

(i) Dana is and at all times has been in compliance in all material respects with all of the terms and requirements of each order related to the business of the Business to which it, or any of its assets, is or has been subject; and

(ii) Dana has not received at any time any notice or communication from any governmental body or any other Person regarding any actual or alleged violation of, or failure to comply with, any material term or requirement of any order related to the business of the Business to which Dana or any of its assets is or has been subject which is outstanding or unresolved as of the date hereof.

3.17. *Employees.*

(a) Part 3.17 of the Disclosure Letter contains a complete and accurate list of the following information for each employee of Dana related to the business of the Business, including each employee on leave of absence or layoff status: name; job title; date of hire; and whether a participant in any Employee Benefit Plan. As of the Closing Date, no such employee shall have any vested or accrued rights to vacation or vacation pay as of, or after, the Closing, based on his or her employment before the Closing.

(b) No employee of Dana related to the business of the Business is a party to, or is otherwise bound by, any agreement, including any confidentiality, noncompetition or proprietary rights agreement between such employee and any other Person ("Proprietary Rights Agreement") that in any way adversely affects or will affect (i) the performance of the employee's duties as an employee of Dana, or (ii) the ability of Dana to conduct the business of the Business. To Dana's Knowledge, except as disclosed in Part 3.17 of the Disclosure Letter, no Key Employee intends to terminate his employment with Dana.

3.18. *Labor Relations; Compliance.* Since January 1, 2000, Dana has not been or is not a party to any collective bargaining or other labor contract related to the business of the Business. Except as disclosed in Part 3.18 of the Disclosure Letter, since January 1, 2000, as relates to the business of the Business, there has not been, there is not presently pending or existing, and to Dana's Knowledge there is not threatened (a) any strike, slowdown, picketing, work stoppage, or employee grievance process, (b) any proceeding against or affecting Dana relating to the alleged violation of any legal requirement pertaining to labor relations or employment matters, including any charge or complaint filed by an employee or union with the National Labor Relations Board, the Equal Employment Opportunity Commission, or any comparable body, organizational activity, or other labor or employment dispute against or affecting Dana as relates to the Business, or (c) any application for certification of a collective bargaining agent. There is no lockout of any employees related to the business of the Business by Dana, and no such action is contemplated by Dana. As relates to the business of the Business, Dana has complied in all material respects with all legal requirements relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar taxes, occupational safety and health, and plant closing. Dana is not liable for

the payment of any material compensation, damages, taxes, fines, penalties, or other amounts, however designated, for any failure to comply with any of the foregoing legal requirements.

3.19. *Employee Benefits.*

(a) Part 3.19 of the Disclosure Letter lists each Employee Benefit Plan related to the Business that Dana maintains or to which Dana contributes or has any obligation to contribute.

(b) Dana has delivered or made available to Buyer true copies of the following documents currently in effect: (i) each employment agreement covering any employee or former employee of the Business; and (ii) any employee handbook or personnel manual describing compensation or benefits provided to employees of the Business or former employees.

(c) Neither Dana nor any entity required to be treated with Dana as a single employer under Code §414 has any material unsatisfied liability under Title IV of ERISA. All contributions to and payments from the Employee Benefit Plans, except those payments to be made from a trust qualified under Code §401(a), for any period ending prior to the Closing Date that are not yet, but will be, required to be made, will be properly accrued and reflected in the books and records of Dana and the Business at the Closing Date. To the Knowledge of Dana, no trustee, fiduciary, employee or other person has engaged in a "prohibited transaction" (as such term is defined in ERISA §406 or Code §4975), or any other breach of fiduciary responsibility under ERISA with respect to any Employee Benefit Plan. Neither any of such plans nor any of such trusts have been terminated, nor has there been any "reportable event" (as the term is defined in ERISA §4043) with respect thereto during the last five years.

(d) No liability has been or is expected to be incurred by Dana or any Affiliate under or pursuant to ERISA or the Code, including penalties and excise taxes that could, following the Closing, become or remain a liability of the business being acquired by Buyer or become a liability of Buyer or of any plans of Buyer and no event, transaction or condition has occurred or exists that could result in any such liability to the business of the Business or, following the Closing, to Buyer.

(e) To the extent that any participant loan, from Dana's Savings and Investment Plan ("Plan") to an employee of the Business hired by Buyer, is outstanding at the Closing Date and transferred to the Buyer's 401(k) plan as part of a direct rollover, as contemplated by Section 5.8 of this Agreement (a "Transferred Participant Loan"), the plan administrator and trustee of the Plan are authorized under the terms of the Plan to waive at the time of the Closing any default or acceleration of such a Transferred Participant Loan that would otherwise occur under the terms of the Plan solely as a result of the termination of such employee's employment with Dana; and the assets of all such employees held by the Plan are qualified, in full compliance with the Code, and eligible for non-taxable, direct rollover by any such employee.

(f) Before the Closing, Dana will have announced and published its revised vacation policy to all employees of the Business, effectively eliminating any vested right to accrued vacation benefits or payments in any calendar year based on service during the preceding calendar year.

3.20. *Guaranties.* As relates to the Business, Dana is not a guarantor or otherwise responsible for any liability or obligation (including indebtedness) of any other Person.

3.21. *Books and Records.* The books and other records of Dana primarily related to the Business, all of which have been made available to Buyer, since January 1, 2001 are complete and correct in all material respects and have been maintained in accordance with sound business practices, including the maintenance of an adequate system of internal controls. At the Closing, all of those books and records will be in the possession of the Business or delivered to Buyer at the Closing as required by this Agreement.

3.22. *Taxes*.

(a) Dana has timely filed all required Tax Returns relating to any and all Taxes concerning or relating to the Business and such Tax Returns are true and correct in all material respects and have been completed in accordance with applicable law.

(b) Dana has timely paid all Taxes relating to the Business and has set aside adequate reserves for any such Taxes that have accrued but are not yet due and payable.

(c) There are (and immediately following the Closing Date there will be) no liens, pledges, charges, claims, restriction on transfer, mortgages, security interests or other encumbrances of any sort (collectively, "Liens") on the assets of the Business relating to or attributable to Taxes other than customary Liens for Taxes not yet due and payable.

(d) No audit or other examination of any Tax Return relating to the Business is presently in progress nor has Dana been notified of any request for such audit or other examination.

(e) There exists no Tax deficiency outstanding, assessed or proposed against Dana relating to the Business except as disclosed in the Most Recent Financial Statements or in Part 3.22 of the Disclosure Letter. All Taxes relating to the business of the Business that Dana is or was required by legal requirements to withhold or collect have been duly withheld or collected and to the extent required, have been paid to the proper governmental body or other Person.

3.23. *No Material Adverse Change.* Since December 31, 2002, there has not been any material adverse change in the business, operations, properties, assets or condition of Dana related to the Business, and no event has occurred or circumstance exists that may result in such a material adverse change.

3.24. *Environmental Matter.* Except as set forth in Part 3.24 of the Disclosure Letter:

(a) Dana is in full compliance with and is not in violation of or liable under any Environmental, Health and Safety Requirements related to the business of the Business. Dana does not have any basis to expect, nor to Dana's Knowledge, has any other Person for whose conduct Dana is or may be held to be responsible received, any order, communication or notice from (i) any governmental body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any real property, of any actual or potential violation or failure to comply with any Environmental, Health and Safety Requirements related to the business of the Business, or of any actual of threatened obligation to undertake or bear the cost of any Environmental, Health and Safety Liabilities with respect to any of the facilities or any other properties or assets (whether real, personal or mixed) related to the business of the Business in which Dana has held an interest, or with respect to any property or real property at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used or processed by Dana related to the business of the Business, or any other Person for whose conduct Dana is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled or received related to the business of the Business.

(b) There are no pending or, to the Knowledge of Dana, threatened claims, Encumbrances or other restrictions of any nature, resulting from any Environmental, Health and Safety Liabilities or arising under or pursuant to any Environmental, Health and Safety Requirements, with respect to or affecting any of the facilities or any other properties and assets (whether real, personal or mixed) in which Dana has or had an interest related to the business of the Business.

(c) Dana does not have any basis to expect, nor to Dana's Knowledge, has any other Person for whose conduct Dana is or may be held responsible received, any citation, directive, inquiry, notice, order, summons, warning or other communication that relates to Hazardous Activity, Hazardous Materials or any alleged, actual or potential violation or failure to

comply with any Environmental, Health and Safety Requirements, or of any alleged, actual or potential obligation to undertake or bear the cost of any Environmental, Health and Safety Liabilities with respect to any of the facilities or any other properties or assets (whether real, personal or mixed) in which Dana has or had an interest related to the business of the Business, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used or processed by Dana, or any other Person for whose conduct Dana is or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled or received related to the business of the Business.

(d) Neither Dana, nor any Person for whose conduct Dana is or may be held responsible, has any Environmental, Health and Safety Liabilities with respect to the facilities or with respect to any other properties and assets (whether real, personal or mixed) in which Dana (or any predecessor) has or had an interest related to the business of the Business, or to Dana's Knowledge at any property geologically or hydrologically adjoining the facilities or any such other property or assets.

(e) There are no Hazardous Materials present on, under or in the Environment at the facilities or to Dana's Knowledge at the geologically or hydrologically adjoining property, including any Hazardous Materials contained in containers, barrels, above or underground storage tanks (or otherwise the existence of any such tanks), landfills, land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, sumps or any other part of the facilities or such adjoining property, or incorporated into any structure therein or thereon. Neither Dana, nor any Person for whose conduct Dana is or may be held responsible, or to Dana's Knowledge any other Person, has permitted or conducted, or is aware of any Hazardous Activity conducted with respect to the facilities or any other properties or assets (whether real, personal or mixed) related to the business of the Business in which Dana has or had an interest except in full compliance with all applicable Environmental, Health and Safety Requirements.

(f) There has been no Release or to the Knowledge of Dana, threat of Release, of any Hazardous Materials at or from the facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used or processed from or by any of the facilities, or from or by any other properties and assets (whether real, personal or mixed) related to the business of the Business in which Dana has or had an interest, or to the Knowledge of Dana any geologically or hydrologically adjoining property, whether by Dana or any other Person.

(g) Dana has delivered to Buyer true and complete copies and results of any reports, studies, analyses, tests or monitoring possessed or initiated by Dana pertaining to Hazardous Materials or Hazardous Activities in, on or under the facilities, or concerning compliance by Dana, or any other Person for whose conduct Dana is or may be held responsible with Environmental, Health and Safety Requirements related to the business or operation of the Business.

4. Representations and Warranties of Buyer.

Buyer represents and warrants to Dana that the statements contained in this §4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this §4), except as set forth in the Disclosure Letter. The Disclosure Letter will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this §4.

4.1. *Organization of Buyer.* Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

4.2. *Authorization of Transaction.* Buyer has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of Buyer. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions.

4.3. *Noncontravention.* Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in §2 above), will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter or bylaws or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject. Buyer does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any person including any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in §2 above).

4.4. *Brokers' Fees.* Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Dana could become liable or obligated.

4.5. *Offers of Employment.* Buyer will offer employment to each employee listed by mutual agreement on Exhibit 4.5. Buyer will offer employment to each such employee at the same base annual salary or base hourly wage rates ("Wages") as, and at a combined Wages and employee benefit level substantially similar to, the combined Wages and employee benefit level offered to such employee by Dana as of the Closing Date.

5. Pre-Closing Covenants.

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing.

5.1. *General.* Each of the Parties will use its reasonable commercial efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the closing conditions set forth in §7 below).

5.2. *Notices and Consents.* Dana will give any notices to third parties, and Dana will use its reasonable commercial efforts to obtain any third party consents, that Buyer reasonably may request in connection with the matters referred to in §3.3 above. Each of the Parties will give any notices to, make any filings with, and use its reasonable commercial efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in §3.3 and §4.3 above.

5.3. *Operation of Business.* Except with the consent of Buyer, which must be in writing, Dana shall carry on the business of the Business in the Ordinary Course of Business and, to the extent consistent therewith, use its best efforts to preserve intact the current business organizations, keep available the services of the current employees and preserve the relationships with customers, suppliers, licensors, licensees, distributors and others having business dealings with it. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Closing, as relating to the Business, Dana shall not:

(a) acquire or agree to acquire any assets that are material, individually or in the aggregate, to the Business, except purchases of inventory in the Ordinary Course of Business consistent with past practice;

(b) (i) grant to any employee of the Business any increase in compensation, (ii) grant to any employee of the Business any increase in severance or termination pay, (iii) enter into any employment, consulting, indemnification, severance or termination agreement with any such employee, (iv) establish, adopt, enter into or amend in any material respect any collective bargaining agreement or Benefit Plan, or (v) take any action to accelerate any material rights or benefits, or make any material determinations under any collective bargaining agreement or Benefit Plan, except as otherwise required by applicable law or regulation;

(c) make any change in accounting methods, principles or practices affecting the reported assets, liabilities or results of operations of the Business;

(d) sell (except for sales of inventory in the Ordinary Course of Business), lease, mortgage or otherwise encumber or subject to any Encumbrance or otherwise dispose of any of the properties or assets of the Business having a fair market value in excess of $25,000;

(e) incur any indebtedness for borrowed money or guarantee any such indebtedness of another Person;

(f) make or agree to make any new capital expenditure or expenditures which, in the aggregate, are in excess of $50,000;

(i) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than those incurred in the Ordinary Course of Business consistent with past practice, or waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement; or

(j) authorize any of, or commit or agree to take any of, the foregoing actions or take any action which would be prohibited by §3.7.

5.4. *Full Access.* Dana will permit (and will cause the Business to permit) representatives of Buyer to have full access at all reasonable times, and in a manner so as not to unreasonably interfere with the normal business operations of the Business, to all premises, properties, personnel, books, records (including tax records), contracts, and documents of or pertaining primarily to the Business. Buyer will treat and hold as such any Confidential Information it receives from any of Dana and its Subsidiaries in the course of the reviews contemplated by this §5.4, will not use any of the Confidential Information except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, will return to Dana and its Subsidiaries all tangible embodiments (and all copies) of the Confidential Information which are in its possession. The Parties will cooperate with one another during due diligence and Buyer will have a reasonable amount of time to review the due diligence material, even if this requires an extension of the due diligence period (but only for such material, if any, provided close to the end of what would otherwise be the end of the due diligence period).

5.5. *Notice of Developments.* Each Party will give prompt written notice to the other Party of any material adverse development causing a breach of any of its own representations and warranties in §3 and §4 above. No disclosure by any Party pursuant to this §5.5, however, shall be deemed to amend or supplement the Disclosure Letter or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

5.6. *Exclusivity.* Until such time, if any, as this Agreement is terminated pursuant to §9, Dana will not, and will cause each of its representatives not to, directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, or provide any non-public information to, any Person (other than Buyer) relating to any transaction involving the sale of the business or the assets

(other than in the Ordinary Course of Business) of the Business, or any merger, consolidation, business combination or similar transaction involving the change in control of the Business.

5.7. *Title Insurance and Related Real Estate Matters.* Dana has delivered to Buyer, with respect to the Real Property, a title commitment for an ALTA Owner's Policy of Title Insurance Form B-1987 (or equivalent policy reasonably acceptable to Buyer if the real property is located in a state in which an ALTA Owner's Policy of Title Insurance Form B-1987 is not available), in the amount of $3,775,065.00, insuring title to such real property to be in Buyer as of the Closing (subject only to the title exceptions described above in §3.10 of this Agreement and Part 3.10 of the Disclosure Letter). Such title insurance policy shall (a) insure title to the real property and all recorded easements benefiting such real property, (b) contain an "extended coverage endorsement" insuring over the general exceptions contained customarily in such policies, a "zoning endorsement", (c) contain such other endorsements and terms as are customary and reasonable in the circumstances, and (d) not contain the creditor's rights exclusion. Dana shall pay the cost of the title search and Buyer shall pay the additional cost required for the title insurance policy. Moreover, Dana will provide an ALTA survey of the Real Property at Dana's cost within 14 days after the date of this Agreement. At Closing, real estate taxes and assessments shall be prorated between Dana and Buyer with taxes assessed for periods preceding the Closing to be paid by Dana.

5.8. *Employees.*

(a) Dana shall retain responsibility for all obligations, if any, with respect to any employee who is not an active, full time employee or who is on any long-term leave of absence as of the Closing or who does not accept an offer of employment and Buyer shall have no obligation with respect thereto except to the extent of any breach of Buyer's representation in Section 4.5 above. Dana shall treat any employee of the Business who is hired by Buyer as a terminated participant for purposes of the Employee Benefit Plans, including the provision of any required notices pursuant to the provisions of any such plan or applicable law. Subject to its need for the services of such persons, Buyer shall preferentially offer employment to employees of the Business who were on short-term disability as of the Closing and who are ready, willing, and able, as reasonably determined by Buyer, to return to employment at the Business within 6 months after Closing. Buyer does not assume any employee retention agreements, contract employees or consultants. Buyer's obligations in this §5.8 shall survive the Closing as specifically provided herein. The offers of employment or decisions to make offers by Buyer under this Section 5.8 shall be made in compliance with applicable federal and state laws prohibiting discrimination on the basis of race, sex, disability and the like. Buyer shall not engage in a "mass layoff" or "plant closing" as defined in the United States Worker Adjustment and Retraining Notification Act (the "WARN Act") affecting the Business within 90 days after the Closing without complying with the WARN Act. Dana shall timely, but not necessarily before Closing, resolve any and all grievances, arbitration, unfair labor practice charges, lawsuits and any other legal proceedings related to the hourly employees arising out of events occurring prior to the Closing. Dana's obligations in this §5.8 shall survive the Closing as specifically provided herein. In addition, Buyer and Dana will cooperate concerning the transition from the Employee Benefit Plans to Buyer's plans, including the transition of medical insurance coverage for employees (but not including the transfer of any pre-tax medical accounts), and the direct rollover of 401(k) assets including the transfer of any loan balances and associated promissory notes or similar instruments and the parties agree to execute any documents or take any other actions reasonably required to effectuate such transfers.

(b) Prior to the Closing, Dana shall terminate certain positions in consultation with Buyer to reflect the reduced volumes of production in the Business (the "Pre-Closing Terminations").

5.9. *Qualified Supplier.* Dana's Commercial Vehicle Systems division and Traction Technologies Group shall make reasonable commercial efforts to add Buyer to any and all of its bidders' lists that may

exist from time-to-time for purposes of outsourcing forging and machining work within Dana. In addition, Dana shall sponsor and facilitate the introduction of Buyer's representatives with the appropriate people at each of Dana's SBUs including the Automotive Systems Group for the express purpose of giving Buyer the opportunity to become a qualified supplier for each of the SBUs, but this in no way guarantees that Buyer will receive additional business from Dana.

5.10. *Retained Products*. By the time specified in the Manufacturing Agreement attached as Exhibit 7.1B, Dana will have moved substantially all of the production of all Retained Products (excluding the Mack production line) to another source and will have otherwise terminated production of the Retained Products at the Business, consistent with its obligations under Section 6.14.

6. Post-Closing Covenants.

The Parties agree as follows with respect to the period following the Closing.

6.1. *General.* If at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties shall take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under §8 below). Dana acknowledges and agrees that from and after the Closing Buyer will be entitled to possession of all documents, books, records (including tax records), agreements, and financial data of any sort relating to the Business. Buyer shall retain such records for at least five (5) years after the Closing Date, and for any such longer period as may be reasonably requested by Dana.

6.2. *Litigation and Tax Audit Support.* In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving the Business, the other Party shall cooperate with the contesting or defending Party and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under §8 below).

6.3. *Transition.* Dana may not take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of the Business from maintaining the same business relationships with the Business after the Closing as it maintained with the Business prior to the Closing.

6.4. *Confidentiality.*

(a) Each Party shall treat and hold as such all of the Confidential Information (with the exception of securities law related disclosures), refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to the disclosing Party or destroy, at the request and option of the disclosing Party, all tangible embodiments (and all copies) of the Confidential Information which are in its possession. If the receiving Party is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, the receiving Party shall notify the disclosing Party promptly of the request or requirement so that the disclosing Party may seek an appropriate protective order or waive compliance with the provisions of this §6.4. If, in the absence of a protective order or the receipt of a waiver hereunder, the receiving Party is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, the receiving Party may disclose the Confidential Information to the tribunal.

(b) Without limiting the generality of the foregoing, Buyer may not disclose or use for its own benefit any information disclosed by Dana regarding its steel costs, including but not limited to seeking discounts from steel suppliers.

(c) *Tax Shelter Disclaimer.* Notwithstanding anything in this Agreement to the contrary, the Parties (and each affiliate and person acting on behalf of any such Party) agree that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws. This authorization is not intended to permit disclosure of any other information including, without limitation: (a) any portion of any materials to the extent not related to the tax treatment or tax structure of the transactions described in this Agreement, (b) the identities of participants or potential participants, (c) the existence or status of any negotiations (except to the extent such negotiations are related to the tax treatment or tax structure of transactions described in this Agreement), (d) any pricing or financial information (except to the extent such pricing or financial information is related to the tax treatment or tax structure of transactions described in this Agreement), or (e) any other term or detail not relevant to the tax treatment or tax structure of transactions described in this Agreement; provided, however, that such disclosure may not be made until the earlier of the date of (i) public announcement of discussions relating to the transactions described in this Agreement, (ii) public announcement of the transactions described in this Agreement, or (ii) execution of this Agreement.

6.5. *Post-Closing Inventory Repurchase.*

(a) At Buyer's election, Buyer may sell back to Dana any inventory purchased by Buyer pursuant to this Agreement that remains unused 180 days or more after Closing at its book value as of Closing and with payment for such inventory as of the date such inventory is repurchased. *"Slow Inventory"* means any such inventory sold back to Dana.

(b) Buyer shall repurchase items of the Slow Inventory from Dana, as needed from time-to-time to meet the new or replacement part requirements of customers for which the items of Slow Inventory were originally manufactured, prior to manufacturing any more of that part number for those customers, for a period of 2 years after Closing. The repurchase price of Slow Inventory repurchased by Buyer shall be its book value as of Closing.

(c) Buyer shall semiannually provide Dana with sales information on Slow Inventory repurchased under §6.5(b) for verification for a period of 2 years after Closing. The Parties shall work together to determine the appropriate means for the storage and/or transfer of any Slow Inventory. If Dana desires, Buyer shall store some or all of the Slow Inventory on-site in Morganton, without charge to Dana. If Dana requests security for this inventory outside the ordinary course, Dana shall pay Buyer's incremental out-of-pocket costs. Dana will obtain and pay the cost of any insurance for the Slow Inventory in amounts and with such coverages as customary in the industry. Buyer will not be held liable for the loss, damage or deterioration of the inventory, which shall be the sole responsibility of Dana.

6.6. *Transition Services.* Dana will provide for the continued use of the existing Oracle enterprise resource planning system, including the continued provision of technical support for such system in a manner consistent with that generally provided prior to the Closing, including the continued provision of technical support for such system in a manner consistent with that generally provided prior to the Closing, for a period of up to 12 months after Closing without charge, and for any other Excluded Software as reasonably requested by Buyer. Dana's support for the Oracle system will be limited to restoring service after any crash or similar interruption, but not for programming or other changes. In addition, Buyer and Dana will cooperate concerning the transition from the Employee Benefit Plans to Buyer's plans, including

the transition of medical insurance coverage for employees (but not including the transfer of any pre-tax medical accounts), and the direct rollover of 401(k) assets including the transfer of any loan balances and associated promissory notes or similar instruments and the parties agree to execute any documents, share any information or take any other actions to the extent reasonably required to effectuate such transfers or transitions, to ensure that each such direct rollover is lawfully completed, including, without limitation, that Dana shall cause the Plan's Administrator to complete all such transfers no later than the end of the calendar quarter following the Closing.

6.7. *Post-Closing Payments.* Subject to the collection by Dana of the accounts receivable outstanding as of the Closing Date, if Dana receives payment from any customer relating to sales of the Business occurring after the Closing Date, Dana shall forward such payment to Buyer to a bank of Buyer's choice as soon as reasonably possible after clearance by Dana's banks.

6.8. *Continuation Coverage.* Dana shall timely provide any legally required health care continuation coverage under any Employee Benefit Plan relating to current and former employees of the Business.

6.9. *Exclusivity.*

(a) Subject to the terms in the Supply Agreement, Dana will purchase the Parts exclusively from Buyer.

(b) Dana acknowledges that Buyer may not have an adequate remedy at law in the event of violation of this §6.9. Therefore, Buyer may be entitled to injunctive relief and/or specific performance, in addition to whatever remedies it may have, at law or in equity, against Dana under this §6.9.

6.10. *Non-Solicitation.* For the period during which the Supply Agreement is in effect, neither Dana nor any of its Affiliates shall directly or indirectly solicit any then-current employee of Buyer or the Business (with respect to the Business, employed by Dana prior to the Closing Date who accepts employment with Buyer) nor shall Dana or any of its Affiliates encourage any such employee to terminate his or her employment with Buyer or the Business; provided, however, that such limitation shall not include generalized searches for employees through media advertisements that are not focused on persons employed by Buyer or the Business. For the period during which the Supply Agreement is in effect, neither Buyer nor any of its Affiliates shall directly or indirectly solicit any then-current employee of Dana nor shall Buyer or any of its Affiliates encourage any such employees to terminate his or her employment with Dana; provided, however, that such limitation shall not include generalized searches for employees through media advertisements that are not focused on persons employed by Dana.

6.11. *Medical Benefits.* Dana shall be responsible for claims for medical benefits incurred before the Closing Date and that are payable under the terms of the Employee Benefit Plans. A claim for benefits is incurred for this purpose when the service is provided.

6.12. *Bulk Sales.* Dana shall take all steps, if any, as may be required to comply with any applicable bulk sale or bulk transfer act, or indemnify Buyer as provided in Section 8.2 hereof.

6.13. *Closing Balance Sheet.* Buyer shall deliver a Closing Balance Sheet to Dana within ten (10) business days after the Closing Date.

6.14. *Removal of Excluded Assets.* Dana shall remove all Excluded Assets except for those items of unused perishable tooling and unusable spare parts referred to in Section 1.24(f) from the Business's premises at Dana's cost in a manner, and at times, which are reasonably satisfactory to Buyer (including without limitation the repair and/or replacement of all foundations, power supplies, flooring, or any other aspect of the facilities, and the handling and removal of all liquids, solvents, or other related materials).

6.15. *Removal of Glasgow Assets.* As part of the proposed purchase of Dana's plant in Toluca, Mexico, Buyer shall purchase the production equipment formerly used exclusively for the machining of carriers (the production of which having since been moved to the Business) and currently located in Dana's Glasgow, Kentucky plant. The purchase price for this equipment will be equal to its net book value at the time of such purchase, which will occur on or before the first anniversary of the Closing, regardless of whether Buyer proceeds to close on the purchase of the Toluca plant. The terms and conditions of the purchase will be the subject of a separate agreement between Buyer and Dana.

6.16. *Other Parts.* With respect to parts not covered in the Supply Agreement but for which Buyer is acquiring tooling pursuant to this Agreement, Buyer will cooperate with Dana in the production of parts, provided, however, that Dana must pay Buyer a price for such Parts that is reasonable considering Buyer's costs and lot sizes ordered by Dana.

6.17. *Intellectual Property Rights.* Notwithstanding anything in this Agreement to the contrary, the intellectual property provisions in this Agreement are intended to convey to Buyer all intellectual property rights necessary for Buyer to operate the Acquired Assets and to produce Parts, but these intellectual property provisions are **not** intended to convey to Buyer any design rights in the Parts, or to constrain Dana's ability to operate its businesses, even though Dana may use the same or similar trade secrets and know-how in its other operations.

6.18. *Consignment of Perishable Tooling and Spare Parts.*

(a) After Closing, Dana will not remove any unused perishable tooling (if any) or spare parts constituting Excluded Assets and relating to Parts (collectively, the "Consigned Spare Parts"). Instead, the Consigned Spare Parts will remain at the Business on a consignment basis and used by Buyer as needed from time to time. Buyer will submit quarterly reports to Dana regarding any use of the Consigned Spare Parts and will include payment for any used items, at Dana's cost (including inbound freight).

(b) If Buyer has not purchased at least $200,000 worth of the Consigned Spare Parts by December 31, 2004, then Buyer shall purchase either (i) an amount of Consigned Spare Parts at the Business that results in a cumulative total for such purchases of Consigned Spare Parts not less than $200,000; or (ii) an amount of spare parts from either (a) Consigned Spare Parts at the Business, (b) consigned perishable tooling or spare parts from Toluca, if any, and (c) consigned perishable tooling and spare parts from other commodity lines purchased by Buyer from Dana, if any, such that the cumulative total for such purposes from all sources is not less than $200,000. Once Buyer has met its commitment to purchase $200,000 of perishable tooling and spare parts in the aggregate from consignment, Dana will provide Buyer with the right to purchase any remaining items at a mutually agreeable price prior to removing any such items from Buyer's premises.

6.19. *Termination and Layoff Costs.*

(a) Buyer will reimburse Dana for any and all costs associated with the Pre-Closing Termination (including reasonable attorneys fees, if any, in connection with employee lawsuits challenging such terminations except to the extent that any such employee prevails in a claim of discrimination).

(b) The Parties will cooperate in good faith to coordinate the movement of production of Retained Products out of the Business and the production of certain other commodity lines to be purchased by Buyer from Dana into the Business in a way to minimize or eliminate layoff costs. Employees laid off by Buyer in connection with such production movements will receive such layoff compensation and benefits as may exist under Buyer's benefit plans, and Dana will reimburse Buyer fifty percent (50%) of the layoff benefits provided to such employees (until the earlier of the date they are recalled to work for Buyer or the date of expiration of their layoff benefits) and any

and all other costs associated with such layoff (including reasonable attorneys fees, if any, in connection with employee lawsuits challenging such layoffs except to the extent such employee prevails in a claim of discrimination).

7. Conditions to Obligation to Close.

7.1. *Conditions to Obligation of Buyer.* The obligation of Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in §3 above shall be true and correct in all material respects at and as of the Closing Date;

(b) Dana shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(c) Dana shall have procured all of the third party consents specified in §5.2 above and the title insurance commitment specified in §5.7 above;

(d) no action, suit, or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement, (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (iii) affect adversely the right of Buyer to own the Acquired Assets, and to operate the former businesses of the Business (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(e) The parties shall have agreed upon an Estimated Closing Balance Sheet;

(f) Dana shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in §7.1(a)-(d) is satisfied in all respects;

(g) Dana and Buyer shall have received all authorizations, consents, and approvals of governments and governmental agencies referred to in §3.3 and §4.3 above, if so required;

(h) the Parties shall have entered into a Supply Agreement and a Manufacturing Agreement in form and substance as set forth in Exhibits 7.1A and B, respectively, and the same shall be in full force and effect, including the mutually satisfactory completion of all exhibits and schedules thereto;

(i) all actions to be taken by Dana in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, Exhibits and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Buyer;

(j) there shall not have occurred any material adverse change in the business, operations or prospects of the Business nor any destruction or significant damage to any material asset of the Business;

(k) Buyer shall have completed its due diligence review of the Business, the results of which must be satisfactory to Buyer in Buyer's sole discretion; provided, however, if Buyer has not completed this review within 45 days of the date of this Agreement, or such later date to which the Parties agree, or Buyer has not duly invoked this condition, then Buyer shall be deemed to have waived this condition;

(l) Buyer shall have completed its environmental review of the Business, the results of which must be satisfactory to Buyer in Buyer's sole discretion; provided, however, if Buyer has not completed this review within 45 days of the date of this Agreement, or Buyer has not duly invoked this condition, then Buyer shall be deemed to have waived this condition; and

(m) Dana shall have delivered to Buyer the Disclosure Letter contemplated by this Agreement, the contents of which must be acceptable to Buyer, in its sole discretion.

Buyer may waive any condition specified in this §7.1 if it executes a writing so stating at or prior to the Closing.

7.2. *Conditions to Obligation of Dana.* The obligation of Dana to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in §4 above shall be true and correct in all material respects at and as of the Closing Date;

(b) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(c) no action, suit, or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(d) Buyer shall have delivered to Dana a certificate to the effect that each of the conditions specified above in §7.2(a)-(c) is satisfied in all respects;

(e) Dana and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in §3.3 and §4.3 above, if required;

(f) the Parties and Buyer shall have entered into a Supply Agreement and a Manufacturing Agreement in form and substance as set forth in Exhibits 7.1A and B, respectively, and the same shall be in full force and effect; and

(g) all actions to be taken by Buyer in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to Dana.

Dana may waive any condition specified in this §7.2 if it executes a writing so stating at or prior to the Closing.

8. Remedies for Breaches of This Agreement.

8.1. *Survival of Representations and Warranties.* All of the representations and warranties of the Parties shall survive the Closing (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty at the time of Closing) and continue in full force and effect for a period of two years thereafter, except for tax claims, which are dealt with specifically in §8.4.

8.2. *Indemnification Provisions for Benefit of Buyer.*

(a) If Dana breaches any of its representations, warranties, and covenants contained in this Agreement, and if there is an applicable survival period pursuant to §8.1 above, provided that Buyer makes a written claim for indemnification against Dana pursuant to §10.7 below within such survival period, then Dana shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer through and after the date of the claim for indemnification (including any Adverse Consequences Buyer may suffer after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach; *provided, however*, that (i) Dana has no obligation to indemnify Buyer from and against any Adverse

Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty of Dana until Buyer has suffered Adverse Consequences by reason of all such breaches in excess of a $50,000 aggregate deductible (after which point Dana will be obligated only to indemnify Buyer from and against further such Adverse Consequences) and (ii) there will be a ceiling in the amount of the Purchase Price on the obligation of Dana to indemnify Buyer from and against Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by breaches of the representations and warranties of Dana.

(b) Dana shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any liability of Dana which is not an Assumed Liability (including any liability of Dana that becomes a liability of Buyer under any bulk transfer law of any jurisdiction, under any common law doctrine of de facto merger or successor liability, or otherwise by operation of law).

8.3. *Indemnification Provisions for Benefit of Dana.*

(a) If Buyer breaches any of its representations, warranties, and covenants contained in this Agreement, and if there is an applicable survival period pursuant to §8.1 above, provided that Dana makes a written claim for indemnification against Buyer pursuant to §10.7 below within such survival period, then Buyer shall indemnify Dana from and against the entirety of any Adverse Consequences Dana may suffer through and after the date of the claim for indemnification (including any Adverse Consequences Dana may suffer after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach; provided, however, that (i) Buyer has no obligation to indemnify Dana from and against any Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty of Buyer until Dana has suffered Adverse Consequences by reason of all such breaches in excess of a $50,000 aggregate deductible (after which point Buyer will be obligated only to indemnify Dana from and against further such Adverse Consequences) and (ii) there will be a ceiling in the amount of the Purchase Price on the obligation of Buyer to indemnify Dana from and against Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by breaches of the representations and warranties of Buyer.

(b) Buyer shall indemnify Dana from and against the entirety of any Adverse Consequences Dana may suffer resulting from, arising out of, relating to, in the nature of, or caused by any Assumed Liability.

8.4. *Tax Indemnification.* Notwithstanding the foregoing, for matters relating to Taxes, (a) the survival period described in §8.1 shall last for the period of the relevant statute of limitations for assessment; and (b) the deductible and ceiling described in §8.2(a) shall not apply.

8.5. *Environmental Matters.*

(a) *Indemnification by Dana.*

(i) Dana hereby agrees that it shall indemnify, defend and hold harmless Buyer, its Affiliates and if applicable, their respective directors, officers, shareholders, partners, employees, representatives and agents and their heirs, successors and assigns from, against and in respect of any actual damages, claims, liabilities, losses, charges, assessments, settlements, judgments, actions, suits, proceedings, deficiencies, taxes, interest (on amounts expended by Buyer for which it is entitled to be indemnified hereunder other than in the case of third-party claims, calculated using the "prime commercial lending rate" of JP Morgan Chase or any successor thereto), penalties, and reasonable costs and expenses (including, without limitation, reasonable attorney's fees, removal costs, remediation costs, closure costs, capital operating and maintenance costs, compliance costs, disposal costs, fines, penalties and expenses of investigation, testing and ongoing

monitoring) ("Losses") imposed on, sustained, incurred or suffered by or asserted against Buyer, directly or indirectly, relating to or arising out of, subject to the provisions of §8.5(d), any Pre-Closing Environmental Liability of which Dana has been notified by the second anniversary of the Closing Date.

(ii) The indemnity in §8.5(a)(i) shall expire on and shall not survive after the second anniversary of the Closing, and the deductible and ceiling described in §8.2(a) shall not apply; provided, however, that such indemnity shall survive and continue in full force and effect as to all claims indemnifiable thereunder for which Buyer has provided Dana with notice on or before such date.

(b) *Characterization of Indemnification Payments.* All amounts paid by Dana and Buyer, as the case may be, under this §8.5 shall be treated as adjustments to the Purchase Price for Tax purposes.

(c) *Computation of Losses Subject to Indemnification.* The amount of any Loss for which indemnification is provided under this §8.5 shall be computed net of any insurance proceeds recovered by Buyer in connection with such Loss.

(d) *Pre-Closing Environmental Liabilities.*

(i) In connection with any and all Pre-Closing Environmental Liabilities, Dana shall have the right to conduct and retain exclusive control over any Remedial Action, correction of noncompliance or other action, including, without limitation, the exclusive right to (A) conduct and obtain any tests, reports, surveys and investigations, (B) contact, negotiate or otherwise deal with Governmental Entities, (C) prepare any plan for Remedial Action, correction of noncompliance or other action, and (D) conduct or direct any such Remedial Action, correction of noncompliance or other action, provided that with respect to any Pre-Closing Environmental Liabilities for which Dana is required to indemnify Buyer pursuant to §8.5(a), Dana shall use reasonable efforts to consult with Buyer in good faith prior to conducting any such Remedial Action, correction of noncompliance or other action and shall conduct itself as would a prudent business person complying with applicable environmental law.

(ii) Notwithstanding the foregoing, Dana and Buyer agree that Dana shall have no obligation to indemnify Buyer for Pre-Closing Environmental Liabilities pursuant to §8.5(a) unless the Remedial Action, correction of noncompliance or such other action in connection with such Pre-Closing Environmental Liability was undertaken as a result of (A) any violation of Environmental Law, (B) the presence of Hazardous Substances in the real property of the Business at levels in excess of any applicable levels or standards set forth, established, published, proposed or promulgated under, pursuant to or by any Environmental Law or Government Entity having jurisdiction over such Remedial Action, correction of noncompliance or action ("Trigger Standards"), provided that to the extent there are no such Trigger Standards, the standards contained in EPA Region IV Risk-Based Concentration Table shall be the applicable Trigger Standards, (C) any requirement or order of any Governmental Entity based upon any Environmental Law, or (D) any imminent and substantial endangerment to human health and safety.

(iii) Dana and Buyer agree that any Remedial Action, correction of noncompliance or other action to be undertaken (A) shall be the most reasonable cost-effective method under the circumstances and based upon the assumption that the real property of the Business is and will continue to be used for industrial (as opposed to residential) purposes, (B) shall not exceed [x] the least stringent requirements of any applicable Environmental Law or any clean-up standards set forth, established, published, proposed or promulgated under, pursuant to or by any Environmental Law or Governmental Entity having jurisdiction over such Remedial Action, correction of noncompliance or other

action, or [y] any requirement or order of any Governmental Entity having jurisdiction over such Remedial Action, correction of noncompliance or action, and (C) shall be conducted in compliance in all material respects with all Environmental Laws. To the extent necessary to achieve the purposes set forth in §8.5(d)(iii)(A), Buyer shall agree to a deed restriction on the property that is subject to such Remedial Action.

(iv) Buyer agrees that it shall not solicit or importune any Governmental Entity to require any Remedial Action, correction of noncompliance or other actions unless (A) required by Environmental Law, Governmental Entity, court order or third party settlement agreement, (B) such Environmental Law or Trigger Standards have been violated or exceeded, or (C) in Buyer's reasonable good faith judgment, in order to protect human health and safety from any substantial and imminent endangerment.

(v) Within thirty (30) days after the receipt thereof (but in the 24th month after the Closing Date Buyer shall use best efforts to notify Dana as soon as possible) Buyer shall notify Dana of any condition which may be subject to indemnity pursuant to §8.5(a) upon receipt of any written document concerning such matter. Buyer shall notify Dana of any release of Hazardous Substances or conditions which Buyer believes may adversely impact a Remedial Action or any other action after such matter comes to Buyer's attention; provided that failure to notify Dana as provided in this subsection shall not prejudice the rights of Buyer hereunder except to the extent any additional harm is suffered by Dana as a result of such delay.

(vi) Dana and Buyer mutually agree to cooperate in connection with any Pre-Closing Environmental Liabilities subject to indemnification under this §8.5. Upon request, Buyer shall provide Dana, including, without limitation, its agents, representatives and contractors, unrestricted access (subject to the requirement not to unreasonably disrupt the business or operations of Buyer) to the property of the Business for the purpose of conducting any activity pursuant to this Article including, without limitation, Remedial Actions and corrections of noncompliance. Dana and Buyer each agree that they shall maintain in strict confidence any information concerning any Pre-Closing Environmental Liabilities other than any disclosure required by applicable securities laws. If any law requires any party to disclose such information, such party will promptly notify the other party and will give such other party the opportunity to review and comment in advance upon the content and timing of any such disclosure. Buyer shall submit any reimbursement requests for which Buyer is seeking indemnification pursuant to §8.5(a) to Dana and, as promptly as practicable after receipt of such reimbursement requests, Dana shall pay such reimbursement requests.

(e) *Investigation Costs.* Buyer shall have the unrestricted right to initiate and control the conduct of and shall pay for the environmental investigations of the real property of the Business purchased by Buyer pursuant to this Agreement that Buyer may undertake after the Closing Date. Under the Buyer's reasonable direction, Dana will complete any post-closing remediation plan development and implementation to insure that any and all issues are adequately addressed. Buyer shall be entitled to audit Dana's remediation plan development and implementation, if any. Dana shall reimburse Buyer for any and all expenses incurred by Buyer (including to conduct and obtain tests, reports, surveys, audits and investigations) beginning with due diligence and lasting through the second anniversary of the Closing Date, up to a maximum of $200,000, less any similar amounts reimbursed by Dana with respect to the Toluca, Mexico, plant.

8.6. *Matters Involving Third Parties.*

(a) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter (a "Third Party Claim") which may give rise to a claim for indemnification against the other Party (the "Indemnifying Party") under this §8, then the Indemnified Party shall promptly notify the Indemnifying Party thereof in writing; provided, however, that no delay on the part of the

Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(b) The Indemnifying Party will have the right to assume the defense of the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party at any time within 15 days after the Indemnified Party has given notice of the Third Party Claim; provided, however, that the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim.

(c) So long as the Indemnifying Party has assumed and is conducting the defense of the Third Party Claim in accordance with §8.6(b) above, (i) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably) unless the judgment or proposed settlement involves only the payment of money damages by the Indemnifying Party and does not impose an injunction or other equitable relief upon the Indemnified Party and (ii) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably).

(d) If the Indemnifying Party does not assume and conduct the defense of the Third Party Claim in accordance with §8.6(b) above, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith) and (ii) the Indemnifying Party will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this §8.

8.7. *Exclusive Remedy.* Buyer and Dana acknowledge and agree that the foregoing indemnification provisions in this §8 shall be the exclusive remedy of Buyer and Dana with respect to the Business and the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, Buyer and Dana hereby waive any statutory, equitable, or common law rights or remedies relating to any environmental matters, including without limitation any such matters arising under any Environmental, Health, and Safety Requirements and including without limitation any arising under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA").

9. Termination.

9.1. *Termination of Agreement.* Certain of the Parties may terminate this Agreement as provided below:

(a) Buyer and Dana may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Buyer may terminate this Agreement by giving written notice to Dana:

(i) no later than 45 days after the date of this Agreement, or such later date to which the Parties agree, if Buyer is not satisfied with the results of its due diligence investigation, in its sole discretion;

(ii) no later than 45 days after the date of this Agreement, if Buyer is not satisfied with the results of its environmental review, in its sole discretion;

(iii) at any time prior to the Closing, if Dana has breached any representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has

notified Dana of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach; and

(iv) at any time on or after December 31, 2003, if Closing has not occurred (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement).

(c) Dana may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (i) if Buyer has breached any representation, warranty, or covenant contained in this Agreement in any material respect, Dana has notified Buyer of the breach, and the breach has continued without cure for a period of 30 days after the notice of breach or (ii) if the Closing shall not have occurred on or before December 15, 2003 (unless the failure results primarily from Dana itself breaching any representation, warranty, or covenant contained in this Agreement).

9.2. *Effect of Termination.* If any Party terminates this Agreement pursuant to §9.1 above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party (except for any liability of any Party then in breach); provided, however, that the confidentiality provisions contained in §6.4 above shall survive termination.

10. Miscellaneous.

10.1. *Press Releases and Public Announcements.* No Party may issue any press release or public announcement relating to the subject matter of this Agreement without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its or its Affiliates' publicly-traded securities (in which case the disclosing Party must use reasonable commercial efforts to consult with the other Party prior to making the disclosure).

10.2. *No Third-Party Beneficiaries.* This Agreement does not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

10.3. *Entire Agreement.* This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

10.4. *Succession and Assignment.* This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

10.5. *Counterparts.* This Agreement may be executed in one or more counterparts, each of which is an original but all of which together constitute one and the same instrument.

10.6. *Headings.* The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7. *Notices.* All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then two business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

To Dana:
Dana Corporation
Attn: Group Controller, HVTSG
6938 Elm Valley Drive
Kalamazoo, MI 49009

Copy to:
Dana Corporation
Attn: General Counsel
4500 Dorr Street
Toledo, Ohio 43697-1000

To Buyer:
Sypris Technologies, Inc.
Attn: President and CEO
2820 West Broadway
Louisville, Kentucky 40211

Copy to:
Sypris Solutions, Inc.
Attn: General Counsel
101 Bullit Lane, Suite 450
Louisville, Kentucky 40222

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

10.8. *Governing Law.* This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Ohio without giving effect to any choice or conflict of law provision or rule (whether of the State of Ohio or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Ohio.

10.9. *Amendments and Waivers.* No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Dana. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10. *Expenses.* Each of Buyer and Dana will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. Dana will pay any sales, use or transfer tax associated with the completion of this transaction; provided that Buyer will reimburse Dana for one-half of the North Carolina sales or use tax that may be levied as a result of Buyer's purchase of the Business.

10.11. *Construction*. The Parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" means including without limitation.

10.12. *Incorporation of Exhibits and Schedules.* The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the date first written above.

SYPRIS TECHNOLOGIES, INC.	**DANA CORPORATION**
/s/ J. Kramer	/s/ William E. Hennessy
Signature	Signature
J. Kramer Printed Name	William E. Hennessy Printed Name
President and CEO Title	Attorney-In-Fact Title

Exhibit 2.6A:	General Warranty Deed
Exhibit 2.6B:	Assignment and Assumption Agreement
Exhibit 2.9:	Allocation of Actual Cash Purchase Price
Exhibit 3:	Disclosure Letter
Exhibit 3.6:	Financial Statements
Exhibit 4.5:	Employees
Exhibit 7.1A:	Supply Agreement
Exhibit 7.1B:	Manufacturing Agreement

Schedules (or similar attachments) to this exhibit have not been filed because such schedules do not contain information which is material to an investment decision and which is not otherwise disclosed in the agreement or the Company's disclosure documents. The Company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

Exhibit 10.11

LEASE AGREEMENT

By and Between

VIA VERDE VENTURE, LLC,
a Delaware limited liability company

("Landlord")

and

SYPRIS DATA SYSTEMS, INC.,
a Delaware corporation

("Tenant")

September 24, 2003

LEASE AGREEMENT

WITNESSETH:

THIS LEASE AGREEMENT, (this "Lease") is made and entered into as of September 24, 2003 by and between VIA VERDE VENTURE, LLC, a Delaware limited liability company ("Landlord") and SYPRIS DATA SYSTEMS, INC., a Delaware corporation ("Tenant").

ARTICLE 1.
PREMISES

1.1 Subject to all of the terms and conditions hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises (the "Premises"), outlined on Exhibit B to this Lease, comprised of the ground floor containing 26,308 rentable square feet of the building commonly known as 160 East Via Verde, San Dimas, California (the "Building"). Tenant shall also have the right to ingress and egress thereto and therefrom as provided in Article 44. The land described on Exhibit A to this Lease and all improvements thereon and appurtenances on that land thereto, including, but not limited to, the Building, two other office buildings, access roadways, and all other related areas, shall be collectively hereinafter referred to as the "Project." The buildings in the Project other than the Building are sometimes referred to herein as the "Other Buildings."

1.2 Notwithstanding anything to the contrary in this Lease, the recital of the rentable area set forth above is for descriptive purposes only. The inaccuracy of such recital shall create no right to terminate this Lease and neither Landlord nor Tenant shall receive any adjustment or rebate of any Base Rent or Additional Rent (as hereinafter defined) payable under this Lease if that recital is incorrect. Tenant has inspected the Premises and is fully familiar with the scope and size thereof and agrees to pay the full Base Rent and Additional Rent set forth in this Lease in consideration for the use and occupancy of that space, regardless of the actual number of square feet contained therein. For purposes of this Lease, (1) "rentable area" and "usable area" shall be calculated pursuant to the Standard Method for Measuring Floor Area in Office Buildings (ANSI/BOMA Z65.1, 1996) (the "Measurement Standard"); (2) "rentable square feet" and "rentable footage" shall have the same meaning as the term "rentable area;" and (3) "usable square feet" and "usable square footage" shall have the same meaning as the term "usable area."

ARTICLE 2.
TERM AND CONDITION OF PREMISES

2.1 The term of this Lease (the "Term") shall commence on February 1, 2004 (the "Commencement Date") and end on January 31, 2015 (the "Expiration Date") unless sooner terminated (the "Termination Date") as hereinafter provided. Notwithstanding the foregoing, if Landlord's Work (as hereinafter defined) has not been substantially completed by February 1, 2004 for any reason other than a Tenant Delay (as defined in Exhibit C), then the Commencement Date shall be postponed until the date of substantial completion. In that event, the Expiration Date shall be eleven (11) years after the Commencement Date. Landlord's Work shall be deemed substantially completed upon issuance of a temporary or permanent Certificate of Occupancy by the local building authority (or such other evidence of the authorization to occupy the Premises as is customarily given by the City of San Dimas), notwithstanding that minor or unsubstantial details or construction, mechanical adjustment or decoration remains to be performed; provided such details or adjustments do not prevent Tenant from occupying the Premises and conducting its business therein. The Commencement Date of this Lease and the obligation of Tenant to pay Base Rent, Additional Rent and all other charges hereunder shall not be delayed or postponed by reason of any delay by Tenant in performing changes or alteration in the Premises not required to be performed by Landlord. In the event the Term shall commence on a day other than the first day of a month, then the Base Rent shall be immediately paid for such partial month prorated on the basis of a thirty (30) day month.

2.2 Landlord shall perform the construction work as provided in Exhibit C hereto ("Landlord's Work"). Except for Landlord's Work, Landlord has no obligation to construct improvements in the Premises.

2.3 Tenant shall give Landlord written notice of any incomplete work, unsatisfactory conditions or defects (the "Punch List Items") which were part of Landlord's Work in the Premises within thirty (30) days after the Commencement Date and Landlord shall, at its sole expense and using its commercially reasonable efforts, complete said work and/or remedy such unsatisfactory conditions or defects as soon as possible. The existence of any incomplete work, unsatisfactory conditions or defects as aforesaid shall not affect the Commencement Date or the obligation of Tenant to pay Base Rent, Additional Rent and all other charges hereunder. If Landlord does not complete those Punch List Items within ninety (90) days after the Commencement Date, such failure is not due to any Force Majeure Event and Landlord is not diligently attempting to complete the Punch List Items, then Tenant may give Landlord notice that Tenant intends to correct the remaining Punch List Items (the "Correction Notice"). If Landlord does not commence the completion of the Punch List Items within five (5) business days after that Correction Notice and diligently pursue that completion thereafter (subject to Force Majeure Events), then Tenant may undertake the completion of the Punch List Items; provided that Tenant shall use the Contractor and subcontractors who initially performed Landlord's Work. If Tenant so proceeds with correcting the Punch List Items, and Landlord does not reimburse Tenant for Tenant's reasonable out-of-pocket costs to complete the Punch List Items within thirty (30) days after Tenant's written request accompanied by reasonable evidence of the costs incurred, then Tenant may seek to have its entitlement to reimbursement under this Section 2.3 resolved by arbitration pursuant to Article 12. If Tenant is the prevailing party in that arbitration and Landlord does not pay the amount determined by the arbitration to be due Tenant for reimbursement under this Section 2.3 within thirty (30) days after the final determination by that arbitration, the Tenant may offset that amount against Base Rent next coming due under this Lease.

2.4 Subject to completion of the Punch List Items, the taking of possession of the Premises by Tenant shall be conclusive evidence that the Premises and the Building were in good and satisfactory condition at the time possession was taken by Tenant. Notwithstanding the foregoing, in the event Tenant gives Landlord written notice within one (1) year after the Commencement Date of any latent defects in Landlord's Work that affect Tenant's use of the Premises, Landlord shall cause such latent defects to be corrected at Landlord's or its contractor's cost as soon as reasonable possible after receipt of that notice from Tenant. Neither Landlord nor Landlord's agents have made any representations or promises with respect to the condition of the Building, the Premises, the land upon which the Building is constructed, or any other matter or thing affecting or related to the Building or the Premises, except as herein expressly set forth, and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in this Lease.

2.5 Tenant shall be permitted to enter into and occupy the Premises prior to the Commencement Date, without the obligation for payment of rent; provided that (a) Tenant shall not interfere with Landlord's construction of the Landlord's Work, (b) Tenant first provides Landlord with all insurance required by the terms of this Lease, (c) all construction by Tenant shall be performed in accordance with the terms of this Lease, including without limitation Article 15, (d) Tenant has coordinated its schedule of early entry with Landlord to Landlord's reasonable satisfaction, and (e) Tenant has obtained any necessary approvals from any governmental authorities of that early occupancy.

2.6 Tenant shall have the one-time right to terminate this Lease effective as of the date (the "Early Termination Date") that is sixty-six (66) months after the Commencement Date upon satisfaction of each of the conditions set forth in this Section 2.4. If Tenant wishes to exercise its right to terminate this Lease, Tenant must (1) deliver written notice to Landlord by no later than the date (the "Termination Notice Date") that is 57 months after the Commencement Date of its election to terminate; and (2) pay to Landlord in cash on or before the date that is sixty-five (65) months after the Commencement Date an amount equal to the Termination Fee (as defined below). As used herein, the term "Termination Fee" means the unamortized portion, calculated on a straight line basis with no interest rate cost factor (i.e., one-half of the sum of: (i) that portion of the Tenant Improvement Allowance actually disbursed by Landlord pursuant to the Tenant Work Letter, (ii) the value of the free Base Rent (i.e.,

$236,745.00), and (iii) the amount of all commissions paid by Landlord in order to procure this Lease (i.e., $342,109.23). If Tenant exercises its termination right in accordance with the terms of this Section 2.4, the Early Termination Date shall thereafter be deemed the effective termination date for all purposes under this Lease and Tenant shall vacate the Premises prior to the Early Termination Date and shall comply with all terms of this Lease with respect to the condition of the Premises as of the Expiration Date and the terms of surrender thereof. The rights of Tenant under this Section 2.4 shall be personal to the named Tenant hereunder and any assignee of Tenant's interest in this Lease consented to by Landlord pursuant to Article 18 or as to which Landlord's consent is not required pursuant to Article 18.

ARTICLE 3.
USE, NUISANCE, OR HAZARD

3.1 The Premises shall be used and occupied by Tenant solely for administrative offices, engineering and testing with light repair and assembly of specialized equipment; provided that the light assembly is an accessory use to the administrative office and engineering function and that deliveries to and from the Premises are by means of small trucks (i.e., UPS-type trucks) only (collectively, the "Stated Use") and for any other legally permitted uses unless expressly prohibited hereby.

3.2 Tenant shall not use, occupy, or permit the use or occupancy of the Premises for any purpose which is illegal or dangerous; permit any public or private nuisance; do or permit any act or thing which may disturb the quiet enjoyment of any other tenant of the Project; keep any substance or carry on or permit any operation which introduces offensive odors or conditions into other portions of the Project, use any apparatus which make undue noise or set up vibrations in or about the Project; permit anything to be done which would increase the premiums paid by Landlord for fire and extended coverage insurance on the Project or its contents (unless Tenant pays the entire amount of that increase within ten (10) business days after demand from Landlord) or cause a cancellation of any insurance policy covering the Project or any part thereof or any of its contents; or permit anything to be done which is prohibited by or which shall in any way conflict with any law, statute, ordinance, or governmental rule, regulation or covenants, conditions and restrictions affecting the Project, including without limitation the CC&R's (as defined below) now or hereinafter in force, except as the CC&R's may be limited as provided below in Section 3.3. Without limiting the generality of the foregoing, (a) Tenant shall not be open to the public (i.e., to persons other than employees) in the Premises later than 10:00 p.m. or earlier than 6:00 a.m. without the prior approval of the Development Plan Review Board of the City of San Dimas, California, to operate during those hours, and (b) Significant Notice and Nuisance Generating Activities (as defined below) by Tenant are prohibited between the hours of 10:00 p.m. and 7:00 a.m. Monday through Friday, and the hours of 9:00 p.m. to 8:00 a.m., Saturday and Sunday. As used herein, the term "Significant Notice and Nuisance Generating Activities" shall mean landscape maintenance activity, trash collection and parking lot cleaning, car alarms and horns, diesel truck engines, operation of heavy equipment for non-emergency purposes, and delivery or loading truck noises. Should Tenant do any of the foregoing without the prior written consent of Landlord, and the same is not cured within ten (10) business days after notice from Landlord (which ten (10) business day period shall be subject to extension if the nature of the breach is such that it is not possible to cure the same within such ten (10) business day period so long as the Tenant commences the cure of such breach within such ten (10) business day period and diligently prosecutes the same to completion) it shall constitute an Event of Default (as hereinafter defined) and shall enable Landlord to resort to any of its remedies hereunder.

3.3 The ownership, operation, maintenance and use of the Project shall be subject to certain conditions and restrictions contained in an instrument ("CC&R's") recorded or to be recorded against title to the Project. Tenant agrees that regardless of when those CC&R's are so recorded, this Lease and all provisions hereof shall be subject and subordinate thereto, except as provided below in this Section 3.3, except as provided below in this Section 3.3. Tenant has received and approved a form of First Amended and Restated Declaration of Restrictions for Via Verde Corporate Plaza (the "CC&R Amendment") and agrees that this Lease and all provisions hereof shall be subject and subordinate thereto upon its recording, except as provided below in this Section 3.3. Accordingly, as a consequence of that subordination, during any period in which the entire Project is not owned by Landlord, (a) the portion of Operating Expenses and Taxes (each as defined below) for the Common Areas shall be allocated among

the owners of the Project as provided in the CC&R's, and (b) the CC&R's shall govern the maintenance and insuring of the portions of the Project not owned by Landlord to the extent consistent herewith. Tenant shall, promptly upon request of Landlord, sign all documents reasonably required to carry out the foregoing into effect. No modification of the CC&R's that materially impacts use of the Premises for the Stated Use or Tenant's other rights and responsibilities under this Lease without Tenant's prior written consent, which shall not be unreasonably withheld, conditioned or delayed by Tenant, shall be binding on Tenant. Landlord agrees to comply with the terms of the CC&R's. The amounts payable by Landlord under the CC&R's with respect to any working capital and contingency fund shall be excluded from Operating Expenses, except to the extent the amounts paid into that fund are otherwise amounts the expenditure of which would be an Operating Expense under the terms of this Lease. Neither the term "New Rules" as used in Section 5.1(a)(viii) of this Lease nor the subordination described in Section 30.1 of this Lease shall include any modification to the CC&R's or any similar non-governmental rule established by Landlord, that materially impacts use of the Premises for the Stated Use or Tenant's other rights and responsibilities under this Lease without Tenant's prior written consent, which shall not be unreasonably withheld, conditioned or delayed by Tenant. Without limiting the terms of this Lease, the provisions of Section 9.4 and 9.9 of the CC&R Amendment shall not apply to Tenant.

ARTICLE 4.
RENT

4.1 Tenant hereby agrees to pay Landlord a base annual rental (the "Base Rent") as follows subject to recalculation as provided in Section 1.2:

(a) As an inducement to Tenant entering into this Lease, Base Rent in the amount of $39,462.00 per month shall be abated for the first six (6) months after the Commencement Date (the "Rent Abatement Period") and Tenant shall receive a rent credit in the amount of the actual cost to Tenant for electrical power during the Rent Abatement Period, which shall be applied against Base Rent first coming due after the Rent Abatement Period; provided that if Landlord is submetering electrical service to the Premises, then in lieu of that rent credit, Landlord shall not charge Tenant for electrical service to the Premises during the Rent Abatement Period. Landlord and Tenant agree for tax reporting purposes that none of the Base Rent due in periods in which the Base Rent is not being abated shall be allocated to any other period unless required by applicable law.

(b) Commencing on the first day after expiration of the Rent Abatement Period and continuing through and including the last day of the twenty-fourth (24th) month of the Term, the Base Rent shall be $1.50 per rentable square foot per month.

(c) Commencing on the first day of the twenty-fifth (25th) month of the Term and continuing through and including the last day of the forty-eighth (48th) month of the Term, the Base Rent shall be $1.55 per rentable square foot per month.

(d) Commencing on the first day of the forty-ninth (49th) month of the Term and continuing through and including the last day of the seventy-second (72nd) month of the Term, the Base Rent shall be $1.60 per rentable square foot per month.

(e) Commencing on the first day of the seventy-third (73rd) month of the Term and continuing through and including the last day of the ninety-sixth (96th) month of the Term, the Base Rent shall be $1.65 per rentable square foot per month.

(f) Commencing on the first day of the ninety-seventh (97th) month of the Term and continuing through and including the last day of the one-hundred twentieth (120th) month of the Term, the Base Rent shall be $1.70 per rentable square foot per month.

(g) Commencing on the first day of the one hundred twenty-first (121st) month of the Term and continuing through the remainder of the initial Term hereof, the Base Rent shall be $1.75 per rentable square foot per month.

For purposes of rent adjustment under the Lease, the number of months is measured from the Commencement Date. Each monthly installment (the "Monthly Rent") shall be payable in advance by check or by money order on or before the first day of each calendar month. In addition to the Base Rent, Tenant also agrees to pay Tenant's Share of increases in the Operating Expenses and Taxes (each as hereinafter defined), and any and all other sums of money as shall become due and payable by Tenant as hereinafter set forth, all of which shall constitute additional rent under this Lease (the "Additional Rent"). The Monthly Rent and the Additional Rent are sometimes hereinafter collectively called "Rent" and shall be paid when due in lawful money of the United States without demand, deduction, abatement, or offset to c/o Unire Real Estate Group, Inc., 10 Pointe Drive, Suite 150, Brea, California 92821 or as Landlord may designate from time to time. Landlord expressly reserves the right to apply any payment received to Base Rent or any other items of Rent that are not paid by Tenant.

4.2 In the event any Monthly or Additional Rent or other amount payable by Tenant hereunder is not paid within ten (10) days after its due date, Tenant shall pay to Landlord a late charge (the "Late Charge"), as Additional Rent, in an amount of four percent (4%) of the amount of such late payment. Failure to pay any Late Charge shall be deemed a Monetary Default (as hereinafter defined). Provision for the Late Charge shall be in addition to all other rights and remedies available to Landlord hereunder, at law or in equity, and shall not be construed as liquidated damages or limiting Landlord's remedies in any manner. Failure to charge or collect such Late Charge in connection with any one (1) or more such late payments shall not constitute a waiver of Landlord's right to charge and collect such Late Charges in connection with any other similar or like late payments. Notwithstanding the foregoing provisions of this Section 4.2, the 4% Late Charge shall not be imposed with respect to the first late payment in the twelve (12) months following the Commencement Date or with respect to the first late payment in any succeeding twelve (12) month period during the Term unless the applicable payment due from Tenant is not received by Landlord within ten (10) days following written notice from Landlord that such payment was not received when due. Following the first such written notice from Landlord in the twelve (12) months following the Commencement Date falls and the first such written notice in any succeeding twelve (12) month period during the Term (but regardless of whether such payment has been received within such ten (10) day period), the Late Charge will be imposed without notice for any subsequent payment due from Tenant during such applicable twelve (12) month period which is not received within ten (10) days after its due date.

4.3 Simultaneously with the execution hereof, Tenant shall deliver to Landlord (i) the sum of $39,457.50 as payment of the first of Monthly Rent due hereunder and (ii) an amount equal to $39,457.50 to be held by Landlord as security for Tenant's faithful performance of all of the terms, covenants, conditions, and obligations required to be performed by Tenant hereunder (the "Security Deposit"). After an Event of Default by Tenant, Landlord may, from time to time and without prejudice to any other remedy, apply the Security Deposit to the extent necessary to (a) make good any arrears of Rent; (b) pay any sums owed to Landlord by Tenant; (c) pay for any damage, injury, expense, or liability sustained by Landlord as a result of any Event of Default, including, but not limited to, any damages or deficiencies incurred in the reletting of the Premises, regardless of whether the accrual of such damages or deficiencies occurs before or after an eviction; and (d) pay for the reasonable costs of cleaning the Premises following termination if Tenant has failed to perform such cleaning as required by this Lease. Should Landlord use all or any portion of the Security Deposit to cure any Event of Default by Tenant, Tenant shall be required to replace and replenish all or any portion of the Security Deposit within ten (10) days of demand therefor and Tenant's failure to replace and replenish all or any portion of the Security Deposit within said time shall constitute an Event of Default (as hereinafter defined) and shall enable Landlord to resort to any of its remedies hereunder. The Security Deposit shall not be considered an advance payment of Rent nor a measure of Landlord's damages in case of an Event of Default by Tenant. Landlord shall not be required to account separately for the Security Deposit and may commingle same with any of Landlord's funds. No trust relationship is created herein between Landlord and Tenant with respect to the Security Deposit.

4.4 If the Term commences on a date other than the first day of a calendar month or expires or terminates on a date other than the last day of a calendar month, the Rent for any such partial month shall be prorated to the actual number of days Tenant is in occupancy of the Premises for such partial month.

4.5 All Rents and any other amount payable by one party to the other hereunder, if not paid when due, shall bear interest from the date due until paid at a rate equal to the prime commercial rate established from time to time by Bank of America (the "Prime Rate"), plus two percent (2%) per annum; but not in excess of the maximum legal rate permitted by law. Failure to charge or collect such interest in connection with any one (1) or more delinquent payments shall not constitute a waiver of either party's right to charge and collect such interest in connection with any other or similar or like delinquent payments.

4.6 If Tenant fails to make when due two (2) consecutive payments of Monthly Rent or makes two (2) consecutive payments of Monthly Rent which are returned to Landlord by Tenant's financial institution for insufficient funds, Landlord may require, by giving written notice to Tenant, that all future payments of Rent shall be made in cashier's check or by money order. The foregoing is in addition to any other remedy of Landlord hereunder, at law or in equity.

ARTICLE 5.
RENT ADJUSTMENT

5.1 Definitions.

(a) "Operating Expenses", as said term is used herein, shall mean all expenses, costs, and disbursements of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with the ownership, operation, or maintenance of the Project; provided that in no event shall any costs of the ownership, operation or maintenance of the Other Buildings be included in Operating Expenses. Operating Expenses shall be computed in accordance with generally accepted real estate practices, consistently applied, and shall include, but not be limited to, the items as listed below:

(i) Wages, salaries, and any and all taxes, insurance and benefits of the Building manager and any clerical, maintenance, or other management employees directly associated with the operation of the Building;

(ii) All expenses for the Building management office including rent, office supplies, and materials therefor; provided that rental may only be included for an on-site management office and that rent shall not exceed the rent on 500 square feet of that management office;

(iii) All supplies, materials, and tools directly associated with the operation, maintenance or repair of the Project (excluding the Other Buildings);

(iv) All costs incurred in connection with the operation, maintenance, and repair of the Project (excluding the Other Buildings) including, but not limited to, the following: elevators; heating, ventilating and air conditioning systems; security; cleaning and janitorial; parking lot and landscape; window washing; building painting; and license, permit and inspection fees, but in each event subject to the limitations on inclusion of the cost of capital improvements as provided in this Section 5.1.

(v) Costs of water, pure water, sewer, electric, and any other utility charges;

(vi) Costs of casualty, rental interruption, and liability insurance, and any deductibles payable thereunder;

(vii) The cost of any capital improvements made to the Project (excluding the Other Buildings) by Landlord after the date of this Lease which are or may be required, by any law, ordinance, rule, regulation or otherwise that was not applicable or in effect at the Commencement Date ("New Rules"), including, but not limited to, New Rules under the Americans with Disabilities Act of 1990 ("the Americans with Disabilities Act"), amortized over the period of such improvement's useful life as Landlord shall reasonably determine, together with interest on the unamortized balance at a rate equal to the Prime Rate in effect at the time the cost is incurred plus one percent (1%);

(viii) The cost of any labor or energy saving device or other equipment installed by Landlord which improves the operating efficiency of any system within the Project (excluding the Other Buildings) and thereby reduces Operating Expenses as set forth below. Landlord may add to Operating Expenses in each Lease Year during the useful life of such device or equipment an amount equal to the annual amortization allowance of the cost of such device or equipment as determined in accordance with generally accepted real estate practices, consistently applied, together with interest on the unamortized balance thereof, provided, however, that the amount of such allowance and interest shall not exceed the annual cost or expense reduction attributed by Landlord to such device or equipment; and

(ix) legal, accounting, inspection, and consultation fees incurred in connection with the operation of the Project (excluding the Other Buildings).

Expressly excluded from Operating Expenses are the following items:

(x) Advertising and leasing commissions;

(xi) Repairs, restoration and other expenses paid for by the proceeds of any insurance policies (or which would have been paid by such proceeds if Landlord had maintained the insurance Landlord is required to maintain under this Lease) or amounts otherwise reimbursed to Landlord or paid by any other source (other than by tenants paying their share of Operating Expenses);

(xii) Principal, interest, and other costs incurred in connection with financing the Project or ground lease rental or depreciation;

(xiii) The cost of special services to tenants (including Tenant) for which a special charge is made;

(xiv) The costs of repair of casualty damage or for restoration following condemnation to the extent covered by insurance proceeds (or which would have been paid by such proceeds if Landlord had maintained the insurance Landlord is required to maintain under this Lease) or condemnation awards;

(xv) The costs of any capital expenditures except as expressly permitted to be included in Operating Expenses as provided under clauses (vi), (vii) and (viii) above;

(xvi) The costs, including permit, license and inspection costs and supervision fees, incurred with respect to the installation of tenant improvements within the Project or incurred in renovating or otherwise improving, decorating, painting or

redecorating vacant space within the Project or promotional or other costs in order to market space to potential tenants;

(xvii) The legal fees and related expenses and legal costs incurred by Landlord (together with any damages awarded against Landlord) (a) due to the bad faith or other tortious violation by Landlord or any tenant of the terms and conditions of any lease of space in the Project; (b) due to a final determination by a court of competent jurisdiction (including arbitration) that Landlord has breached a lease; or (c) in connection with any other dispute involving or arising out of any alleged breach of any lease between Landlord and any other tenant, except to the extent the dispute relates to the Landlord's good faith enforcement of that lease for the benefit of other tenants;

(xviii) The costs arising from the presence of any Hazardous Materials which (a) existed on the Property as of the Commencement Date, and/or (b) were placed within, upon or beneath the Project by Landlord or any other tenant, or other respective employees, agents, contractors, assignees, licensees, invitees, or subtenants;

(xix) The attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with present or prospective tenants or other occupants of the Project;

(xx) The expenses in connection with services or other benefits which are not available to Tenant;

(xxi) The overhead and profit paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Project to the extent the same exceeds the costs of such goods and/or services rendered by qualified, unaffiliated third parties on a competitive basis;

(xxii) The costs arising from Landlord's charitable or political contributions;

(xxiii) The costs (other than ordinary maintenance and insurance) for sculpture, paintings and other objects of art;

(xxiv) The interest and penalties resulting from Landlord's failure to pay any items of Operating Expense when due;

(xxv) The Landlord's general corporate overhead and general and administrative expenses, costs of entertainment, dining, automobiles or travel for Landlord's employees, and costs associated with the operation of the business of the partnership or entity which constitutes Landlord as the same are distinguished from the costs of the operation of the Project, including partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee, costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Project, costs of any disputes between Landlord and its employees (if any) not engaged in the operation of the Project, disputes of Landlord with management, or outside fees paid in connection with disputes with other Project tenants or occupants (except to the extent such dispute is based on Landlord's good faith efforts to benefit Tenant or meet Landlord's obligations under this Lease);

(xxvi) The costs arising from the gross negligence or willful misconduct or from any bad faith contractual breach of Landlord or due to a final determination by a court of competent jurisdiction (including arbitration) that Landlord has breached a lease;

(xxvii) The offsite management office rental;

(xxviii) The costs of correction of latent defects in the Project to the extent covered by warranties;

(xxix) The costs of Landlord's membership in professional organizations (such as, by way of example and without limitation, BOMA) in excess of $2,500.00 per year;

(xxx) The costs of earthquake insurance unless earthquake insurance is maintained as an item of Operating Expenses in the Base Year;

(xxxi) an allocable portion of the salaries, wages or other compensation paid to employees of any property management organization being paid a fee by Landlord for its services or to any employees of Landlord who are not assigned to the operation, management, maintenance or repair of the Building on a full-time basis, representing that portion of such personnel's time devoted to projects other than the Building;

(xxxii) Contributions to operating expense reserves;

(xxxiii) Bad debts loss, rent loss, or reserves for either;

(xxxiv) Costs, expenses or expenditures relating to the duties, obligations of other tenants in the Building;

(xxxv) Costs of compliance, fines or penalties incurred by Landlord due to violations of or non-compliance with any applicable governmental rule, regulation or authority;

(xxxvi) Lease payments for rented equipment, the cost of which equipment would constitute a capital expenditure that is otherwise excluded from Operating Expenses under this Section 5.1 if the equipment were purchased, except for rentals for temporary use in the maintenance and operation of the Building, and any late fees, penalties, interest charges or similar fees incurred by Landlord in connection with the same;

(xxxvii) Amounts paid as ground rental;

(xxxviii) Insurance premiums for increased premiums due to acts or omissions of other tenants of the Building causing increased risk to the Building; and

(xxxix) Costs of electrical service to any space other than Common Areas.

(b) "Taxes" shall mean all ad valorem taxes, personal property taxes, and all other taxes, assessments, embellishments, use and occupancy taxes, transit taxes, water, sewer and pure water charges not included in Section 5.1.(a)(v) above, excises, levies, license fees or taxes, and all other similar charges, levies, penalties, or taxes, if any, which are levied, assessed, or imposed, by any Federal, State, county, or municipal authority, whether by taxing districts or

authorities presently in existence or by others subsequently created, upon, or due and payable in connection with, or a lien upon, all or any portion of the Project, the Building, or facilities used in connection therewith, and rentals or receipts therefrom and all taxes of whatsoever nature that are imposed in substitution for or in lieu of any of the taxes, assessments, or other charges included in its definition of Taxes, and any costs and expenses of contesting the validity of same, less any refunds of such amounts or other reimbursements from any source, excluding any amounts otherwise expressly excluded from Operating Expenses, and less any federal or state tax levied upon the income of Landlord, its assignees or any other person receiving taxable income from the Premises or any substitute for such income tax.

(c) "Lease Year" shall mean the twelve (12) month period commencing January 1st and ending December 31st.

(d) "Tenant's Building Percentage" shall mean Tenant's percentage of the entire Building as determined by dividing the Rentable Area of the Premises by the total Rentable Area of the Building, which is 53,795 square feet. For the purposes of this Section, Tenant's Building Percentage is 48.9042%. If there is a change in the total Building Rentable Area as a result of an addition to the Building, partial destruction, modification or similar cause, which event causes a reduction or increase on a permanent basis, Landlord shall cause adjustments in the computations as shall be necessary to provide for any such changes. Landlord shall segregate Operating Expenses and Taxes into two (2) separate categories, one (1) such category, to be applicable only to Operating Expenses and Taxes incurred for the Building and the other category applicable to Operating Expenses and Taxes incurred for the Common Areas as a whole. Accordingly, two (2) Tenant's Building Percentages shall apply, one (1) such Tenant's Building Percentage shall be calculated by dividing the number of rentable square feet of the Premises by the total number of rentable square feet in the Building ("Tenant's Building Only Percentage"), and the other Tenant's Building Percentage to be calculated by dividing the number of rentable square feet of the Premises by the total number of rentable square feet of all buildings in the Project ("Tenant's Common Area Building Percentage"). Consequently, any reference in this Lease to "Tenant's Building Percentage" shall mean and refer to both Tenant's Building Only Percentage and Tenant's Common Area Building Percentage of Operating Expenses and Taxes.

(e) "Common Areas" shall mean those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project, whether or not those areas are open to the general public, together with such other portions of the Project designated by Landlord, in its discretion, including certain areas to be shared by Landlord and all tenants, and may include, without limitation, any parking facilities, fixtures, systems, signs, facilities, lakes, gardens, parks or other landscaping used in connection with the Project, and may include any city sidewalks adjacent to the Project, pedestrian walkway system, whether above or below grade, park or other facilities open to the general public and roadways, sidewalks, walkways, parkways, driveways, and landscape areas appurtenant to the Project.

(f) "Market Area" shall mean, collectively, the San Gabriel Valley.

(g) "Comparable Buildings" shall mean comparable Class "A" office use buildings located in the Market Area.

(h) "Controllable Operating Expenses" shall mean actual Operating Expenses other than the cost of insurance and utilities.

(i) "First-Year Controllable Operating Expenses" shall mean the total amount of Controllable Operating Expenses incurred during the portion of the Term in calendar year 2004, adjusted pursuant to Section 5.6 and proportionally increased to reflect the partial year (i.e., annualized by (i) dividing the Controllable Operating Expenses (adjusted pursuant to Section 5.6) for the period (the "Measurement Period") from the Commencement Date to December 31,

2004 by the number of days in the Measurement Period, and (ii) multiplying that per diem amount by 366) further adjusted to reflect any one-time payments made during 2004 that caused the Operating Expenses in the Measurement Period to be higher or lower than they otherwise would have been had that one-time payment been averaged over the entire 2004 calendar year.

(j) "Controllable Operating Expenses Cap" means the First Year Controllable Operating Expenses multiplied by the applicable "Growth Factor" set forth in the following schedule for such 12-month Lease Year:

Lease Year	Growth Factor
Calendar Year 2005	1.04
Calendar Year 2006	1.08
Calendar Year 2007	1.12
Calendar Year 2008	1.16
Calendar Year 2009	1.20
Calendar Year 2010	1.24
Calendar Year 2011	1.28
Calendar Year 2012	1.32
Calendar Year 2013	1.36
Calendar Year 2014	1.40
Calendar Year 2015	1.44

(k) "First-Year Taxes" shall mean the total amount of Taxes incurred during the portion of the Term in calendar year 2004, adjusted to include the additional assessed value of all improvements to the Building made with the Tenant Improvement Allowance, adjusted pursuant to Section 5.11 and proportionally increased to reflect the partial year (i.e., annualized by (i) dividing the Taxes (adjusted pursuant to Section 5.11) with respect to the period (the "Measurement Period") from the Commencement Date to December 31, 2004 by the number of days in the Measurement Period, and (ii) multiplying that per diem amount by 366).

(l) "Taxes Cap" means the First-Year Taxes multiplied by the applicable "Growth Factor" set forth in the following schedule for such 12-month Lease Year:

Lease Year	Growth Factor
Calendar Year 2005	1.03
Calendar Year 2006	1.06
Calendar Year 2007	1.09
Calendar Year 2008	1.12
Calendar Year 2009	1.15
Calendar Year 2010	1.18
Calendar Year 2011	1.21
Calendar Year 2012	1.24
Calendar Year 2013	1.27
Calendar Year 2014	1.30
Calendar Year 2015	1.33

5.2 Subject to Section 5.13, in the event that the Operating Expenses of Landlord's operation of the Project (excluding the Other Buildings) during any Lease Year of the Term shall exceed the Operating Expenses for the Project (excluding the Other Buildings) for the 2004 calendar year adjusted pursuant to Section 5.6 (the "Base Year"), Tenant shall pay to Landlord, as Additional Rent, Tenant's Share (as hereinafter defined) of the difference between the Operating Expenses for a particular Lease Year and the Base Year. "Tenant's Share" shall be determined by multiplying any such difference between Operating Expenses for any Lease Year and the Base Year or pro rata portion thereof, respectively, by Tenant's Building Percentage. Landlord shall, in advance of each Lease Year, reasonably estimate what

Tenant's Share will be for such Lease Year based, in part, on Landlord's operating budget for such Lease Year, and Tenant shall pay Tenant's Share as so estimated each month (the "Monthly Escalation Payments"). The Monthly Escalation Payments shall be due and payable at the same time and in the same manner as the Monthly Rent. Base Year Operating Expenses shall not include market-wide labor-rate increases due to extraordinary circumstances, including, but no limited to, boycotts and strikes, and utility rate increases due to extraordinary circumstances including, but not limited to, unusual conservation surcharges (above 5-year average surcharges), boycotts, or embargoes. In the event that the scope of coverage and the coverage limits of the insurance maintained by Landlord, the cost of which is included in Operating Expenses, materially changes after the Base Year, the cost of insurance during the Base Year shall be adjusted to what it would have been had that same level of coverage and limits been carried in the Base Year. Notwithstanding the foregoing, the actual coverage and limits maintained by The Prudential Insurance Company of America with respect to its portfolio of investment properties from time to time shall be deemed not to have materially changed from the Base Year notwithstanding that the coverage and limits may have actually changed.

5.3 Landlord shall, within one hundred fifty (150) days after the end of each Lease Year other than the Base Year, or as soon thereafter as reasonably possible, provide Tenant with a written statement of the actual Operating Expenses incurred during such Lease Year for the Project (excluding the Other Buildings) and such statement shall specify Operating Expenses by major line items and set forth a calculation of Tenant's Share of increases in such Operating Expenses, subject to Section 5.13. Tenant shall pay Landlord, as Additional Rent, the excess of Tenant's Share of Operating Expenses over the amount of Monthly Escalation Payments made by Tenant attributable to said Lease Year, such payment to be made within thirty (30) days of the date of Tenant's receipt of said statement (except as provided in Section 5.4 below); similarly, Tenant shall receive a credit if Tenant's Share is less than the amount of Monthly Escalation Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Escalation Payments to become due hereunder. If utilities, janitorial services or any other components of Operating Expenses increase or decrease during any Lease Year, Landlord may revise Monthly Escalation Payments due during such Lease Year by giving Tenant written notice to that effect; and thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of revised difference in Operating Expenses multiplied by Tenant's Building Percentage divided by the number of months remaining in such Lease Year.

5.4 If, within sixty (60) days following Tenant's receipt of the Operating Expense statement, neither party hereto delivers to the other party a notice referring in reasonable detail to one (1) or more errors in such statement, or a notice that Tenant will conduct or require an audit it shall be deemed conclusively that the information set forth in such statement is correct. Prior to commencing any audit, Tenant may request that Landlord provide additional reasonable detail as to the Operating Expenses included in that Operating Expense Statement. Tenant shall, however, be entitled to conduct or require an audit to be conducted, provided that (a) not more than one (1) such audit may be conducted during any Lease Year of the Term, (b) the records for each Lease Year may be audited only once, and (c) such audit is commenced within sixty (60) days following Tenant's receipt of the applicable statement. In no event shall payment of Rent ever be contingent upon the performance of such audit. For purposes of any audit, Tenant or Tenant's duly authorized representative, at Tenant's sole cost and expense, shall have the right, upon fifteen (15) days' written notice to Landlord, to inspect Landlord's books and records pertaining to Operating Expenses at the offices of Landlord or Landlord's managing agent during ordinary business hours, provided that such audit must be conducted so as not to unreasonably interfere with Landlord's business operations and must be reasonable as to scope and time. If Landlord disagrees with the results of Tenant's audit, Landlord shall provide an audit of such books and records prepared by a nationally or regionally recognized certified public accounting firm of Landlord's selection (the "Final Auditor"), prepared at Tenant's expense, which shall be deemed to be conclusive for the purposes of this Lease. If actual Tenant's Share of Operating Expenses are finally determined to have been overstated or understated by Landlord for any calendar year, then the parties shall within thirty (30) days thereafter make such adjustment payment or refund as is applicable, and if Tenant's Share of actual Operating Expenses are determined to have been overstated by Landlord for any calendar year by in excess of five percent (5%), then Landlord shall pay the reasonable cost of Tenant's audit and any Final Auditor. If Tenant's share of Operating Expenses have been overstated or understated by Landlord for any calendar year (including any

excess or shortfall in the amount of the Monthly Escalation Payments above or below the actual Tenant's Share of Operating Expenses for that calendar year), then the amount of the excess of shortfall shall bear interest as follows: an amount equal to one twelfth of the excess or shortfall shall be deemed to be due the applicable party on the last day of each calendar month of the applicable calendar year. For example, if the total amount of the Monthly Escalation Payments exceeds the actual Tenant's Share of Operating Expenses by $12,000, an amount equal to $1,000 shall be deemed to have been due from Landlord to Tenant on the last day of each month of the applicable calendar year. Interest on that excess or shortfall shall be payable by Landlord to Tenant in the case of excess amounts and from Tenant to Landlord in the case of shortfall amounts from the date each amount is deemed due until paid at an annual interest rate equal to the Prime Rate. Continuing with the preceding example, the $1,000 amount allocable to January of the applicable year shall bear interest from the last day of January of the applicable year until paid. Similarly, the excess amount of $1,000 allocable to December of the applicable year, shall bear interest from the last day of December of the applicable year until paid. Notwithstanding the foregoing, if the Final Auditor making the determination of the amount of Operating Expenses pursuant to an audit under this Section 5.4 expressly finds that Landlord willfully overstated the Operating Expenses, the portion of the amount due Tenant that bears the same proportion that the willfully misstated Operating Expenses bears to the total Operating Expenses shall instead bear interest at an annual interest rate equal to the Prime Rate plus 2%.

5.5 If the Expiration Date or Termination Date under this Lease does not fall on December 31 of any given year, then: (i) the period commencing on the January 1 immediately preceding said Expiration Date or Termination Date and continuing through, to and, including said Expiration Date or Termination Date shall be referred to in this Lease as the "Last Partial Year" and (ii) Tenant's Share of Operating Expenses for the Last Partial Year shall be, calculated by proportionately reducing the Base Year Operating Expenses to reflect the number of calendar months in said Last Partial Year (the "Adjusted Base Operating Expenses"). The Adjusted Base Operating Expenses shall then be compared with the actual Operating Expenses for said Last Partial Year to determine the amount of any increases or decreases in the actual Operating Expenses for said Last Partial Year over the Adjusted Base Operating Expenses. Tenant shall pay its Tenant's Share of any such increases within thirty (30) days following the receipt of a final statement or, as applicable, Landlord shall refund any overpayment concurrently with delivery of such final statement.

5.6 If the occupancy of the Building during any part of any Lease Year (including the Base Year) is less than 100%, Landlord shall make an appropriate adjustment of the variable components of Operating Expenses for that Lease Year, using generally accepted management principles, to determine the amount of Operating Expenses that would have been incurred had the Building been 100% occupied. This amount shall be considered to have been the amount of Operating Expenses for that Lease Year. For purposes of this Section 5.6, "variable components" include only those component expenses that are affected by variations in occupancy levels.

5.7 Subject to Section 5.14, in the event that the Taxes during any Lease Year of the Term shall exceed the Taxes for the Project for the Base Year, Tenant shall pay to Landlord, as Additional Rent, "Tenant's Share" (as hereinafter defined) of the difference between the Taxes for a particular Lease Year and the Base Year. "Tenant's Share" shall be determined by multiplying any such difference between Taxes for any Lease Year and the Base Year or pro rata portion thereof, respectively, by Tenant's Building Percentage. Landlord shall, in advance of each Lease Year, estimate what Tenant's Share will be for such Lease Year and Tenant shall pay Tenant's Share as so estimated each month (the "Monthly Tax Payments"). The Monthly Tax Payments shall be due and payable at the same time and in the same manner as the Monthly Rent.

5.8 Landlord shall, within one hundred fifty (150) days after the end of each Lease Year other than the Base Year, or as soon thereafter as reasonably possible, provide Tenant with an itemized written statement of the actual Taxes incurred during such Lease Year for the Project (excluding the Other Buildings) and such statement shall set forth Tenant's Share of such Taxes. Tenant shall pay Landlord, as Additional Rent, the excess of Tenant's Share of any increases in Taxes over the amount of Monthly Tax Payments made by Tenant attributable to said Lease Year, such payment to be made within thirty (30) days of the date of Tenant's receipt of said statement; similarly, Tenant shall receive a credit if

Tenant's Share is less than the amount of Monthly Tax Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Tax Payments to become due hereunder. If Taxes increase or decrease during any Lease Year, Landlord may revise Monthly Tax Payments due during such Lease Year by giving Tenant written notice to that effect; and, thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of revised difference in Taxes multiplied by Tenant's Building Percentage divided by the number of months remaining in such Lease Year.

5.9 If, within sixty (60) days following receipt of the Taxes statement or that Tenant shall conduct or require an audit, neither party hereto delivers to the other party a notice referring in reasonable detail to one (1) or more errors in such statement or that Tenant shall conduct or require an audit, it shall be deemed conclusively that the information set forth in such statement is correct. Tenant shall, however, be entitled to conduct or require an audit to be conducted, provided that (a) not more than one (1) such audit may be conducted during any Lease Year of the Term; (b) the records for each Lease Year may be audited only once, and (c) such audit is commenced within sixty (60) days following Tenant's receipt of the applicable statement. In no event shall payment of Rent ever be contingent upon the performance of such audit. For purposes of any audit, Tenant or Tenant's duly authorized representative, at Tenant's sole cost and expense, shall have the right, upon fifteen (15) days' written notice to Landlord, to inspect Landlord's books and records pertaining to Taxes at the offices of Landlord or Landlord's managing agent during ordinary business hours, provided that such audit must be conducted so as not to unreasonably interfere with Landlord's business operations and must be reasonable as to scope and time. If Landlord disagrees with the results of Tenant's audit, Landlord shall provide an audit of such books and records prepared by a certified public accountant of Landlord's selection, prepared at Tenant's expense, which shall be deemed to be conclusive for the purposes of this Lease. If Tenant's Share of actual Taxes are determined to have been overstated or understated by Landlord for any calendar year, then the parties shall within thirty (30) days thereafter make such adjustment payment or refund as is applicable. If Tenant's Share of actual Taxes is determined to have been overstated by Landlord for any calendar year by an excess of five percent (5%), then Landlord shall pay the reasonable cost of Tenant's audit and any Final Auditor; provided that there shall be excluded from that five percent (5%) threshold any changes in Taxes resulting from the contest of such Taxes or an assessment of the Building or any error made by the tax assessor. Despite any other provision of this Article 5, Landlord may adjust Operating Expenses and/or Taxes and submit a corrected statement to account for Taxes or other government public-sector charges (including utility charges) that are for that given year but that were first billed to Landlord after the date that is ten (10) business days before the date on which the statement was furnished.

5.10 Tenant's Share of Taxes for the Last Partial Year, if any, shall be calculated by proportionately reducing the Base Year Taxes to reflect the number of calendar months in said Last Partial Year (the "Adjusted Base Taxes"). The Adjusted Base Taxes shall then be compared with the actual Taxes for said Last Partial Year to determine the amount of any increases or decreases in the actual Taxes for such Last Partial Year over the Adjusted Base Taxes Tenant shall pay its Tenant's Share of any such increases within thirty (30) days following the receipt of a final statement or, as applicable, Landlord shall refund any overpayment concurrently with delivery of such final statement.

5.11 If the Taxes for the Base Year or any Lease Year are changed as a result of protest, appeal or other action taken by a taxing authority, the Taxes as so changed (the "Revised Taxes") shall be deemed the Taxes for such Lease Year or Base Year, as applicable. If in any year the Building is less than 100% occupied, the elements of Taxes which vary depending upon the occupancy of the Building (e.g., Taxes attributable to the build out of leasable floor area), shall be adjusted to reflect such amount as would have been incurred had the Building been at least 100% occupied during such year. Any expenses incurred by Landlord in attempting to protest, reduce or minimize Taxes shall be included in Taxes in the Lease Year in which those expenses are paid. Landlord shall have the exclusive right to conduct such contests, protests and appeals of the Taxes as Landlord shall determine is appropriate in Landlord's sole discretion; provided that not more often than once in any Lease Year, Tenant may request that Landlord appeal the Taxes, and Landlord agrees to undertake that appeal at Tenant's sole cost and expense unless Landlord's tax consultants advise Landlord against that appeal. If the Building is not reassessed to include the assessed value of the improvements being constructed by Tenant to the extent that the cost or value of those leasehold improvements do not exceed the Tenant Improvement Allowance, then the Taxes for the

Base Year shall be appropriately adjusted to reflect the additional Taxes that would have been payable in the Base Year had that reassessment been made.

5.12 Tenant's obligation with respect to Additional Rent and the payment of Tenant's Share of Operating Expenses and Tenant's Share of Taxes shall survive the Expiration Date or Termination Date of this Lease and Landlord shall have the right to retain the Security Deposit, to the extent necessary, to secure payment of Tenant's Share of Operating Expenses and Tenant's Share of Taxes for the final year of the Lease, or part thereof, during which Tenant was obligated to pay such expenses.

5.13 In the event that during any Lease Year during the initial eleven (11) year Term of this Lease, the Controllable Operating Expenses exceed the applicable Controllable Operating Expenses Cap, then (a) for purposes of calculating Tenant's Share, Operating Expenses shall be deemed reduced by the amount by which Controllable Operating Expenses exceed the applicable Controlling Operating Expenses Cap, and (b) such excess may be carried over into the following Lease Years without interest for purposes of determining Tenant's Share with respect to such following Lease Years by adding such excess to Controllable Operating Expenses for such following Lease Years.

5.14 In the event that during any Lease Year during the initial eleven (11) year Term of this Lease, the Taxes exceed the applicable Taxes Cap, then (a) for purposes of calculating Tenant's Share, Taxes shall be deemed reduced by the amount by which Taxes exceed the applicable Taxes Cap, and (b) such excess may be carried over into the following Lease Years without interest for purposes of determining Tenant's Share with respect to such following Lease Years by adding such excess to Taxes for such following Lease Years.

ARTICLE 6.
SERVICES TO BE PROVIDED BY LANDLORD

6.1 Subject to Articles 5 and 10 herein and Section 6.7, Landlord shall pay for and furnish to the Premises, the following services:

(a) Electrical facilities to furnish approximately 667 Kilowatts to the first floor of the Building.

(b) Basic janitorial service, as described more fully in Exhibit F, on a five (5) day week basis consistent with the services provided in Comparable Buildings. Carpet cleaning, except as provided in normal business services, shall be performed at Tenant's request and at Tenants expense;

(c) Air conditioning and heating as reasonably required for comfortable use and occupancy under ordinary office conditions during the following periods ("Normal Business Hours"): 7:00 a.m. to 6:00 p.m., Mondays through Fridays, and 8:00 a.m. to 1:00 p.m., Saturdays, but not on Sundays or any legal holidays recognized by the United States Government. During other hours Landlord will provide such air conditioning and heating through Premises heat pump override system which shall be connected to the Building HVAC system. The cost for override or after-hours service per hour shall be Landlord's actual costs of providing such after hour service including without limitation the reasonable allocation of supervision costs and depreciation with respect to such after hours' usage and an administrative fee of five percent (5%), but excluding the cost of electricity paid for by Tenant pursuant to Section 6.7. Landlord agrees that such cost, depreciation and administrative fee shall not exceed $10.00 per hour during the Term of this Lease. The Buildings energy management system shall create an accurate invoice on a monthly basis and Landlord shall present that invoice to Tenant along with monthly rent statement. Within thirty (30) days of presentation of that invoice, Tenant shall pay Landlord for such service, in addition to Tenant's rental obligation, as Additional Rent. Except as herein otherwise provided, Landlord shall in no event be required to supply central heating or air conditioning other than during Normal Business Hours;

(d) Replacement of all standard fluorescent bulbs in all areas and all incandescent bulbs in public areas, rest room areas, and stairwells and in the Premises. Routine maintenance and electric lighting service for all public areas of the Project in a manner and to the extent deemed by Landlord to be standard;

(e) Subject to provisions set forth below, Landlord shall at all times furnish the Premises with elevator service, and water for lavatory, lunchroom, coffee area and for Tenant's reasonable commercial needs and drinking purposes in the Building core areas; and

(f) Landlord may impose reasonable charges for any utilities or services required to be provided by Landlord by reason of any substantial recurrent use of the Premises at any time other than Normal Business Hours. In connection with such after-hours electrical usage, Landlord may (but shall not be obligated to) install separate meters to measure such excess usage at Landlord's expense.

6.2 Landlord shall not be liable for any loss or damage arising or alleged to arise in connection with the failure, stoppage, or interruption of any such services; nor shall the same be construed as an eviction of Tenant, work an abatement of Rent, entitle Tenant to any reduction in Rent, or relieve Tenant from the operation of any covenant or condition herein contained; it being further agreed that Landlord reserves the right to discontinue temporarily such services or any of them at such times as may be necessary by reason of repair or capital improvements performed within the Project, accident, unavailability of employees, repairs, alterations or improvements, or whenever by reason of strikes, lockouts, riots, acts of God, or any other happening or occurrence beyond the reasonable control of Landlord. In the event of any such failure, stoppage or interruption of services, Landlord shall use reasonable diligence to have the same restored. Neither diminution nor shutting off of light or air or both, nor any other effect on the Project by any structure erected or condition now or hereafter existing on lands adjacent to the Project, shall affect this Lease, abate Rent, or otherwise impose any liability on Landlord.

6.3 Landlord shall have the right to reduce heating, cooling, or lighting within the Premises and in the public area in the Building as required by any government mandatory fuel or energy-saving program.

6.4 Unless otherwise provided by Landlord, Tenant shall separately arrange with the applicable local public authorities or utilities, as the case may be, for the furnishing of and payment of all telephone and facsimile services as may be required by Tenant in the use of the Premises. Tenant shall directly pay for such telephone and facsimile services as may be required by Tenant in the use of the Premises. Tenant shall directly pay for such telephone and facsimile services, including the establishment and connection thereof, at the rates charged for such services by said authority or utility; and the failure of Tenant to obtain or to continue to receive such services for any reason whatsoever shall not relieve Tenant of any of its obligations under this Lease. Landlord shall provide physical access to the Building for telecommunication providers in keeping with the general standards of physical access for such providers provided by Comparable Buildings.

6.5 Subject to Landlord's prior approval, which shall not be unreasonably withheld, and to the capacity of the Building electrical system and structure, Tenant shall have the right to install in the Premises additional air conditioning units as required by the business requirements of Tenant for the Stated Use at Tenant's sole cost and expense. Any such supplemental air conditioning units shall be separately metered at Tenant's sole cost and expense and Tenant shall pay Landlord the entire cost of electrical service as evidenced by that separate meter.

6.6 Notwithstanding anything to the contrary in Section 6.2 or elsewhere in this Lease, if (a) Landlord fails to provide Tenant with the HVAC service, electrical service or any other utility service or elevator service described in Section 6.1, or Landlord enters the Premises and such entry interferes with Tenant's reasonable use of the Premises (b) such failure or interference by Landlord's entry is not due to any one or more Force Majeure Events or to an event covered by Article 19, (c) Tenant has given Landlord reasonably prompt written notice of such failure or that such entry by Landlord is

unreasonably interfering with Tenant's use of the Premises and (d) as a result of such failure or interference all or any part of the Premises are rendered untenantable (and, as a result, all or such part of the Premises are not used by Tenant during the applicable period) for more than five (5) consecutive business days, then Tenant shall be entitled to an abatement of Rent proportional to the extent to which the Premises are thereby rendered unusable by Tenant, commencing with the later of (i) the sixth business day during which such untenantability continues or (ii) the sixth business day after Landlord receives such notice from Tenant, until the Premises (or part thereof affected) are again usable or until Tenant again uses the Premises (or part thereof rendered unusable) in its business, whichever first occurs. The foregoing rental abatement shall be Tenant's exclusive remedy therefor. Notwithstanding the foregoing, the provisions of Article 19 below and not the provisions of this subsection shall govern in the event of casualty damage to the Premises or Building and the provisions of Article 20 below and not the provisions of this subsection shall govern in the event of condemnation of all or a part of the Premises or Building.

6.7 Landlord shall use reasonable efforts to cause the electrical service for the Premises to be separately metered by the utility providing that service. If the electrical service is separately metered by the utility providing that service, Tenant shall obtain electrical service directly from that utility and pay all costs incurred in connection with that electrical service directly to that utility service provider. In the event that the electrical service cannot be separately metered by the providing utility, Landlord, at Landlord's cost, shall install a submeter for electrical service to Premises and Tenant shall pay for all electrical service to the Premises based on invoices from Landlord provided from time to time, but not more often than monthly; provided that the charges by Landlord for electricity shall not exceed the cost therefor charged to Landlord by the utility service provider. Payments to Landlord for electrical service shall be due within ten (10) business days after delivery of a written invoice.

ARTICLE 7.
REPAIRS AND MAINTENANCE BY LANDLORD

7.1 Landlord shall provide for the refurbishment, repair, cleaning and maintenance of the public portions of the Project in keeping with the ordinary standard for Comparable Buildings as part of Operating Expenses. Unless otherwise expressly stipulated herein, Landlord shall not be required to make any improvements or repairs of any kind or character to the Premises during the Term, except such repairs as may be required to the exterior walls, corridors, windows, roof, integrated Building utility and mechanical systems and other Base Building elements and other structural elements and equipment of the Project, and subject to Section 13.4, below, such additional maintenance as may be necessary because of the damage caused by persons other than Tenant, its agents, employees, licensees, or invitees.

7.2 Landlord or Landlord's officers, agents, and representatives (subject to any security regulations imposed by any governmental authority and to Tenant's reasonable security restraints (e.g., regarding classified work projects)) shall have the right to enter all parts of the Premises at all reasonable hours upon reasonable prior notice to Tenant (other than in an emergency, in which case Tenant shall be notified as soon as possible under the circumstances) to Tenant to inspect, clean, make repairs, alterations, and additions to the Project or the Premises which are provided for hereunder, to make repairs to adjoining spaces, to cure any Events of Default of Tenant hereunder that Landlord elects to cure pursuant to Section 22.5, below, to show the Premises to prospective tenants (during the final nine (9) months of the Term or at any time after the occurrence of an Event of Default that remains uncured), mortgagees or purchasers of the Building, or to provide any service which it is obligated or elects to furnish to Tenant; and Tenant shall not be entitled to any abatement or reduction of Rent by reason thereof. Landlord shall have the right to enter the Premises at any time and by any reasonable and proportionate means in the case of an emergency that threatens the material and imminent injury to persons or property.

7.3 Except as otherwise expressly provided in this Lease, Tenant hereby waives all rights it would otherwise have under California Civil Code Sections 1932(1) and 1942(a) or any successor statutes to deduct repair costs from Rent and/or terminate this Lease as the result of any failure by Landlord to maintain or repair.

ARTICLE 8.
REPAIRS AND CARE OF PROJECT BY TENANT

8.1 If the Building, or any portion thereof, including but not limited to, the elevators, boilers, engines, pipes, and other apparatus, or members of elements of the Building (or any of them) used for the purpose of climate control of the Building or operating of the elevators, or of the water pipes, drainage pipes, electric lighting, or other equipment of the Building or the roof or outside walls of the Building and also the Premises improvements, including but not limited to, the carpet, wall coverings, doors, and woodwork, become damaged or are destroyed through the negligence, carelessness, or misuse of Tenant, its servants, agents, employees, or anyone permitted by Tenant to be in the Building, or through it or them (other than the extent of ordinary and normal usage, wear and tear), then the reasonable cost of the necessary repairs, replacements, or alterations shall be borne by Tenant who shall pay the same to Landlord as Additional Rent within ten (10) days after demand, subject to Section 13.4 below. Landlord shall have the exclusive right, but not the obligation, to make any repairs necessitated by such damage.

8.2 Subject to Section 13.4 below, Tenant agrees, at its sole cost and expense, to repair or replace any damage or injury done to the Project, or any part thereof, caused by Tenant, Tenant's agents, employees, licensees, or invitees which Landlord elects not to repair. Tenant shall not injure the Project or the Premises and shall maintain the elements of the Premises not to be maintained by Landlord pursuant to this Lease in a clean, attractive condition and in good repair, wear and tear excepted, provided that Tenant shall have no duty to leave the Premises in any condition that is materially improved beyond the condition of the Premises on the Commencement Date, reasonable wear and tear excepted. If Tenant fails to keep such elements of the Premises in such good order, condition, and repair as required hereunder to the reasonable satisfaction of Landlord, Landlord may restore the Premises to such good order and condition and make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's property or business by reason thereof, and within thirty (30) days after completion thereof and written demand therefor, Tenant shall pay to Landlord, as Additional Rent, upon demand, the cost of restoring the Premises to such good order and condition and of the making of such repairs, plus an additional charge of ten percent (10%) thereof. Tenant shall leave the Premises at the end of each business day in reasonably condition, consistent with the nature of Tenant's business operations, for the purpose of allowing the performance of Landlord's cleaning services. Upon the Expiration Date or the Termination Date, Tenant shall surrender and deliver up the Premises to Landlord in substantially the same condition in which it existed at the Commencement Date, excepting only ordinary wear and tear and damage arising from any cause not required to be repaired by Tenant. Upon the Expiration Date or the Termination Date, Landlord shall have the right to re-enter and take possession of the Premises.

8.3 Tenant may provide additional janitorial or cleaning services from time to time in the Premises as determined by Tenant with reasonable advanced notice to Landlord. Landlord at its sole cost may elect to provide supervision of those services.

ARTICLE 9.
TENANT'S EQUIPMENT AND INSTALLATIONS

9.1 If heat-generating machines or equipment, including telephone equipment, cause the temperature in the Premises, or any part thereof, to exceed the temperatures the Building's air conditioning system would be able to maintain in such Premises were it not for such heat-generating equipment, then Landlord reserves the right to install supplementary air conditioning units in the Premises, and the cost thereof, including the cost of installation and the cost of operation and maintenance thereof, including water, shall be paid by Tenant to Landlord within fifteen (15) days after demand by Landlord.

9.2 Except for desk or table-mounted typewriters, adding machines, office calculators, dictation equipment, personal computers, and other equipment consistent with the Stated Use, Tenant shall not install within the Premises any fixtures, equipment, facilities, or other improvements without the specific written consent of Landlord, subject to Article 15, below.

ARTICLE 10.
FORCE MAJEURE

10.1 It is understood and agreed that with respect to any service or other obligation to be furnished or obligations to be performed by either party that in no event shall either party be liable for failure to furnish or perform the same when prevented from doing so by strike, lockout, breakdown, accident, supply, or inability by the exercise of reasonable diligence to obtain supplies, parts, or employees necessary to furnish such service or meet such obligation; or because of war or other emergency; or for any cause beyond the reasonable control with the party obligated for such performance; or for any cause due to any act or omission of the other party or its agents, employees, licensees, invitees, or any persons claiming by, through, or under the other party; or because of the failure of any public utility to furnish services; or because of order or regulation of any federal, state, county or municipal authority (collectively, "Force Majeure Events"), except to the extent that any Force Majeure Event is caused by the gross negligence, willful misconduct or material breach of this Lease of or by the obligated party. Nothing in this Section 10.1 shall limit or otherwise modify or waive either party's obligation to pay amounts due to the other as and when due pursuant to the terms of this Lease.

ARTICLE 11.
CONSTRUCTION, MECHANICS' AND MATERIALMAN'S LIENS

11.1 Tenant shall not suffer or permit any construction, mechanics' or materialman's lien to be filed against the Premises or any portion of the Project by reason of work, labor services, or materials supplied to Tenant. Nothing herein contained shall be deemed or construed in any way as constituting the consent or request of Landlord, expressed or implied, by inference or otherwise, for any contractor, subcontractor, laborer, or materialman to perform any labor or to furnish any materials or to make any specific improvement, alteration, or repair of or to the Premises or any portion of the Project; nor of giving Tenant any right, power, or authority to contract for, or permit the rendering of, any services or the furnishing of any materials that could give rise to the filing of any construction, mechanics' or materialman's lien against the Premises or any portion of the Project.

11.2 If any such construction, mechanics' or materialman's lien shall at any time be filed against the Premises or any portion of the Project as the result of any act or omission of Tenant, Tenant covenants that it shall, within twenty (20) days after Tenant has notice of the claim for lien, procure the discharge thereof by payment or by giving security or in such other manner as is or may be required or permitted by law or which shall otherwise satisfy Landlord and Tenant's causing the removal of a mechanic's lien by means of bonding within that 20-day period shall be deemed to cure the default by Tenant of Section 11.1 in permitting the filing of that lien. If Tenant fails to take such action, Landlord, in addition to any other right or remedy it may have, may take such action as may be reasonably necessary to protect its interests. Any amounts paid by Landlord in connection with such action and all other expenses of Landlord incurred in connection therewith, including reasonable attorneys' fees, court costs, and other necessary disbursements (but excluding attorneys' fees, court costs and other litigation expenses incurred by Landlord in connection with an action against Tenant, which shall be governed by Article 25) shall be repaid by Tenant to Landlord within ten (10) business days after demand.

ARTICLE 12.
ARBITRATION

12.1 In the event that a dispute arises under Sections 2.3, 5.3 or 5.8 above, the same shall be submitted to arbitration in accordance with the provisions of applicable state law, if any, as from time to time amended. Arbitration proceedings, including the selection of an arbitrator, shall be conducted pursuant to the rules, regulations, and procedures from time to time in effect as promulgated by the American Arbitration Association (the "Association"). Prior written notice of application by either party for arbitration shall be given to the other at least ten (10) days before submission of the application to the said Association's office in the city wherein the Building is situated (or the nearest other city having an Association office). The arbitrator shall hear the parties and their evidence. The decision of the arbitrator may be entered in the appropriate court of law; and the parties consent to the jurisdiction of such court and

further agree that any process or notice of motion or other application to the court or a judge thereof may be served outside the state wherein the Building is situated by registered mail or by personal service, provided a reasonable time for appearance is allowed. The costs and expenses of each arbitration hereunder and their apportionment between the parties shall be determined by the arbitrator in his award or decision, subject to the last sentence of this section. No arbitrable dispute shall be deemed to have arisen under this Lease (a) prior to the expiration of the period of twenty (20) days after the date of the giving of written notice by the party asserting the existence of the dispute, together with a description thereof sufficient for an understanding thereof, and (b) where Tenant disputes the amount of a Tenant payment required hereunder (e.g., Operating Expense excess under Section 5.3 hereof), prior to Tenant paying in full the amount billed by Landlord, including the disputed amount. The prevailing party in such arbitration shall be reimbursed for its expenses, including reasonable attorneys' fees. Notwithstanding the foregoing, in no event shall this Article 12 affect or delay Landlord's unlawful detainer rights under California law.

ARTICLE 13.
INSURANCE

13.1 Landlord shall maintain, as a part of Operating Expenses, fire and extended coverage insurance on the Project in an amount equal to the full replacement cost of the Project, subject to such deductibles as Landlord may determine. Landlord shall not be obligated to insure, and shall not assume any liability of risk of loss for, any of Tenant's furniture, equipment, machinery, goods, supplies, improvements or alterations upon the Premises other than the Covered Tenant Improvements (as defined below). As used herein, the term "Covered Tenant Improvements" means the Tenant Improvements constructed by Landlord pursuant to the Work Letter and any other improvements permanently attached to the Building that will become the property of Landlord on the expiration or earlier termination of this Lease and in any event excludes any furniture, trade fixtures, equipment or personal property; provided that no portion of any alterations to the Premises shall be Covered Tenant Improvements prior to their completion and delivery by Tenant's contractor and the expiration of 30 days after written notice from Tenant to Landlord of the completion of those alterations and the value thereof. Such insurance shall be maintained with an insurance company selected, and in amounts desired, by Landlord or Landlord's mortgagee, and payment for losses thereunder shall be made solely to Landlord subject to the rights of the holder of any mortgage or deed of trust which may now or hereafter encumber the Project. Additionally Landlord may maintain such additional insurance, including, without limitation, earthquake insurance, flood insurance, liability insurance and/or rent insurance, as Landlord may in its sole discretion elect. The cost of all such additional insurance shall also be part of the Operating Expenses. Landlord shall not be obligated to insure, and shall not assume any liability of risk of loss for, any of Tenant's furniture, equipment, machinery, goods, supplies, improvements or alterations upon the Premises. Any or all of Landlord's insurance may be provided by blanket coverage maintained by Landlord or any affiliate of Landlord under its insurance program for its portfolio of properties or by Landlord or any affiliate of Landlord's program of self insurance, and in such event Operating Expenses shall include the portion of the reasonable cost of blanket insurance or self-insurance that is allocated to the Project.

13.2 Tenant, at its own or any parent's or affiliate's, expense shall maintain with licensed insurers authorized to do business in the State of California and which are rated A- and have a financial size category of at least VIII in the most recent Best's Key Rating Guide, or any successor thereto (or if there is none, an organization having a national reputation), (a) commercial general liability insurance, including Broad Form Property Damage and Contractual Liability with the following minimum limits: General Aggregate $2,000,000.00; Products/Completed Operations Aggregate $2,000,000.00; Each Occurrence $1,000,000.00; Personal and Advertising Injury $1,000,000.00; Medical Payments $5,000.00 per person, (b) Umbrella/Excess Liability on a following form basis with the following minimum limits: General Aggregate $10,000,000.00; Each Occurrence $10,000,000.00; (c) Workers' Compensation with statutory limits; (d) Employer's Liability insurance with the following limits: Bodily injury by disease per person $1,000,000.00; Bodily injury by accident policy limit $1,000,000.00; Bodily injury by disease policy limit $1,000,000.00; and (e) property insurance on special causes of loss insurance form covering any and all personal property of Tenant including but not limited to alterations, improvements (exclusive of the initial improvements constructed pursuant to Exhibit C), betterments, furniture, fixtures and equipment in an amount not less than their full replacement cost, with a deductible not to exceed $100,000.00. At all

times during the Term, such insurance shall be maintained, and Tenant shall cause a current and valid certificate of such policies to be deposited with Landlord. If Tenant fails to have a current and valid certificate of such policies on deposit with Landlord at all times during the Term and such failure is not cured within five (5) business days following Tenant's receipt of notice thereof from Landlord, Landlord shall have the right, but not the obligation, to obtain such an insurance policy, and Tenant shall be obligated to pay Landlord the amount of the premiums applicable to such insurance within ten (10) business days after Tenant's receipt of Landlord's request for payment thereof. Said policy of liability insurance shall name Landlord, Landlord's managing agent and Tenant as the insureds and shall be noncancellable with respect to Landlord except after thirty (30) days' written notice from the insurer to Landlord.

13.3 Tenant shall adjust annually the amount of coverage established in Article 13.2 hereof to such amount as in Landlord's reasonable opinion, adequately protects Landlord's interest; provided the same is consistent with the amount of coverage customarily required of comparable tenants in Comparable Buildings by institutional owners.

13.4 Notwithstanding anything herein to the contrary, Landlord and Tenant each hereby waives any and all rights of recovery, claim, action, or cause of action against the other, its agents, employees, licensees, or invitees for any loss or damage to or at the Premises or the Project or any personal property of such party therein or thereon by reason of fire, the elements, or any other cause which would be insured against under the terms of (i) fire and extended coverage insurance or (ii) the liability insurance referred to in Article 13.2 regardless of cause or origin, including omission of the other party hereto, its agents, employees, licensees, or invitees. Landlord and Tenant covenant that no insurer shall hold any right of subrogation against either of such parties to such extent. This waiver shall be ineffective against any insurer of Landlord or Tenant to the extent that such waiver is prohibited by the laws and insurance regulations of the State of California. The parties hereto agree that any and all such insurance policies required to be carried by either shall be endorsed with a subrogation clause, substantially as follows: "This insurance shall not be invalidated should the insured waive, in writing prior to a loss, any and all right of recovery against any party for loss occurring to the property described therein, " and shall provide that such party's insurer waives any right of recovery against the other party in connection with any such loss or damage.

In the event Tenant's occupancy or conduct of business in or on the Premises, whether or not Landlord has consented to the same, results in any increase in premiums for the insurance carried from time to time by Landlord with respect to the Building, Tenant shall pay any such increase in premiums as Rent within ten (10) business days after bills for such additional premiums shall be rendered by Landlord. In determining whether increased premiums are a result of Tenant's use or occupancy of the Premises, a schedule issued by the organization computing the insurance rate on the Building showing the various components of such rate, shall be presumptive evidence of the several items and charges which make up such rate. Tenant shall promptly comply with all reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Premises. Tenant shall pay the entirety of any insurance deductible allocable to the Covered Tenant Improvements and to the extent the cost to Landlord of insuring the Covered Tenant Improvements exceeds the cost of insuring the tenant improvements of other tenants in the Project on a per square foot basis, Tenant shall pay the entire amount of that excess allocable to the Covered Tenant Improvements (i.e., the per square foot excess multiplied by the rentable area of the Premises) to Landlord within 30 days after Landlord's delivery to Tenant of a written invoice therefor with reasonable documentation as to the amount of that excess insurance cost.

ARTICLE 14.
QUIET ENJOYMENT

14.1 Provided no Event of Default has occurred under this Lease, Tenant shall peaceably and quietly have, hold and enjoy the Premises for the Term, without hindrance by Landlord or anyone claiming under Landlord, subject to the provisions and conditions set forth in this Lease.

ARTICLE 15.
ALTERATIONS

15.1 Tenant agrees that it shall not make or allow to be made any alterations, physical additions, or improvements in or to the Premises without first obtaining the written consent of Landlord in each instance. As used herein, the term "Minor Alteration" refers to an alteration that (a) does not affect the outside appearance of the Building and is not visible from the Common Areas, (b) is non-structural and does not impair the strength or structural integrity of the Building, and (c) does not materially affect the mechanical, electrical, HVAC or other systems of the Building. Landlord agrees not to unreasonably withhold its consent to any Minor Alteration. Landlord's consent to any other alteration may be conditioned, given, or withheld in Landlord's sole discretion. Notwithstanding the foregoing, Landlord irrevocably consents to any repainting, recarpeting, or other purely cosmetic changes or upgrades to the Premises, so long as (i) the aggregate cost of such work is less than $26,308.00 per occurrence and two months' rent in any twelve-month period, (ii) such work constitutes a Minor Alteration (iii) no building permit is required in connection therewith, and (iv) such work conforms the then existing Specifications (as defined in Exhibit C). In addition, Landlord irrevocably consents to the rearrangement of telephone cabling and jacks and electrical outlets, security wiring and modular furniture so long as none of that work materially affects the electrical system of the Building or requires a building permit. At the time of said request, Tenant shall submit to Landlord plans and specifications of the proposed alterations, additions, or improvements; and Landlord shall have a period of fifteen (15) days therefrom in which to review and approve or disapprove said plans; provided that if Landlord determines in good faith that Landlord requires a third party to assist in reviewing such plans and specifications, Landlord shall instead have a period of thirty (30) days in which to review and approve or disapprove said plans. Except for Minor Alterations, Tenant shall pay to Landlord upon demand the reasonable cost and expense of Landlord up to a maximum of three percent (3%) of the construction costs as a supervision fee in (a) reviewing said plans and specifications, and (b) inspecting the alterations, additions, or improvements to determine whether the same are being performed in accordance with the approved plans and specifications and all laws and requirements of public authorities, including, without limitation, the fees of any architect or engineer employed by Landlord for such purpose. In any instance where Landlord grants such consent, and permits Tenant to use its own contractors, laborers, materialmen, and others furnishing labor or materials for Tenant's construction (collectively, "Tenant's Contractors"), Landlord's consent shall be deemed conditioned upon each of Tenant's Contractors (a) working in harmony and not interfering with any laborer utilized by Landlord, Landlord's contractors, laborers, or materialmen; (b) furnishing Landlord with evidence of acceptable liability insurance, worker's compensation coverage and if required by Landlord, completion bonding, and if at any time such entry by one or more persons furnishing labor or materials for Tenant's work shall cause such disharmony or interference, the consent granted by Landlord to Tenant may be withdrawn if Tenant fails to cure that disharmony within twenty-four hours after written notice from Landlord to Tenant; provided that Tenant shall not be obligated to hire union labor to resolve any labor disharmony. Tenant, at its expense, shall obtain all necessary governmental permits and certificates for the commencement and prosecution of alterations, additions, or improvements and for final approval thereof upon completion, and all cause any alterations, additions, or improvements to be performed in compliance therewith and with all applicable laws and requirements of public authorities and with all applicable requirements of insurance bodies. All alterations, additions, or improvements shall be diligently performed in a good and workmanlike manner, using materials and equipment at least equal in quality and class to the original installations of the Building. Upon the completion of work and upon request by Landlord, Tenant shall provide Landlord copies of all waivers or releases of lien from each of Tenant's Contractors. No alterations, modifications, or additions to the Project or the Premises shall be removed by Tenant either during the Term or upon the Expiration Date or the Termination Date without the express written approval of Landlord. Tenant shall not be entitled to any reimbursement or compensation resulting from its payment of the cost of constructing all or any portion of said improvements or modifications thereto unless otherwise expressly agreed by Landlord in writing. Tenant agrees specifically that no food, soft drink, or other vending machine shall be installed within the Premises, without the prior written consent of Landlord. Landlord hereby irrevocably consents to the installation of vending machines solely for the purpose of use by Tenant's employees.

15.2 Landlord's approval of Tenant's plans for work shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act. Landlord may, at its option, at Tenant's expense, require that Landlord's contractors be engaged for any work upon the integrated Building mechanical or electrical systems or other Building or leasehold improvements.

15.3 At least five (5) days prior to the commencement of any work permitted to be done by persons requested by Tenant on the Premises, Tenant shall notify Landlord of the proposed work and the names and addresses of Tenant's Contractors. During any such work on the Premises, Landlord, or its representatives, shall have the right to go upon and inspect the Premises at all reasonable times, and shall have the right to post and keep posted thereon building permits or to take any further action which Landlord may reasonably deem to be proper for the protection of Landlord's interest in the Premises.

ARTICLE 16.
FURNITURE, FIXTURES, AND PERSONAL PROPERTY

16.1 Tenant, at its sole cost and expense, may remove its trade fixtures, office supplies and moveable office furniture, equipment not attached to the Building or Premises and equipment attached to the Premises that was not installed as part of the Tenant Improvements constructed by Landlord pursuant to the Work Letter (the "Removable Items") provided:

(a) Such removal is made prior to the Expiration Date or the Termination Date; and

(b) Tenant promptly repairs all damage caused by such removal.

16.2 If Tenant does not remove its trade fixtures, office supplies, and moveable furniture and equipment as herein above provided prior to the Expiration Date or the Termination Date (unless prior arrangements have been made with Landlord and Landlord has agreed in writing to permit Tenant to leave such items in the Premises for an agreed period), then, in addition to its other remedies, at law or in equity, Landlord shall have the right at any time after ten (10) days' notice to Tenant to have such items removed and stored at Tenant's sole cost and expense and all damage to the Project or the Premises resulting from said removal shall be repaired at the cost of Tenant; Landlord may elect that such items automatically become the property of Landlord upon the Expiration Date or the Termination Date, and Tenant shall not have any further rights with respect thereto or reimbursement therefor subject to the provisions of applicable law. All other property in the Premises, any alterations, or additions to the Premises (including wall-to-wall carpeting, paneling, wall covering, specially constructed or built-in cabinetry or bookcases), and any other article attached or affixed to the floor, wall, or ceiling of the Premises (other than the Removable Items) shall become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the Expiration or Termination Date regardless of who paid therefor; and Tenant hereby waives all rights to any payment or compensation therefor. If, however, Landlord so requests, in writing, Tenant shall remove, prior to the Expiration Date or the Termination Date, any and all alterations, additions, fixtures, equipment, and property placed or installed in the Premises (other than the initial improvements constructed pursuant to the Work Letter) and shall repair any damage caused by such removal. Prior to commencing any Alteration, Tenant may require by written request that Landlord notify Tenant whether or not the proposed Alteration will be required by Landlord to be removed at the end of the term.

16.3 All the furnishings, fixtures, equipment, effects, and property of every kind, nature, and description of Tenant and of all persons claiming by, through, or under Tenant which, during the continuance of this Lease or any occupancy of the Premises by Tenant or anyone claiming under Tenant, may be on the Premises or elsewhere in the Project shall be at the sole risk and hazard of Tenant, and if the whole or any part thereof shall be destroyed or damaged by fire, water, or otherwise, or by the leakage or bursting of water pipes, steam pipes, or other pipes, by theft, or from any other cause, no part of

said loss or damage is to be charged to or be borne by Landlord unless due to the gross negligence or willful misconduct of Landlord or its employees, agents or contractors.

ARTICLE 17.
PERSONAL PROPERTY AND OTHER TAXES

17.1 During the Term hereof, Tenant shall pay, prior to delinquency, all business and other taxes, charges, notes, duties, and assessments levied, and rates or fees imposed, charged, or assessed against or in respect of Tenant's occupancy of the Premises or in respect of the personal property, trade fixtures, furnishings, equipment, and all other personal and other property of Tenant contained in the Project (including without limitation taxes and assessments attributable to the cost or value of any leasehold improvements made in or to the Premises by or for Tenant (to the extent that the cost or value of those leasehold improvements exceeds the cost or value of the Tenant Improvement Allowance regardless of whether title to those improvements is vested in Tenant or Landlord)), and shall hold Landlord harmless from and against all payment of such taxes, charges, notes, duties, assessments, rates, and fees, and against all loss, costs, charges, notes, duties, assessments, rates, and fees, and any and all such taxes. Tenant shall use commercially reasonable efforts to cause said fixtures, furnishings, equipment, and other personal property to be assessed and billed separately from the real and personal property of Landlord. In the event any or all of Tenant's fixtures, furnishings, equipment, and other personal property shall be assessed and taxed with Landlord's real property, Tenant shall pay to Landlord Tenant's share of such taxes within ten (10) business days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's property.

ARTICLE 18.
ASSIGNMENT AND SUBLETTING

18.1 Tenant shall not, without the prior written consent of Landlord, which consent shall not be unreasonably withheld (except that Landlord shall in no event be obligated to consent to an encumbrance of this Lease or any transfer of this Lease by operation of law): (i) assign, convey, mortgage or otherwise transfer this Lease or any interest hereunder, or sublease the Premises, or any part thereof, whether voluntarily or by operation of law; or (ii) permit the use of the Premises or any part thereof by any person other than Tenant, its employees, its business invitees, and employees of Tenant's Affiliates (as defined below) who may be in the Premises in the ordinary course of the Tenant's business operations. Any such transfer, sublease or use described in the preceding sentence (a "Transfer") occurring without the prior written consent of Landlord shall, at Landlord's option, be void and of no effect. Landlord's consent to any Transfer shall not constitute a waiver of Landlord's right to withhold its consent to any future Transfer. Landlord may require as a condition to its consent to any assignment of this Lease that the assignee execute an instrument in which such assignee assumes the remaining obligations of Tenant hereunder; provided that the acceptance of any assignment of this Lease by the applicable assignee shall automatically constitute the assumption by such assignee of all of the remaining obligations of Tenant that accrue following such assignment. The voluntary or other surrender of this Lease by Tenant or a mutual cancellation hereof shall not work a merger and shall, at the option of Landlord, terminate all or any existing sublease or may, at the option of Landlord, operate as an assignment to Landlord of Tenant's interest in any or all such subleases.

18.2 A sale, transfer, pledge, or hypothecation by Tenant of all or substantially all of its assets or all or substantially all of its stock, or if Tenant is a publicly traded corporation, a merger of Tenant with another corporation or a sale of ten percent (10%) or more of its stock or a sale of substantially all its assets; or the sale, transfer, pledge, or hypothecation of fifty percent (50%) or more of the stock of Tenant if Tenant's stock is not publicly traded; or the sale, transfer, pledge, or hypothecation of fifty percent (50%) or more of the beneficial ownership interest in Tenant if Tenant is a partnership or other business association, without the prior written consent of Landlord, shall, in any of the foregoing cases and whether or not accomplished by one or more related or unrelated transactions, constitute a Transfer for purposes of this Article 18.

18.3 If Tenant desires the consent of Landlord to a Transfer, Tenant shall submit to Landlord, at least thirty (30) business days prior to the proposed effective date of the Transfer, a written

notice (the "Transfer Notice") which includes (a) the name of the proposed sublessee or assignee, (b) the nature of the proposed sublessee's or assignee's business, (c) the terms and provisions of the proposed sublease or assignment, and (d) current financial statements and information on the proposed sublessee or assignee. Upon receipt of the Transfer Notice, Landlord may request reasonable additional information concerning the Transfer or the proposed sublessee or assignee (the "Additional Information"). Subject to Landlord's rights under Section 18.6, Landlord shall not unreasonably withhold its consent to any assignment or sublease (excluding an encumbrance or transfer by operation of law), which consent or lack thereof shall be provided within thirty (30) business days of receipt of Tenant's Transfer Notice; provided, however, Tenant hereby agrees that it shall be a reasonable basis for Landlord to withhold its consent if Landlord has not received the Additional Information requested by Landlord. Without limiting any other reasonable basis upon which Landlord may withhold its consent, Landlord shall not be deemed to have unreasonably withheld its consent if, in the judgment of Landlord: (i) the transferee is of a character or engaged in a business which is not in keeping with the standards or criteria used by Landlord in leasing the Building, or the general character or quality of the Building; (ii) in the case of an assignment, the financial condition of the assignee is such that it may not be able to perform its obligations in connection with this Lease; (iii) the transferee is a tenant of or negotiating for space in the Building; provided that there is or will be sufficient space in the Building for such tenant, (iv) the transferee is a governmental unit; (v) an Event of Default by Tenant has occurred; or (vi) such a Transfer would materially violate any term, condition, covenant, or agreement of Landlord involving the Project or any other tenant's lease within. Tenant hereby waives any right to terminate the Lease and/or recover damages as remedies for Landlord wrongfully withholding its consent to any Transfer and agrees that Tenant's sole and exclusive remedy therefor shall be to seek specific performance of Landlord's obligation to consent to such Transfer.

18.4 Landlord and Tenant agree that, in the event of any approved assignment or subletting, the rights of any such assignee or sublessee of Tenant herein shall be subject to all of the terms, conditions, and provisions of this Lease, including, without limitation, restriction on use, assignment, and subletting and the covenant to pay Rent. Landlord may collect Rent directly from such assignee or sublessee and apply the amount so collected to the Rent herein reserved. No such consent to or recognition of any such assignment or subletting shall constitute a release of Tenant or any guarantor of Tenant's performance hereunder from further performance by Tenant or such guarantor of covenants undertaken to be performed by Tenant herein. Tenant and any such guarantor shall remain liable and responsible for all Rent and other obligations herein imposed upon Tenant, and Landlord may condition its consent to any Transfer upon the receipt of a written reaffirmation from each such guarantor in a form acceptable to Landlord (which shall not be construed to imply that the occurrence of a Transfer without such a reaffirmation would operate to release any guarantor). Consent by Landlord to a particular assignment, sublease, or other transaction shall not be deemed a consent to any other or subsequent transaction. In any case where Tenant desires to assign, sublease or enter into any related or similar transaction, whether or not Landlord consents to such assignment, sublease, or other transaction, Tenant shall pay any reasonable attorneys' fees incurred by Landlord in connection with reviewing documents relating to, or evidencing, said assignment, sublease, or other transaction, which shall not exceed $750 with respect to any single Transfer without the Tenant's consent. All documents utilized by Tenant to evidence any subletting or assignment for which Landlord's consent has been requested and is required hereunder, shall be subject to prior approval (not to be unreasonably withheld, conditioned or delayed) by Landlord or its attorney.

18.5 Tenant shall be bound and obligated to pay Landlord a portion of the net profit or net proceeds from economic consideration payable to Tenant by any sublessee, assignee, licensee, or other transferee, within ten (10) business days following receipt thereof by Tenant from such sublessee, assignee, licensee, or other transferee, as the case might be, as follows:

(a) In the case of an assignment, 50% of any sums or other economic consideration received by Tenant as a result of such assignment shall be paid to Landlord after first deducting the unamortized cost of reasonable leasehold improvements paid for by Tenant in connection with such assignment and reasonable cost of any real estate commissions incurred by Tenant in connection with such assignment.

(b) In the case of a subletting, 50% of any sums or economic consideration received by Tenant as a result of such subletting shall be paid to Landlord after first deducting (i) the Rent due hereunder prorated to reflect only Rent allocable to the sublet portion of the Premises, (ii) the unamortized cost of reasonable tenant improvements made to the sublet portion of the Premises at Tenant's cost in connection with such sublease, (iii) the reasonable cost of tenant improvements made by Tenant for the specific benefit of the sublessee, which shall be amortized over the term of the sublease, and (iv) the reasonable cost of any real estate commissions incurred by Tenant in connection with such subletting, which shall be amortized over the term of the sublease.

18.6 If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, 11 U.S.C. Section 101 et seq. or any successor or substitute therefor (the "Bankruptcy Code"), any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord, and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any such monies or other consideration not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord. Any person or entity to whom this Lease is so assigned shall be deemed, without further act or deed, to have assumed all of the remaining obligations arising under this Lease as of the date of such assignment. Any such assignee shall, upon demand therefor, execute and deliver to Landlord an instrument confirming such assumption.

18.7 Notwithstanding anything to the contrary contained in this Article 18, Tenant may assign this Lease or sublet the Premises without the need for Landlord's prior consent if such assignment or sublease is to any parent, subsidiary or affiliate business entity which the initially named Tenant controls, is controlled by or is under common control with (each, an "Affiliate") provided that: (i) at least thirty (30) days prior to such assignment or sublease, Tenant delivers to Landlord the financial statements or other financial and background information of the assignee or sublessee as required for other transfers, subject to Landlord's obligation to maintain the confidentiality of the such financial statements as provided in Section 30.3; (ii) if the transfer is an assignment, the assignee assumes, in full, the obligations of Tenant under this Lease (or if a sublease, the sublessee of a portion of the Premises or term assumes, in full, the obligations of Tenant with respect to such portion); (iii) the financial net worth of the assignee or sublessee as of the time of the proposed transfer is equal to or in excess of that of Tenant's as Tenant's net worth existed on the date of this Lease; (iv) Tenant remains fully liable under this Lease; and (v) unless Landlord consents to the same, the use of the Premises set forth herein remains unchanged. As used in this section, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies through ownership of at least 51% of the securities or partnership or other ownership interests of the entity subject to control.

ARTICLE 19.
FIRE AND CASUALTY

19.1 If the Premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give prompt written notice thereof to Landlord. If the Project shall be damaged by fire or other casualty and any of the following applies: (a) substantial alteration or reconstruction of the Building is, in Landlord's reasonable opinion, required (whether or not the Premises shall have been damaged by such fire or other casualty), (b) any mortgagee under a mortgage or deed of trust covering the Project requires that more than $50,000.00 of the insurance proceeds payable as a result of said fire or other casualty be used to retire all or any portion of the mortgage debt, (c) the Project is damaged as a result of a risk that is not covered by Landlord's insurance (unless covered by another tenant's insurance and Landlord has unconditional access to the proceeds of that insurance and those proceeds are sufficient to pay all of the costs of the applicable restoration and repair), or (d) the Premises is materially damaged during the last year of the Term, then Landlord may, at its option, terminate this Lease by notifying Tenant in writing of such termination within thirty (30) days after the date of such damage or casualty, in which event the Rent hereunder shall be abated as of the date that is the later of the date of the damage or casualty or the date upon which Tenant ceases to occupy the Premises; provided that if Tenant is unable to occupy a portion of

the Premises by reason of that damage or casualty then the abatement as to that portion shall commence upon the date after the damage or destruction that Tenant ceases to occupy that portion of the Premises. In cases of less than such substantial damage and upon receipt of the insurance proceeds for the damage, Landlord shall restore and repair the Premises, provided, Landlord shall not be required to repair (i) any damage caused by Tenant for which Landlord has not received insurance proceeds, (ii) any of Tenant's trade fixtures, personal property, machinery or equipment or (iii) any alterations installed by Tenant.

19.2 If the Building or the Premises is destroyed or damaged by fire or other casualty such that Tenant is deprived of access to all or a Material Portion (as defined below) of the Premises or the use and occupancy of a Material Portion thereof and a reputable contractor or architect designated by Landlord ("Landlord's Architect or Contractor") estimates in a notice provided to Tenant by Landlord within sixty (60) days after the casualty that the Building or the Premises is damaged to such an extent that Tenant will be deprived of access to the Premises or use and occupancy of the Premises for a period in excess of 270 days, then Tenant may terminate this Lease by giving Landlord notice within thirty (30) days after delivery of such contractor's or architect's estimate, whereupon this Lease shall terminate as of the date of the casualty. If the Building or the Premises is destroyed or damaged by fire or other casualty and Landlord's Architect or Contractor has estimated (in a notice delivered to Tenant pursuant to the previous sentence) that Tenant will be deprived of access to the Premises or use and occupancy of the Premises for a period of 270 days or less, but the Premises and access thereto and the use and occupancy thereof are not actually restored within 270 days from the date (the "Untenantability Date") that Tenant is first deprived of such access or use and occupancy due to such casualty (the "Outside Date"), Tenant may terminate this Lease as of the Untenantability Date by giving Landlord notice within thirty (30) days after the Outside Date. If the Premises is materially damaged during the last year of the Term, then Tenant may, at its option, terminate this Lease by notifying Landlord in writing of such termination within 30 days after the date of such damage or casualty, in which event for the Rent hereunder shall be abated as of the date of such notice. The purposes of this Section 19.2, "materially damaged" means that the restoration of the damage is estimated by Landlord's Architect or Contractor to require a time period that is more than one-third of the remaining term of the Lease as of the estimated commencement date of the restoration work. For purposes of Article 19 and Article 20, the term "Material Portion" means a portion of the Premises in excess of 35% of the total rentable area of the Premises.

19.3 To the extent of the insurance proceeds available to Landlord therefor (or that would have been available if the Landlord had carried the insurance Landlord is required to carry under Article 13), Landlord shall repair and restore the Project and/or the Premises, including the Covered Tenant Improvements to substantially the same condition in which they were immediately prior to the fire or other casualty, except that Landlord shall not be required to rebuild, repair, or replace any part of Tenant's furniture, fixtures, furnishings, or equipment or any alterations, additions, or improvements made by Tenant to the Premises pursuant to Article 15 of this Lease, except to the extent the same constitute Covered Tenant Improvements; provided, however, Tenant shall reimburse Landlord for the entire amount of any deductible allocable to the Covered Tenant Improvements. Landlord shall have no obligation to repair or restore any improvements or alterations made by Tenant that are not Covered Tenant Improvements. Upon completion of Landlord's restoration, Tenant shall promptly repair and replace all of its furniture, fixtures, furnishings, equipment, trade fixtures and improvements and alterations that are not Covered Tenant Improvements to substantially the same functional condition that existed prior to the damage. Landlord's repair or restoration work shall not exceed the scope of work done in originally constructing the Project and the Premises. Landlord shall not be liable for any inconvenience, annoyance, or injury done to the business of Tenant resulting in any way from such damage or the repair thereof and Tenant's obligations to pay Rent shall continue unabated, except (a) there shall be an equitable reduction of Rent during the time and to the extent the Premises are unfit for occupancy, save for Tenant's fault or negligence herein below described and (b) subject to Section 13.4, nothing in this sentence shall limit Landlord's liability for injuries to natural persons or damage to property to the extent caused by the sole active negligence or willful misconduct of Landlord.

19.4 If the Premises or the Project shall be totally or partially damaged by fire or other casualty resulting from the fault or negligence of Tenant, or its agents, employees, licensees, or invitees, such damage shall be repaired by and at the expense of Tenant (to the extent that such destruction

or damage is not covered by the fire and extended coverage insurance carried by Landlord as provided herein), under the direction and supervision of Landlord, and Rent shall continue without abatement, except to the extent Landlord actually receives proceeds of rent abatement insurance attributable to Tenant's lease.

19.5 The provisions of this Lease, including this Article 19, constitute an express agreement between Landlord and Tenant with respect to damage to, or destruction of, all or any portion of the Premises or the Project, and any statute or regulation of the State of California, including without limitation Sections 1932(2) and 1933(4) of the California Civil Code, with respect to any rights or obligations concerning damage or destruction in the absence of an express agreement between the parties (and any other statute or regulation now or hereafter in effect with respect to such rights or obligations), shall have no application to this Lease or to any damage or destruction to all or any portion of the Premises or the Project.

ARTICLE 20.
CONDEMNATION

20.1 If there shall be taken by exercise of the power of eminent domain, or by conveyance in lieu, during the Term any material part of the Premises, the Building or the Project, Landlord may elect to terminate this Lease upon written notice to Tenant within thirty (30) days after the date of such taking or transfer in lieu thereof or to continue the same in effect. All compensation awarded for any taking (or the proceeds of private sale in lieu thereof) of the Premises, Building or Project shall be the property of Landlord, and Tenant hereby assigns its interest in any such award to Landlord; provided, however, Landlord shall have no interest in any award made to Tenant for the taking of Tenant's fixtures and other personal property or moving expenses if a separate award for such items is made to Tenant. If this Lease is terminated as a result of any such exercise of the power of eminent domain, Rent shall be payable up to the date that possession is taken by the condemning authority; Landlord shall refund to Tenant any prepaid unaccrued Rent, less any sum then owing by Tenant to Landlord; and Tenant shall have no claim against Landlord for the value of any unexpired portion of the Term. If such condemnation does not result in the termination of this Lease, the Rent thereafter to be paid shall be proportionately reduced as to the space affected. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of the California Code of Civil Procedure.

20.2 If there shall be taken by exercise of the power of eminent domain, or by conveyance in lieu, during the Term, a Material Portion of the Premises such that it objectively prevents the conduct of Tenant's business in the Premises, Tenant may terminate this Lease by giving Landlord notice to that effect within thirty (30) days after the date of the taking or transfer in lieu thereof.

ARTICLE 21.
HOLD HARMLESS

21.1 Tenant agrees to defend, with counsel approved by Landlord, all actions against Landlord, any partner, trustee, stockholder, officer, director, employee, or beneficiary of Landlord, holders of mortgages secured by the Premises or the Project and any other party having an interest therein (the "Indemnified Parties") with respect to, and to pay, protect, indemnify, and save harmless, to the extent permitted by law, all Indemnified Parties from and against, any and all liabilities, losses, damages, costs, expenses (including reasonable attorneys' fees and expenses), causes of action, suits, claims, demands, or judgments of any nature to which any Indemnified Party is subject because of its estate or interest in the Premises or the Project arising from (i) injury to or death of any person, or damage to or loss of property on the Premises, connected with the use, condition, or occupancy of the Premises, except to the extent, if any, determined by a court of competent jurisdiction to have been caused by the negligence or willful misconduct of Landlord or its employees, contractors or agents (ii) any violation of this Lease by or attributable to Tenant, or (iii) subject to Section 13.4, any act, fault, omission, or other misconduct of Tenant or its agents, contractors, licenses, sublessees, or invitees.

21.2 Tenant agrees that Landlord shall not be responsible or liable to Tenant, its agents, employees, or invitees for fatal or non-fatal bodily injury or property damage occasioned by the acts

or omissions of any other tenant, or such other tenant's agents, employees, licensees, or invitees, of the Project. Landlord shall not be liable to Tenant for losses due to theft, burglary, or damages done by persons on the Project.

21.3 To the extent permitted by law and covered by Landlord's insurance maintained pursuant to Article 13 (or that would have been covered if Landlord had maintained the insurance it is required to carry under Article 13), Landlord shall indemnify Tenant and hold it harmless from and against any and all liability for any loss of or damage or injury to any person (including death resulting therefrom) or property occurring in, on or about the Project excluding the Premises, caused by the negligence or willful misconduct of Landlord, its employees or agents. Landlord's obligation to indemnify Tenant hereunder shall include the duty to defend against any claims asserted by reason of such loss, damage or injury and to pay any judgments, settlements, costs, fees and expenses, including reasonable attorneys' fees incurred in connection therewith.

ARTICLE 22.
DEFAULT BY TENANT

22.1 The term "Event of Default" refers to the occurrence of any one (1) or more of the following:

(a) Failure of Tenant to pay when due any sum required to be paid hereunder (the "Monetary Default") within ten (10) days of receipt of written notice from Landlord; provided, however, that after the first failure to pay any sum required to be paid hereunder in any twelve (12) month period, in the event that Tenant fails a second time to pay when due any sum required to be paid hereunder during such twelve (12) month period, such failure shall be deemed to automatically constitute a Monetary Default without any obligation on Landlord to provide any additional written notice, and provided further that the Tenant acknowledges that any such written notice provided hereunder shall be in lieu of, and not in addition to, any notice to pay rent or quit pursuant to any applicable statutes;

(b) Failure of Tenant, after thirty (30) days written notice thereof, to perform any of Tenant's obligations, covenants, or agreements except a Monetary Default; provided that if the cure of any such failure is not reasonably susceptible of performance within such thirty (30) day period, then an Event of Default of Tenant shall not be deemed to have occurred so long as Tenant has promptly commenced and thereafter diligently prosecutes such cure to completion and (subject to Article 10) completes that cure within ninety (90) days;

(c) Tenant, or any guarantor of Tenant's obligations under this Lease (the "Guarantor"), admits in writing that it cannot meet its obligations as they become due; or is declared insolvent according to any law; or assignment of a material portion of Tenant's or Guarantor's property is made for the benefit of creditors; or a receiver or trustee is appointed by a court of competent jurisdiction for Tenant or Guarantor or its property; or the interest of Tenant or Guarantor under this Lease is levied on under execution or other legal process; or any petition is filed by or against Tenant or Guarantor to declare Tenant bankrupt. Any such levy, execution, legal process, or petition filed against Tenant or Guarantor shall not constitute a breach of this Lease provided Tenant or Guarantor shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within ninety (90) days from the date of its creation, service, or filing;

(d) The abandonment of the Premises by Tenant, which shall mean that Tenant has vacated the Premises for thirty (30) consecutive days, whether or not Tenant is in Monetary Default and such abandonment has materially impaired Landlord's insurance coverage for the Premises or the Building;

(e) The discovery by Landlord that any financial statement given by Tenant or any of its assignees, subtenants, successors-in-interest, or Guarantors was materially

false and in the case of financial statements from other than Tenant or Guarantor, Tenant knew the financial statements were materially false when delivered; or

(f) If Tenant or any Guarantor shall die, cease to exist as a corporation or partnership, or be otherwise dissolved or liquidated or become insolvent, or shall make a transfer in fraud of creditors.

22.2 In the event of any Event of Default by Tenant, Landlord, at its option, may pursue one or more of the following remedies without additional notice or demand in addition to all other rights and remedies provided for at law or in equity:

(a) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the right to collect Rent when due. Landlord may enter the Premises and relet it, or any part of it, to third parties for Tenant's account, provided that any Rent in excess of the payments due hereunder shall be payable to Landlord. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of cleaning the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining Term of this Lease. Tenant shall pay to Landlord the Rent and other sums due under this Lease on the dates the Rent is due, less the Rent and other sums Landlord receives from any reletting. No act by Landlord allowed by this Section 22.2(a) shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease.

"The lessor has the remedy described in Civil Code Section 1951.4 (lessor may continue the lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign subject only to reasonable limitations)."

(b) Landlord may terminate Tenant's right to possession of the Premises at any time by giving written notice to that effect. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, Landlord shall have the right to remove all personal property of Tenant and store it at Tenant's cost and to recover from Tenant as damages: (i) the worth at the time of award of unpaid Rent and other sums due and payable which had been earned at the time of termination; plus (ii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of the Rent loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable for the balance of the Term after the time of award exceeds the amount of the Rent loss that Tenant proves could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which, in the ordinary course of things, would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord: (A) in retaking possession of the Premises, including reasonable attorneys' fees and costs therefor; (B) maintaining or preserving the Premises for reletting to a new tenant, including repairs or alterations to the Premises for the reletting; (C) leasing commissions; (D) any other costs necessary or appropriate to relet the Premises; and (E) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of California.

The "worth at the time of award" of the amounts referred to in Sections 22.2(b)(i) and 22.2(b)(ii) shall be calculated by allowing interest at the lesser of an annual rate equal to the Prime Rate plus 2% per annum or the maximum rate permitted by law, on the unpaid Rent and other sums due and payable from the termination date through the date of award. The "worth at the time of award" of the amount referred to in

Section 22.2(b)(iii) shall be calculated by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, if Tenant is evicted or Landlord takes possession of the Premises by reason of any Event of Default by Tenant.

22.3 If Landlord shall exercise any one or more remedies hereunder granted or otherwise available, it shall not be deemed to be an acceptance or surrender of the Premises by Tenant whether by agreement or by operation of law; it is understood that such surrender can be effected only by the written agreement of Landlord and Tenant. No alteration of security devices and no removal or other exercise of dominion by Landlord over the property of Tenant or others in the Premises shall be deemed unauthorized or constitute a conversion, Tenant hereby consenting to the aforesaid exercise of dominion over Tenant's property within the Premises after any Event of Default.

22.4 Each right and remedy provided for in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, including, but not limited to, suits for injunctive relief and specific performance. The exercise or beginning of the exercise by Landlord of any one or more of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity, or by statute or otherwise shall not preclude the simultaneous or later exercise by Landlord for any or all other rights or remedies provided for in this Lease or now or hereafter existing at or in equity or by statute or otherwise. All such rights and remedies shall be considered cumulative and non-exclusive. All costs incurred by Landlord in connection with collecting any Rent or other amounts and damages owing by Tenant pursuant to the provisions of this Lease, or to enforce any provision of this Lease, including reasonable attorneys' fees from the date such matter is turned over to an attorney, whether or not one or more actions are commenced by Landlord, shall also be recoverable by Landlord from Tenant. If any notice and grace period required under subparagraphs 22.1(a) or (b) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Tenant under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 22.1(a) or (b). In such case, the applicable grace period under subparagraphs 22.1(a) or (b) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Tenant to cure the default within the greater of the two such grace periods shall constitute both an unlawful detainer and an Event of Default entitling Landlord to the remedies provided for in this Lease and/or by said statute.

22.5 If Tenant should fail to make any payment or cure any Event of Default hereunder within the time herein permitted and such failure constitutes an Event of Default (except in the case where if Landlord in good faith believes that action prior to the expiration of any cure period under Section 22.1 is necessary to prevent damage to persons or property, in which case Landlord may act without waiting for such cure period to expire), Landlord, without being under any obligation to do so and without thereby waiving such Event of Default, may make such payment and/or remedy such Event of Default for the account of Tenant (and enter the Premises for such purpose), and thereupon, Tenant shall be obligated and hereby agrees to pay Landlord, upon demand, all reasonable costs, expenses, and disbursements, plus ten percent (10%) overhead cost incurred by Landlord in connection therewith.

22.6 In addition to Landlord's rights set forth above, if Tenant fails to pay its Rent or any other amounts owing hereunder on the due date thereof more than two (2) times during any calendar year during the Term, then upon the occurrence of the third or any subsequent default in the payment of monies during said calendar year, Landlord, at its sole option, shall have the right to require that Tenant, as a condition precedent to curing such default, pay to Landlord, in check or money order, in advance, the Rent and all other amounts which will become due and owing hereunder by Tenant for a period of two (2) months following said cure. All such amounts shall be paid by Tenant within thirty (30) days after notice from Landlord demanding the same. All monies so paid shall be retained by Landlord, without interest, for the balance of the Term and any extension thereof, and shall be applied by Landlord to the last due amounts owing hereunder by Tenant.

22.7 Nothing contained in this Section shall limit or prejudice the right of Landlord to prove and obtain as damages in any bankruptcy, insolvency, receivership, reorganization, or dissolution proceeding, an amount equal to the maximum allowed by any statute or rule of law governing such a proceeding and in effect at the time when such damages are to be proved, whether or not such amount be greater, equal, or less than the amounts recoverable, either as damages or Rent, referred to in any of the preceding provisions of this Article. Notwithstanding anything contained in this Article to the contrary, any such proceeding or action involving bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, or appointment of a receiver or trustee, as set forth above, shall be considered to be an Event of Default only when such proceeding, action, or remedy shall be taken or brought by or against the then holder of the leasehold estate under this Lease.

22.8 Landlord is entitled to accept, receive, in check or money order, and deposit any payment made by Tenant for any reason or purpose or in any amount whatsoever, and apply them at Landlord's option to any obligation of Tenant, and such amounts shall not constitute payment of any amount owed, except that to which Landlord has applied them. No endorsement or statement on any check or letter of Tenant shall be deemed an accord and satisfaction or recognized for any purpose whatsoever. The acceptance of any such check or payment shall be without prejudice to Landlord's rights to recover any and all amounts owed by Tenant hereunder and shall not be deemed to cure any other default nor prejudice Landlord's rights to pursue any other available remedy, Landlord's acceptance of partial payment of rent does not constitute a waiver of any rights, including without limitation any right Landlord may have to recover possession of the Premises.

22.9 Tenant waives the right to terminate this Lease on Landlord's default under this Lease. Tenant's sole remedy on Landlord's default is an action for damages or injunctive or declaratory relief. Landlord's failure to perform any of its obligations under this Lease shall constitute a default by Landlord under this Lease if the failure continues for thirty (30) days after written notice of the failure from Tenant to Landlord. If the required performance cannot be completed within thirty (30) days, Landlord's failure to perform shall constitute a default under the Lease unless Landlord undertakes to cure the failure within thirty (30) days and diligently and continuously attempts to complete this cure as soon as reasonably possible. All obligations of each party hereunder shall be construed as covenants, not conditions.

ARTICLE 23.
[INTENTIONALLY OMITTED]

ARTICLE 24.
[INTENTIONALLY OMITTED]

ARTICLE 25.
ATTORNEYS' FEES

25.1 If either party hereto shall file any action or bring any proceeding against the other party arising out of this Lease or for the declaration of any rights hereunder, the prevailing party in such action shall be entitled to recover from the other party all costs and expenses, including reasonable attorneys' fees incurred by the prevailing party, as determined by the trier of fact in such legal proceeding. For purposes of this provision, the terms "attorneys' fees" or "attorneys' fees and costs," or "costs and expenses" shall mean the fees and expenses of legal counsel (including external counsel and in-house counsel) of the parties hereto, which include printing, photocopying, duplicating, mail, overnight mail, messenger, court filing fees, costs of discovery, and fees billed for law clerks, paralegals, investigators and other persons not admitted to the bar for performing services under the supervision and direction of an attorney. For purposes of determining in-house counsel fees, the same shall be considered as those fees normally applicable to a partner in a law firm with like experience in such field. In addition, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs incurred in enforcing any judgment arising from a suit or proceeding under this Lease, including without limitation post-judgment motions, contempt proceedings, garnishment, levy and debtor and third party examinations, discovery and bankruptcy litigation, without regard to schedule or rule of court purporting to restrict such award. This post-judgment award of attorneys' fees and costs provision shall be severable from any other provision of

this Lease and shall survive any judgment/award on such suit or arbitration and is not to be deemed merged into the judgment/award or terminated with the Lease.

ARTICLE 26.
NON-WAIVER

26.1 Neither acceptance of any payment by Landlord from Tenant nor, failure by Landlord to complain of any action, non-action, or default of Tenant shall constitute a waiver of any of Landlord's rights hereunder. Time is of the essence with respect to the performance of every obligation of each party under this Lease in which time of performance is a factor. Waiver by either party of any right or remedy arising in connection with any default of the other party shall not constitute a waiver of such right or remedy or any other right or remedy arising in connection with either a subsequent default of the same obligation or any other default. No right or remedy of either party hereunder or covenant, duty, or obligation of any party hereunder shall be deemed waived by the other party unless such waiver is in writing, signed by the other party or the other party's duly authorized agent.

ARTICLE 27.
RULES AND REGULATIONS

27.1 Such reasonable rules and regulations applying to all lessees in the Project for the safety, care, and cleanliness of the Project and the preservation of good order thereon are hereby made a part hereof as Exhibit D, and Tenant agrees to comply with all such rules and regulations. Landlord shall have the right at all times to change such rules and regulations or to amend them in any reasonable and non-discriminatory manner as may be deemed advisable by Landlord, all of which changes and amendments shall be sent by Landlord to Tenant in writing and shall be thereafter carried out and observed by Tenant; provided that no such new rules and regulations may materially and adversely affect Tenant's right to use the Premises for the Stated Use. Landlord shall not have any liability to Tenant for any failure of any other lessees of the Project to comply with such rules and regulations.

ARTICLE 28.
ASSIGNMENT BY LANDLORD

28.1 Landlord shall have the right to transfer or assign, in whole or in part, all its rights and obligations hereunder and in the Premises and the Project. In such event, no liability or obligation shall accrue or be charged to Landlord with respect to the period from and after such transfer or assignment and assumption of Landlord's obligations by the transferee or assignee, except those which expressly survive the expiration or earlier termination of this Lease which are not assumed by Landlord's transferee.

ARTICLE 29.
LIABILITY OF LANDLORD

29.1 It is expressly understood and agreed that the obligations of Landlord under this Lease shall be binding upon Landlord and its successors and assigns and any future owner of the Project only with respect to events occurring during its and their respective ownership of the Project. In addition, Tenant agrees to look solely to Landlord's interest in the Project for recovery of any judgment against Landlord arising in connection with this Lease, it being agreed that neither Landlord nor any successor or assign of Landlord nor any future owner of the Project, nor any partner, shareholder, or officer of any of the foregoing shall ever be personally liable for any such judgment.

ARTICLE 30.
SUBORDINATION AND ATTORNMENT

30.1 This Lease, at Landlord's option, shall be subordinate to any present or future: mortgage, ground lease or declaration of covenants regarding maintenance and use of any areas contained

in any portion of the Building, and to any and all advances made under any present or future mortgage and to all renewals, modifications, consolidations, replacements, and extensions of any or all of same. Tenant agrees, with respect to any of the foregoing documents, that no documentation other than this Lease shall be required to evidence such subordination. If any holder of a mortgage shall elect for this Lease to be superior to the lien of its mortgage and shall give written notice thereof to Tenant, then this Lease shall automatically be deemed prior to such mortgage whether this Lease is dated earlier or later than the date of said mortgage or the date of recording thereof. Tenant agrees to execute such documents as may be further required to evidence such subordination or to make this Lease prior to the lien of any mortgage or deed of trust, as the case may be, and failure to do so within ten (10) days after written demand shall, at Landlord's election, be an Event of Default. Tenant hereby attorns to all successor owners of the Building, whether or not such ownership is acquired as a result of a sale through foreclosure or otherwise.

30.2 Each party shall, at such time or times as the other party may request, upon not less than ten (10) days' prior written request by the requesting party, sign and deliver to the requesting party a certificate stating whether this Lease is in full force and effect; whether any amendments or modifications exist; whether any Monthly Rent has been prepaid and, if so, how much; whether to the knowledge of the certifying party there are any defaults hereunder; and in the circumstance where Landlord is the requesting party, such other information as may be reasonably requested, it being intended that any such statement delivered pursuant to this Article may be relied upon by the requesting party and by any prospective purchaser of all or any portion of the requesting party's interest herein, or a holder or prospective holder of any mortgage encumbering the Building. Tenant's failure to deliver such statement within five (5) days after Landlord's second written request therefor shall constitute an Event of Default (as that term is defined elsewhere in this Lease) and shall conclusively be deemed to be an admission by Tenant of the matters set forth in the request for an estoppel certificate.

30.3 Tenant shall deliver to Landlord prior to the execution of this Lease and thereafter at any time upon Landlord's request, Tenant's or Tenant's Guarantor's financial statements, including a balance sheet and profit and loss statement for the most recent prior year (collectively, the "Statements"), which Statements shall materially reflect the financial condition of Tenant and Guarantor. The Statements for Guarantor shall be audited and the Statements for Tenant may be unaudited. Landlord shall have the right to deliver the same to any proposed purchaser of the Building or the Project, and to any encumbrancer of all or any portion of the Building or the Project. To the extent any Statements delivered to Landlord pursuant to this Article 30 or Section 18.7 are marked "confidential" when delivered, Landlord shall make reasonable efforts to maintain the confidentiality of that financial information; provided, however, Landlord may disclose those financial statements as required by law, or to its auditors, regulators, attorneys, accountants and property managers; provided that each agrees to similarly maintain the confidentiality of the applicable financial statements.

30.4 Tenant acknowledges the Landlord is relying on the Statements in its determination to enter into this Lease, and Tenant represents to Landlord, which representation shall be deemed made on the date of this Lease and again on the Commencement Date, that no material change in the financial condition of Tenant, as reflected in the Statements, has occurred since the date Tenant delivered the Statements to Landlord. The Statements are represented and warranted by Tenant to be correct and to accurately and fully reflect Tenant's financial condition as of the date they were prepared.

30.5 As a condition to Tenant's subordination obligations as set forth in Section 30.1, above, Landlord agrees to deliver to Tenant from any future mortgagee or beneficiary a written subordination and non-disturbance agreement in recordable form acceptable to such mortgagee or beneficiary in its sole discretion providing that so long as there has been no uncured Event of Default by Tenant, Tenant's possession or quiet enjoyment under this Lease shall not be disturbed and Tenant shall not be joined by the holder of any mortgage or deed of trust in any action or proceeding to foreclose thereunder, except where such is necessary for jurisdictional or procedural reasons. Landlord represents to Tenant that as of the date of this Lease there is no mortgage or deed of trust encumbering the Project.

ARTICLE 31.
HOLDING OVER

31.1 In the event Tenant, or any party claiming under Tenant, retains possession of the Premises after the Expiration Date or Termination Date, such possession shall be that of a holdover tenant and an unlawful detainer. No tenancy or interest shall result from such possession, and such parties shall be subject to immediate eviction and removal. Tenant or any such party shall pay Landlord, as Base Rent for the period of such holdover, an amount equal to 125% of the Base Rent otherwise provided for herein, during the time of holdover together with all other Additional Rent and other amounts payable pursuant to the terms of this Lease. Tenant shall also be liable for any and all damages sustained by Landlord as a result of such holdover. Tenant shall vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. The Rent during such holdover period shall be payable to Landlord on demand. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend the term of this Lease.

31.2 Tenant at any time prior to the date that is one hundred eighty (180) days before the expiration of the Term may by written notice to Landlord elect to waive all of its options and rights not theretofore exercised to extend pursuant to Article 51 and in lieu thereof extend the Term of this Lease for a period (the "Stub Period") not to exceed ninety (90) days from the Expiration Date; provided that the Rent during such Stub Period shall be 110% of the Rent payable prior to the commencement of the Stub Period.

ARTICLE 32.
SIGNS

32.1 No sign, symbol, or identifying marks shall be put upon the Project, Building, in the common halls, elevators, staircases, entrances, parking areas, or upon the exterior doors or walls, without the prior written approval of Landlord. Tenant shall have the right to post signs in halls, entrances, doors and walls located within Tenant's Premises without prior approval so long as that signage is not visible from the exterior of the Building. Tenant shall also be allowed to install Tenant's logo or signage identifying Tenant's entrance to the Premises as shown on Schedule 32.1. Should such approval ever be granted, all signs or lettering shall conform in all respects to the sign and/or lettering criteria established by Landlord. Landlord, at Landlord's sole cost and expense, reserves the right to change the door plaques as Landlord deems reasonably desirable.

32.2 Tenant shall be allowed to have prominent signage in the shared lobby area identifying Tenant's name and/or logo (the "Lobby Signage"). Other than directory signage, the Lobby Signage shall be the only signage in the lobby area identifying tenants of the Building. The graphics, materials, color, design, lettering, size and specifications of Tenant's Lobby Signage shall be subject to the approval of Landlord and all applicable governmental authorities and shall conform to Landlord's approved sign plan for the Building. Landlord hereby approves the Lobby Signage shown on Schedule 32.2. At the expiration or earlier termination of this Lease, Landlord shall, at Tenant's sole cost and expense, cause the Lobby Signage to be removed and the area of the lobby affected by the Lobby Signage to be restored to the condition existing prior to the installation of Tenant's Lobby Signage, wear and tear excepted.

32.3 Landlord shall, at Tenant's sole cost and expense (including payment from the Tenant Improvement Allowance), install lighted signage (the "Tenant's Signage") on the top of one side of the Building identifying Tenant's name and logo. The graphics, materials, color, design, lettering, size, location and specifications of Tenant's Signage shall be subject to the approval of Landlord and all applicable governmental authorities and the Owners Association. Landlord hereby approves of Tenant's Signage shown on Schedule 32.3. Landlord will use reasonable efforts, at no cost to Landlord, to assist Tenant in seeking approval from the City of San Dimas for larger signage than that shown on Schedule 32.3, provided that such larger signage shall be subject to Landlord's approval, which shall not be unreasonably withheld. At the expiration or earlier termination of this Lease or termination of Tenant's sign rights as provided below, Landlord shall, at Tenant's sole cost and expense, cause the Tenant's Signage to be removed and the area of the Building affected by Tenant's Signage to be restored to the condition existing prior to the installation of Tenant's Signage, wear and tear excepted. The right to Tenant's Signage

is personal to the initially named Tenant in this Lease and any assignee of Tenant's entire interest in the Lease to which Landlord has consented pursuant to Article 18 or as to which Landlord's consent is not required pursuant to Article 18.

ARTICLE 33.
HAZARDOUS SUBSTANCES

33.1 Except for Hazardous Material (as defined below) contained in products used by Tenant for ordinary cleaning and office purposes in quantities not violative of applicable Environmental Requirements, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises and/or the Project or transport, store, use, generate, manufacture, dispose, or release any Hazardous Material on or from the Premises and/or the Project without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements (as defined below) and all requirements of this Lease. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture, or release of Hazardous Materials on the Premises, and Tenant shall promptly deliver to Landlord a copy of any notice of violation relating to the Premises or the Project of any Environmental Requirement.

33.2 The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, permits, authorizations, orders, policies or other similar requirements of any governmental authority, agency or court regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Toxic Substances Control Act and all state and local counterparts thereto; all applicable California requirements, including, but not limited to, Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316 and 25501 of the California Health and Safety Code and Title 22 of the California Code of Regulations, Division 4.5, Chapter 11, and any policies or rules promulgated thereunder as well as any County or City ordinances that may operate independent of, or in conjunction with, the State programs, and any common or civil law obligations including, without limitation, nuisance or trespass, and any other requirements of Article 3 of this Lease. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant that is or could be regulated under any Environmental Requirement or that may adversely affect human health or the environment, including, without limitation, any solid or hazardous waste, hazardous substance, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, synthetic gas, polychlorinated biphenyls (PCBs), and radioactive material). For purposes of Environmental Requirements, to the extent authorized by law, Tenant is and shall be deemed to be the responsible party, including without limitation, the "owner" and "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

33.3 Tenant, at its sole cost and expense, shall remove all Hazardous Materials stored, disposed of or otherwise released by Tenant, its assignees, subtenants, agents, employees, contractors or invitees onto or from the Premises, in a manner and to a level satisfactory to Landlord in its sole discretion, but in no event to a level and in a manner less than that which complies with all Environmental Requirements and does not limit any future uses of the Premises or require the recording of any deed restriction or notice regarding the Premises. Tenant shall perform such work at any time during the period of the Lease upon written request by Landlord or, in the absence of a specific request by Landlord, before Tenant's right to possession of the Premises terminates or expires. If Tenant fails to perform such work within the time period specified by Landlord or before Tenant's right to possession terminates or expires (whichever is earlier), Landlord may at its discretion, and without waiving any other remedy available under this Lease or at law or equity (including without limitation an action to compel Tenant to perform such work), perform such work at Tenant's cost. Tenant shall pay all costs incurred by Landlord in performing such work within ten (10) business days after Landlord's request therefor. Such work performed by Landlord is on behalf of Tenant and Tenant remains the owner, generator, operator, transporter, and/or arranger of the Hazardous Materials for purposes of Environmental Requirements.

Tenant agrees not to enter into any agreement with any person, including without limitation any governmental authority, regarding the removal of Hazardous Materials that have been disposed of or otherwise released onto or from the Premises without the written approval of the Landlord.

33.4 Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the Premises or disturbed in breach of the requirements of this Article 33, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials or any breach of the requirements under this Article 33 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Article 33 shall survive any termination of this Lease.

33.5 Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Article 33, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant. Tenant shall promptly notify Landlord of any communication or report that Tenant makes to any governmental authority regarding any possible violation of Environmental Requirements or release or threat of release of any Hazardous Materials onto or from the Premises. Tenant shall, within five (5) business days of receipt thereof, provide Landlord with a copy of any documents or correspondence received from any governmental agency or other party relating to a possible violation of Environmental Requirements or claim or liability associated with the release or threat of release of any Hazardous Materials onto or from the Premises.

33.6 In addition to all other rights and remedies available to Landlord under this Lease or otherwise, Landlord may, in the event of a breach of the requirements of this Article 33 that is not cured within thirty (30) days following notice of such breach by Landlord, require Tenant to provide financial assurance (such as insurance, escrow of funds or third party guarantee) in an amount and form reasonably satisfactory to Landlord. The requirements of this Article 33 are in addition to and not in lieu of any other provision in the Lease.

33.7 Studies. Tenant acknowledges receipt of a copy of that certain Environmental Site Assessment 11.5 Acre Parcel Southeast Corner of Via Verde and San Dimas Ave., San Dimas, California 91773 dated May 20, 1998 prepared by Harding Lawson Associates (collectively, "Hazardous Substance Reports"). Landlord, except as provided in the following sentence of this paragraph, makes no representations or warranties whatsoever to Tenant regarding: (i) the Hazardous Substance Reports (including, without limitation, the contents and/or accuracy thereof); or (ii) the presence or absence of toxic or Hazardous Materials in, at, or under the Premises, the Building or the Project. Landlord does acknowledge to Tenant that: (i) Landlord has not authorized any other studies for hazardous or toxic materials at the Premises or Building other than the Hazardous Substance Reports; and (ii) Landlord does not know of any surveys for toxic or Hazardous Materials at the Premises or the Building other than the Hazardous Substance Reports. Notwithstanding the preceding sentence, Tenant: (a) shall not rely on and Tenant hereby represents to Landlord that it has not relied on the Hazardous Substance Reports; and (b) shall make such studies and investigations, conduct such tests and surveys, and engage such specialists as Tenant deems appropriate to fairly evaluate the Premises and any risks from hazardous or toxic materials. In connection with any inspections or tests to be conducted by Tenant at the Premises or Building, Tenant shall first notify Landlord of each proposed inspection or test and the scope, impact, and

intent thereof and obtain Landlord's written consent to perform the same. Tenant shall restore the Premises and the property on which the leased premises are located to the condition existing immediately prior to any such test and/or inspection.

ARTICLE 34.
COMPLIANCE WITH LAWS AND OTHER REGULATIONS

34.1 Tenant, as its sole cost and expense, shall promptly comply with all laws, statutes, ordinances, and governmental rules, regulations, or requirements now in force or which may hereafter become in force, of federal, state, county, and municipal authorities, including, but not limited to, the Americans with Disabilities Act, with the requirements of any board of fire underwriters or other similar body now or hereafter constituted, and with any occupancy certificate issued pursuant to any law by any public officer or officers, which impose, any duty upon Landlord or Tenant, insofar as any thereof relate to or affect the condition, use, alteration, or occupancy of the Premises. Landlord's approval of Tenant's plans for any improvements shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act.

34.2 Landlord shall, as part of Operating Expenses, subject to the terms and exclusions set forth in Article 5, comply with all laws, statutes, ordinances, and governmental rules, regulations, or requirements (collectively, the "Requirements") that impose any obligation with respect to the Common Area, the structural elements of the Building or to the Building systems other than systems installed by Tenant (which shall be the sole responsibility of Tenant), but only to the extent the same are applicable to Landlord and the Building, Landlord is required by the applicable governmental authority to take such action, and such action is not the result of a "Trigger Event" (as defined below). As used herein, the term "Trigger Event" means one or more of the following events or circumstances:

(a) With respect to Requirements that first become applicable after the Commencement Date, Tenant's particular use of the Premises (other than normal office uses);

(b) With respect to Requirements that first become applicable after the Commencement Date, the manner of conduct of Tenant's business or operation of its installations, equipment or other property outside those of normal office use;

(c) With respect to Requirements applicable as of the Commencement Date, Tenant's particular use of the Premises (other than the Stated Uses);

(d) With respect to Requirements applicable as of the Commencement Date, the manner of conduct of Tenant's business or operation of its installations, equipment or other property outside those of the Stated Use;

(e) The performance of any alterations or the installation of any Tenant systems; or

(f) The breach of any of Tenant's obligations under this Lease.

ARTICLE 35.
SEVERABILITY

35.1 This Lease shall be construed in accordance with the laws of the State of California. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws effective during the Term, then it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of both parties that in lieu of each clause or provision that is illegal, or unenforceable, there is added as a part of this Lease a clause or provision as

similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and still be legal, valid, and enforceable.

ARTICLE 36.
NOTICES

36.1 Whenever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other, such notice or demand shall be given or served in writing and delivered personally, or forwarded by certified or registered mail, postage prepaid, or recognized overnight courier, addressed as follows:

If to Landlord: c/o The Prudential Insurance Company of America
6701 Center Drive West, Suite 710
Los Angeles, California 90045
Attention: Mr. Marc Selznick

With a copy by the same method to:

c/o The Prudential Insurance Company of America
8 Campus Drive, 4th Floor
Parsippany, New Jersey 07054
Attention: Joan Hayden, Esquire

With a copy by the same method to:

Unire Real Estate Group, Inc.,
10 Pointe Drive, Suite 150
Brea, California 92821
Attention: Mark Harryman

With a copy by the same method to:

Wohl Property Group
2828 East Foothill Road, Suite 201
Pasadena, California 91107
Attention: Emil Wohl

If to Tenant: (If prior to the Commencement Date)

Sypris Data Systems
605 E. Huntington Drive
Monrovia, California 91016
Attention: Cynthia Belak

With a copy by the same method to:

Sypris Solutions, Inc.
101 Bullitt Lane, Suite 450
Louisville, Kentucky 40222
Attention: John McGeeney

(If on or after the Commencement Date)

To the Premises
Attention: Same as above

36.2 Notice hereunder shall become effective upon (a) delivery in case of personal delivery and (b) receipt or refusal in case of certified or registered mail or delivery by overnight courier.

36.3 Prior to the Commencement Date, the address for notices to Tenant shall be the address set forth below its signature hereto; after the Commencement Date, the address for notices to Tenant shall be as herein above set forth. Such address may be changed from time to time by either party serving notice as provided above.

ARTICLE 37.
OBLIGATIONS OF, SUCCESSORS, PLURALITY, GENDER

37.1 Landlord and Tenant agree that all the provisions hereof are to be construed as covenants and agreements as though the words imparting such covenants were used in each paragraph hereof, and that, except as restricted by the provisions hereof, shall bind and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors, and assigns. If the rights of Tenant hereunder are owned by two or more parties, or two or more parties are designated herein as Tenant, then all such parties shall be jointly and severally liable for the obligations of Tenant hereunder. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the other.

ARTICLE 38.
ENTIRE AGREEMENT

38.1 This Lease and any attached addenda or exhibits constitute the entire agreement between Landlord and Tenant. No prior or contemporaneous written or oral leases or representations shall be binding. This Lease shall not be amended, changed, or extended except by written instrument signed by Landlord and Tenant.

38.2 **THE SUBMISSION OF THIS LEASE BY LANDLORD, ITS AGENT OR REPRESENTATIVE FOR EXAMINATION OR EXECUTION BY TENANT DOES NOT CONSTITUTE AN OPTION OR OFFER TO LEASE THE PREMISES UPON THE TERMS AND CONDITIONS CONTAINED HEREIN OR A RESERVATION OF THE PREMISES IN FAVOR OF TENANT, IT BEING INTENDED HEREBY THAT THIS LEASE SHALL ONLY BECOME EFFECTIVE UPON THE EXECUTION HEREOF BY LANDLORD AND DELIVERY OF A FULLY EXECUTED LEASE TO TENANT.**

ARTICLE 39.
CAPTIONS

39.1 Paragraph captions are for Landlord's and Tenant's convenience only, and neither limit nor amplify the provisions of this Lease.

ARTICLE 40.
CHANGES

40.1 Should any mortgagee require a modification of this Lease, which modification will not bring about any increased risk, cost or expense to Tenant or in any other way substantially and adversely change the rights and obligations of Tenant hereunder, then and in such event Tenant agrees that this Lease may be so modified.

ARTICLE 41.
AUTHORITY

41.1 All rights and remedies of Landlord under this Lease, or those which may be provided by law, may be exercised by Landlord in its own name individually, or in its name by its agent,

and all legal proceedings for the enforcement of any such rights or remedies, including distress for Rent, unlawful detainer, and any other legal or equitable proceedings may be commenced and prosecuted to final judgment and be executed by Landlord in its own name individually or in its name by its agent. Landlord and Tenant each represent to the other that each has full power and authority to execute this Lease and to make and perform the agreements herein contained, and Tenant expressly stipulates that any rights or remedies available to Landlord, either by the provisions of this Lease or otherwise, may be enforced by Landlord in its own name individually or in its name by its agent or principal.

ARTICLE 42.
BROKERAGE

42.1 Tenant represents and warrants to Landlord that it has dealt only with CB Richard Ellis Real Estate Services, Inc. ("Tenant's Broker") and Cushman & Wakefield of California, Inc. ("Landlord's Broker"), in negotiation of this Lease. Landlord shall make payment of the brokerage fee due the Landlord's Broker pursuant to and in accordance with a separate agreement between Landlord and Landlord's Broker. Landlord's Broker shall pay a portion of its commission to Tenant's Broker pursuant to a separate agreement between Landlord's Broker and Tenant's Broker. Except for amounts owing to Landlord's Broker and Tenant's Broker, each party hereby agrees to indemnify and hold the other party harmless of and from any and all damages, losses, costs, or expenses (including, without limitation, all attorneys' fees and disbursements) by reason of any claim of or liability to any other broker or other person claiming through the indemnifying party and arising out of or in connection with the negotiation, execution, and delivery of this Lease. Additionally, except as may be otherwise expressly agreed upon by Landlord in writing, Tenant acknowledges and agrees that Landlord and/or Landlord's agent shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may in the future deal with respect to leasing of any additional or expansion space in the Building or renewals or extensions of this Lease.

ARTICLE 43.
EXHIBITS

43.1 Exhibits A through F are attached hereto and incorporated herein for all purposes and are hereby acknowledged by both parties to this Lease.

ARTICLE 44.
APPURTENANCES

44.1 The Premises include the right of ingress and egress thereto and therefrom; however, Landlord reserves the right to make changes and alterations to the Building, fixtures and equipment thereof, in the street entrances, doors, halls, corridors, lobbies, passages, elevators, escalators, stairways, toilets and other parts thereof which Landlord may deem necessary or desirable; provided that Tenant at all times has a means of access to the Premises (including without limitation access off of the main lobby of the Building) and Tenant's loading dock area (subject to a temporary interruption due to Force Majeure Events or necessary maintenance that cannot reasonably be performed without such interruption of access). Neither this Lease nor any use by Tenant of the Building or any passage, door, tunnel, concourse, plaza or any other area connecting the garages or other buildings with the Building, shall give Tenant any right or easement of such use and the use thereof may, without notice to Tenant, be regulated or discontinued at any time and from time to time by Landlord without liability of any kind to Tenant and without affecting the obligations of Tenant under this Lease.

ARTICLE 45.
PREJUDGMENT REMEDY, REDEMPTION, COUNTERCLAIM, AND JURY

45.1 Tenant, for itself and for all persons claiming through or under it, hereby expressly waives any and all rights which are, or in the future may be, conferred upon Tenant by any present or future law to redeem the Premises, or to any new trial in any action for ejection under any provisions of law, after reentry thereupon, or upon any part thereof, by Landlord, or after any warrant to

dispossess or judgment in ejection. If Landlord shall acquire possession of the Premises by summary proceedings, or in any other lawful manner without judicial proceedings, it shall be deemed a reentry within the meaning of that word as used in this Lease. In the event that Landlord commences any summary proceedings or action for nonpayment of rent or other charges provided for in this Lease, Tenant shall not interpose any counterclaim of any nature or description in any such proceeding or action. Tenant and Landlord both waive a trial by jury of any or all issues arising in any action or proceeding between the parties hereto or their successors, under or connected with this Lease, or any of its provisions.

ARTICLE 46.
RECORDING

46.1 Tenant shall not record this Lease but will, at the request of Landlord, execute a memorandum or notice thereof in recordable form satisfactory to both Landlord and Tenant specifying the date of commencement and expiration of the Term of this Lease and other information required by statute. Either Landlord or Tenant may then record said memorandum or notice of lease at the cost of the recording party.

ARTICLE 47.
MORTGAGEE PROTECTION

47.1 Tenant agrees to give any mortgagees and/or trust deed holders, by registered mail, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified, in writing of the address of such mortgagees and/or trust deed holders. Without limiting Tenant's rights to rent abatement under Section 6.6 or Tenant's termination rights under Article 19, Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the mortgagees and/or trust deed holders shall have an additional thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure) in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

ARTICLE 48.
SHORING

48.1 If any excavation or construction is made adjacent to, upon or within the Building, or any part thereof, Tenant shall afford to any and all persons causing or authorized to cause such excavation or construction license to enter upon the Premises for the purpose of doing such work as such persons shall deem necessary to preserve the Building or any portion thereof from injury or damage and to support the same by proper foundations, braces and supports, without any claim for damages or indemnity or abatement of rent (subject to the express provisions of this Lease), or of a constructive or actual eviction of Tenant; provided that the provisions of this Article 48 shall not limit Tenant's right to rent abatement as provided in Section 6.6, above.

ARTICLE 49.
PARKING

49.1 Tenant shall also have the non-exclusive right to use in common with Landlord and other tenants of the Building and their employees and invitees, on a first come first served basis, a number of spaces equal to Tenant's Parking Allocation (as defined below) in the parking area provided by Landlord for the parking of passenger automobiles for the Building, other than parking spaces designated as "Handicapped Parking", "Loading Area" or as may be otherwise reserved or allocated (the "Excluded Parking Areas"). Landlord may issue parking permits, install a gate system, and impose any other system as Landlord reasonably deems necessary for the use of the parking area; provided that there shall be no direct charge to Tenant for Tenant's Parking Allocation except for government imposed charges. The cost of any parking attendants or other personnel involved in the control and monitoring of use of the parking areas (if any) shall be an Operating Expense. In addition, if an entry control system is required, the cost

thereof (not to exceed $50,000 and amortized over such period as Landlord shall reasonably determine together with interest on the unamortized balance) shall be an Operating Expense. Tenant agrees that it and its employees and invitees shall not park their automobiles in any Excluded Parking Areas, and shall comply with such rules and regulations for use of the parking area as Landlord may from time to time prescribe. Landlord shall not be responsible for any damage to or theft of any vehicle in the parking area, and shall not be required to keep parking spaces clear of unauthorized vehicles or to otherwise supervise the use of the parking area. Landlord reserves the right to change any existing or future parking area, roads, or driveways, or increase or decrease the size thereof and make any repairs or alterations it deems necessary to the parking area, roads and driveways and Landlord agrees to use commercially reasonable efforts to minimize any interference with Tenant's parking in the course of such repairs or alterations.

49.2 As used herein, "Tenant's Parking Allocation" means a number determined by (a) multiplying (i) 4 by (ii) the rentable square feet in the Premises divided by 1,000, and (b) rounding that product down to the nearest whole number.

49.3 Ten (10) spaces to be selected by Tenant out of Tenant's Parking Allocation shall be reserved and painted with Tenant's name, subject to approval of the City of San Dimas. In addition, Tenant may use up to two (2) spaces out of Tenant's Parking Allocation for storage containers for Tenant's materials, subject to Landlord's prior written approval as to the location, appearance and screening of those storage containers and subject to the prior approval of the City of San Dimas.

49.4 In the event that any time during the term of this Lease, Landlord grants to any other tenant of the Project the right to have more than five reserved parking spaces for use by that tenant, then Landlord shall offer the Tenant the right to have reserved parking spaces on the same terms and conditions as offered to that other tenant for those same reserved spaces, including the rate, proximity to the tenant's premises and the proportion that the total number of reserved spaces bears to the total rentable area of the tenant.

ARTICLE 50.
ELECTRICAL CAPACITY

50.1 The Tenant covenants and agrees that at all times, its use of electric energy shall never exceed the capacity of the existing feeders to the Building or the distribution of wiring installation. To the extent not constructed as part of the initial Tenant Improvements pursuant to the Work Letter, any alterations to supply the Tenant's electrical requirements upon written request of the Tenant shall be installed by the Landlord at the sole cost and expense of the Tenant, if, in the Landlord's sole judgment, the same are necessary and will not cause or create a dangerous or hazardous condition or entail excess or unreasonable alterations, repairs or expense or interfere with or disrupt other tenants or occupants. In addition to the installation of such alterations, the Landlord will also, at the sole cost and expense of Tenant, install all other equipment proper and necessary in connection therewith subject to the aforesaid terms and conditions.

ARTICLE 51.
OPTIONS TO EXTEND LEASE

51.1 Extension Option. Tenant shall have the option to extend this Lease (the "First Extension Option") for one additional term of five (5) years (the "First Extension Period"), upon the terms and conditions hereinafter set forth:

(a) If the First Extension Option is exercised, then the Rent per annum for such First Extension Period (the "First Option Rent") shall be the Fair Market Rental Value (as defined hereinafter) for the Premises as of the commencement of the First Extension Option for such First Extension Period.

(b) The First Extension Option must be exercised by Tenant, if at all, only at the time and in the manner provided in this subsection 51.1(b).

(i) If Tenant wishes to exercise the First Extension Option, Tenant shall deliver written notice (the "First Interest Notice") to Landlord no less than twelve (12) months before the expiration of the initial Lease Term.

(ii) After receipt of Tenant's First Interest Notice, Landlord shall deliver notice (the "First Option Rent Notice") to Tenant no less than ten (10) months before the expiration of the initial Lease Term, stating the First Option Rent, based on Landlord's determination of the Fair Market Rental Value of the Premises as of the commencement of the First Extension Period.

(iii) If Tenant wishes to exercise the First Extension Option, Tenant must, on or before the date occurring nine (9) months before the expiration of the initial Lease Term, exercise the First Extension Option by delivering written notice (the "First Exercise Notice") to Landlord. If Tenant timely and properly exercises its First Extension Option, the Lease Term shall be extended for the First Extension Period upon all of the terms and conditions set forth in the Lease, as amended, except that the rent for the First Extension Period shall be as provided in subsection 51.1(a), Tenant shall be entitled to a refurbishment allowance in the amount of $15.00 for each rentable square foot of area in the Premises, which shall be disbursed in the same manner as the Tenant Improvement Allowance, and Tenant shall have no further options to extend the Lease Term except for the Second Extension Option.

(iv) If Tenant wishes to contest the First Option Rent stated in the First Option Rent Notice, Tenant must provide, with the First Exercise Notice, written notice to Landlord that Tenant objects to the stated First Option Rent. If Tenant provides such written objection, the parties shall follow the procedure described in Section 51.4, and the First Option Rent shall be determined as set forth in that section.

(v) If Tenant fails to deliver a timely First Interest Notice or First Exercise Notice, Tenant shall be considered to have elected not to exercise the First Extension Option.

(c) It is understood and agreed that the First Extension Option hereby granted is personal to Tenant and is not transferable, except to an assignee of Tenant's entire interest in the Lease consented to by Landlord pursuant to Article 18 or as to which Landlord's consent is not required pursuant to Article 18.

(d) Tenant's exercise of the First Extension Option shall, if Landlord so elects in its absolute discretion, be ineffective in the event that an Event of Default by Tenant remains uncured at the time of delivery of the First Interest Notice or the First Exercise Notice or at the commencement of the First Extension Period. If Tenant so requests in connection with its exercise of this option, Landlord will confirm whether or not there exists an uncured Event of Default at the times provided in this subparagraph.

51.2 Second Extension Option. Tenant shall have the option to extend this Lease (the "Second Extension Option") for one additional term of five (5) years (the "Second Extension Period"), upon the terms and conditions hereinafter set forth:

(a) If the Second Extension Option is exercised, then the Rent per annum for such Second Extension Period (the "Second Option Rent") shall be the Fair Market Rental Value for the Premises as of the commencement of the Second Extension Option for such Second Extension Period.

(b) The Second Extension Option must be exercised by Tenant, if at all, only at the time and in the manner provided in this subsection 51.2(b).

(i) If Tenant wishes to exercise the Second Extension Option, Tenant shall deliver written notice (the "Second Interest Notice") to Landlord no less than twelve (12) months before the expiration of the First Extension Period.

(ii) After receipt of Tenant's Second Interest Notice, Landlord shall deliver notice (the "Second Option Rent Notice") to Tenant no less than ten (10) months before the expiration of the First Extension Period, stating the Second Option Rent, based on Landlord's determination of the Fair Market Rental Value of the Premises as of the commencement of the Second Extension Period.

(iii) If Tenant wishes to exercise the Second Extension Option, Tenant must, on or before the date occurring nine (9) months before the expiration of the First Extension Period, exercise the Extension Option by delivering written notice (the "Second Exercise Notice") to Landlord. If Tenant timely and properly exercises its Second Extension Option, the Lease Term shall be extended for the Second Extension Period upon all of the terms and conditions set forth in the Lease, as amended, except that the rent for the Second Extension Period shall be as provided in subsection 51.2(a), Tenant shall be entitled to a refurbishment allowance in the amount of $15.00 for each rentable square foot of area in the Premises, which shall be disbursed in the same manner as the Tenant Improvement Allowance, and Tenant shall have no further options to extend the Lease Term.

(iv) If Tenant wishes to contest the Second Option Rent stated in the Second Option Rent Notice, Tenant must provide, with the Second Exercise Notice, written notice to Landlord that Tenant objects to the stated Second Option Rent. If Tenant provides such written objection, the parties shall follow the procedure described in Section 51.4, and the Second Option Rent shall be determined as set forth in that section.

(v) If Tenant fails to deliver a timely Second Interest Notice or Second Exercise Notice, Tenant shall be considered to have elected not to exercise the Second Extension Option.

(c) It is understood and agreed that the Second Extension Option hereby granted is personal to Tenant and is not transferable, except to an assignee of Tenant's entire interest in the Lease consented to by Landlord pursuant to Article 18 or as to which Landlord's consent is not required pursuant to Article 18.

(d) Tenant's exercise of the Second Extension Option shall, if Landlord so elects in its absolute discretion, be ineffective in the event that an Event of Default by Tenant remains uncured at the time of delivery of the Second Interest Notice or the Second Exercise Notice or at the commencement of the Second Extension Period. If Tenant so requests in connection with its exercise of this option, Landlord will confirm whether or not there exists an uncured Event of Default at the times provided in this subparagraph.

(e) The Second Extension Option shall terminate and shall thereafter be null and void in the event Tenant does not exercise the First Extension Option or for any reason Tenant's exercise of the First Extension Option is ineffective.

51.3 Fair Market Rent. The provisions of this Section shall apply in any instance in which this Lease provides that the Fair Market Rent is to apply.

(a) "Fair Market Rental Value" means the annual amount per square foot that a willing tenant would pay and a willing landlord would accept in arm's length negotiations, without any additional inducements, for an extension of a lease of the applicable space on the applicable terms and conditions for the applicable period of time. Fair Market Rent shall be determined by Landlord considering the most recent new direct leases (and market renewals and extensions, if applicable) in other Comparable Buildings in the Market Area. In any determination of Fair Market Rental Value, the Base Year for each Extension Period shall be the calendar year in which the first day of the applicable Extension Period falls.

(b) In determining the rental rate of comparable space, the parties shall include all escalations and take into consideration the following concessions:

(i) Rental abatement concessions, if any, being granted to tenants in connection with the comparable space;

(ii) The $15.00 per square foot of rentable area refurbishment allowance to be provided under this Lease;

(iii) Tenant improvements or allowances provided or to be provided for the comparable space, taking into account the value of the existing improvements in the Premises, based on the age, quality, and layout of the improvements.

(c) If in determining the Fair Market Rental Value the parties determine that the economic terms of leases of comparable space include a tenant improvement allowance in excess of $15.00 per square foot of rentable area, Landlord may, at Landlord's sole option, elect to do the following:

(i) Grant some or all of the value of that Tenant improvement allowance as an allowance for the refurbishment of the Premises; and

(ii) Reduce the Base Rent component of the Fair Market Rental Value to be an effective rental rate that takes into consideration the total dollar value of that portion of that tenant improvement allowance that Landlord has elected not to grant to Tenant (in which case that portion of that tenant improvement allowance evidenced in the effective rental rate shall not be granted to Tenant).

51.4 Resolving Disagreement Over Fair Market Rental Value. If Tenant timely and effectively objects to Landlord's determination of Fair Market Rental Value under subsections 51.1(b)(iv) or 51.2(b)(iv), the disagreement shall be resolved under this section 51.4.

(a) Negotiated Agreement. Landlord and Tenant shall diligently attempt in good faith to agree on the Fair Market Rental Value on or before the tenth (10th) day after Tenant's objection to the Fair Market Rental Value (the "Outside Agreement Date").

(b) Parties' Separate Determinations. If Landlord and Tenant fail to reach agreement on or before the Outside Agreement Date, Landlord and Tenant shall each make a separate determination of the Fair Market Rental Value and notify the other party of this determination within five (5) days after the Outside Agreement Date.

(i) Two Determinations. If each party makes a timely determination of the Fair Market Rental Value, those determinations shall be submitted to arbitration in accordance with subsection (c).

(ii) One Determination. If Landlord or Tenant fails to make a determination of the Fair Market Rental Value within the five-day (5-day) period, that

failure shall be conclusively considered to be that party's approval of the Fair Market Rental Value submitted within the five-day (5-day) period by the other party.

(c) Arbitration. If both parties make timely individual determinations of the Fair Market Rental Value under subsection (b), the Fair Market Rental Value shall be determined by arbitration under this subsection (c).

(i) Scope of Arbitration. The determination of the arbitrators shall be limited to the sole issue of whether Landlord's or Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value as determined by the arbitrators, taking into account the requirements of Section 51.3.

(ii) Qualifications of Arbitrator(s). The arbitrators must be lawyers licensed to practice law in the State of California who have been active in the leasing of commercial properties in the Market Area over the five-year period ending on the date of their appointment as arbitrator(s), but who have not represented either Tenant or Landlord during that five (5) year period.

(iii) Parties' Appointment of Arbitrators. Within fifteen (15) days after the Outside Agreement Date, Landlord and Tenant shall each appoint one arbitrator and notify the other party of the arbitrator's name and business address.

(iv) Appointment of Third Arbitrator. If each party timely appoints an arbitrator, the two (2) arbitrators shall, within ten (10) days after the appointment of the second arbitrator, agree on and appoint a third arbitrator (who shall be qualified under the same criteria set forth above for qualification of the initial two (2) arbitrators) and provide notice to Landlord and Tenant of the arbitrator's name and business address.

(v) Arbitrators' Decision. Within thirty (30) days after the appointment of the third arbitrator, the three (3) arbitrators shall decide whether the parties will use Landlord's or Tenant's submitted Fair Market Rental Value and shall notify Landlord and Tenant of their decision. The decision of the majority the three (3) arbitrators shall be binding on Landlord and Tenant.

(vi) If Only One Arbitrator is Appointed. If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the Outside Agreement Date, the arbitrator timely appointed by one of them shall reach a decision and notify Landlord and Tenant of that decision within thirty (30) days after the arbitrator's appointment. The arbitrator's decision shall be binding on Landlord and Tenant.

(vii) If Only Two Arbitrators Are Appointed. If each party appoints an arbitrator in a timely manner, but the two (2) arbitrators fail to agree on and appoint a third arbitrator within the required period, the arbitrators shall be dismissed without delay and the issue of Fair Market Rental Value shall be submitted to binding arbitration under the real estate arbitration rules of JAMS, subject to the provisions of this section.

(viii) If No Arbitrator Is Appointed. If Landlord and Tenant each fail to appoint an arbitrator in a timely manner, the matter to be decided shall be submitted without delay to binding arbitration under the real estate arbitration rules of JAMS subject the provisions of this Section 51.4(c).

(ix) Cost of Arbitration. The cost of the arbitration shall be paid by the losing party.

ARTICLE 52.
TELECOMMUNICATIONS LINES AND EQUIPMENT

52.1 Location of Tenant's Equipment and Landlord Consent:

52.1.1 Tenant may install, maintain, replace, remove and use communications or computer wires, cables and related devices (collectively, the "Lines") in the Premises.

52.1.2 Landlord's approval of, or requirements concerning, the Lines or any equipment related thereto, the plans, specifications or designs related thereto, the contractor or subcontractor, or the work performed hereunder, shall not be deemed a warranty as to the adequacy or appropriateness thereof, and Landlord hereby disclaims any responsibility or liability for the same.

52.1.3 If Landlord consents to Tenant's proposal, Tenant shall pay all of Tenant's and Landlord's third party costs in connection therewith (including without limitation all costs related to new Lines) and shall use, maintain and operate the Lines and related equipment in accordance with and subject to all laws governing the Lines and equipment and at Tenant's sole risk and expense. Tenant shall comply with all of the requirements of this Lease concerning alterations in connection with installing the Lines. As soon as the work is completed, Tenant shall submit as-built drawings to Landlord.

52.1.4 Landlord reserves the right to require that Tenant repair so as to correct any violation or remove, if not reasonably repairable, any Lines located in or serving the Premises which are installed in violation of these provisions, or which are at any time in violation of any laws or present a dangerous or potentially dangerous condition (whether such Lines were installed by Tenant or any other party), within five (5) business days after written notice.

52.2 Reallocation of Line Space. Landlord may (but shall not have the obligation to) at Landlord's sole cost and expense, which shall not be included in Operating Expenses, (a) install and relocate Lines at the Building; and (b) monitor and control the installation, maintenance, replacement and removal of, the allocation and periodic re-allocation of available space (if any) for, and the allocation of excess capacity (if any) on, any Lines now or hereafter installed at the Building by Landlord, Tenant or any other party; provided that such reallocation shall not result in Tenant having less than Tenant's Building Percentage of the available riser space. In any such installation, relocation, monitoring, control or reallocation, Landlord shall make reasonable efforts to minimize any disruption to Tenant's business operation in the Premises.

52.3 Line Problems: Except to the extent arising from the gross negligence or willful misconduct of Landlord or Landlord's contractors, agents or employees, Landlord shall have no liability for damages arising from, and Landlord does not warrant that the Tenant's use of any Lines will be free from the following (collectively called "Line Problems"): (a) any shortages, failures, variations, interruptions, disconnections, loss or damage caused by the installation, maintenance, or replacement, use or removal of Lines by or for other tenants or occupants in the Building, by any failure of the environmental conditions or the power supply for the Building to conform to any requirement of the Lines or any associated equipment, or any other problems associated with any Lines by any other cause; (b) any failure of any Lines to satisfy Tenant's requirements; or (c) any eavesdropping or wiretapping by unauthorized parties. Landlord in no event shall be liable for damages by reason of loss of profits, business interruption or other consequential damage arising from any Line Problems.

52.4 Electromagnetic Fields: If Tenant at any time uses any equipment that may create an electromagnetic field and/or radio frequency exceeding the normal insulation ratings of ordinary twisted pair riser cable or cause radiation higher than normal background radiation, Landlord reserves the right to require Tenant to appropriately insulate that equipment and the Lines therefor (including without limitation riser cables), and take such other remedial action at Tenant's sole cost and expense as Landlord may require in its reasonable discretion to prevent such excessive electromagnetic fields, radio frequency or radiation.

52.5 Removal of Electrical and Telecommunications Wires.

52.5.1 Within 30 days after the expiration or sooner termination of the Lease, Landlord may elect by written notice to Tenant to:

(a) Retain any or all Lines abandoned by Tenant in the risers of the Building;

(b) Remove any or all such Lines at Landlord's sole expense.

ARTICLE 53.
TENANT'S RIGHT OF FIRST OFFER

53.1 As used herein, "Offer Space" means space on the second floor of the Building. Landlord may from time to time give Tenant a written notice (the "Availability Notice") identifying the particular Offer Space (the "Specific Offer Space") that is Available (as defined below). As used herein, "Available" means that the space (i) is not part of the Premises, (ii) is not then subject to a lease, and (iii) is not then subject to any rights of tenant to renew their lease or expand their premises as set forth in their lease. For purposes of this Article 53, space that is unleased as of the Commencement Date shall be considered to become Available only after the first anniversary of the Commencement Date. Until that date, Landlord shall have the right to lease such space without triggering Tenant's right of first offer.

53.2 Tenant may inform Landlord (the "Request Notice") not more than once in any twelve (12) month period. Landlord shall, within ten (10) business days of receiving the properly given Request Notice, deliver to Tenant an Availability Notice identifying Specific Offer Space that is Available.

53.3 The location and configuration of the Specific Offer Space shall be determined by Landlord in its reasonable discretion; provided that Landlord shall have no obligations to designate Specific Offer Space that would result in any space not included in the Specific Offer Space being not Configured For Leasing (as defined below). For purposes of this Lease, "Configured For Leasing" means the applicable space must contain at least 3,300 rentable square feet, must have convenient access to the central corridor on the applicable floor, must have a configuration that complies with all applicable building codes and other laws and is such that Landlord judges, in its reasonable discretion, that Landlord will be able to lease such space to a third party. The Availability Notice shall:

(a) Describe the particular Specific Offer Space (including rentable area, usable area and location);

(b) Include an attached floor plan identifying such space;

(c) State the date (the "Specific Offer Space Delivery Date") the space will be available for delivery to Tenant; and

(d) Specify the Base Rent and Base Year for the Specific Offer Space.

(e) Specify the increase in the termination fees under Section 2.4 that will apply to reflect the addition of the Specific Offer Space to the Premises.

(f) Specify the increase in the Security Deposit that will be required.

53.4 If Tenant wishes to exercise Tenant's rights set forth in this Article 53 with respect to the Specific Offer Space, then within ten (10) business days of delivery of the Availability Notice to Tenant, Tenant shall deliver irrevocable notice to Landlord (the "First Offer Exercise Notice") offering to lease the Specific Offer Space on the terms and conditions as may be specified by Landlord in the Availability Notice.

53.5 In the event Tenant fails to give a First Offer Exercise Notice in response to any Availability Notice, Tenant shall have no further rights to receive an Availability Notice and Tenant's rights under this Article 53 shall terminate and Landlord shall be free to lease the Offer Space to anyone on any terms at any time during the Term, without any obligation to provide Tenant with any further right to lease that space.

53.6 If Tenant timely and validly gives the First Offer Exercise Notice, then beginning on the Specific Offer Space Delivery Date and continuing for the balance of the Term (including any extensions):

(a) The Specific Offer Space shall be part of the Premises under this Lease (so that the term "Premises" in this Lease shall refer to the space in the Premises immediately before the Specific Offer Space Delivery Date plus the Specific Offer Space);

(b) Tenant's Building Percentage shall be adjusted to reflect the increased rentable area of the Premises.

(c) Base Rent for the Specific Offer Space shall be as specified in the Availability Notice.

(d) If the Base Year specified in the Availability Notice is other than the Base Year applicable to the balance of the Premises, then Tenant's Share with respect to the Specific Offer Space shall be appropriately adjusted to reflect that different Base Year.

(e) The termination fee in Section 2.4 and the Security Deposit shall be increased by the amounts specified in the Availability Notice.

(f) Tenant's lease of the Specific Offer Space shall be on the same terms and conditions as affect the original Premises from time to time, except as otherwise provided in this section. Tenant's obligation to pay Rent with respect to the Specific Offer Space shall begin on the Offer Space Delivery Date. The Offer Space shall be leased to Tenant in its "as-is" condition and Landlord shall not be required to construct improvements in, or contribute any tenant improvement allowance for, the Offer Space. Tenant's construction of any improvements in the Specific Offer Space shall comply with the terms of this Lease concerning alterations.

(g) If requested by Landlord, Landlord and Tenant shall confirm in writing the addition of the Specific Offer Space to the Premises on the terms and conditions set forth in this section, but Tenant's failure to execute or deliver such written confirmation shall not affect the enforceability of the First Offer Exercise Notice.

53.7 Tenant's rights and Landlord's obligations under this Article 53 are expressly subject to and conditioned upon there not existing an Event of Default by Tenant under this Lease, either at the time of delivery of the First Offer Exercise Notice or at the time the Specific Offer Space is to be added to the Premises.

53.8 It is understood and agreed that Tenant's rights under this Article 53 are personal to Tenant and not transferable, except to an Affiliate in connection with an assignment of Tenant's entire interest in this Lease. In the event of any other assignment or subletting of the Premises or any part thereof, this expansion right shall automatically terminate and shall thereafter be null and void.

ARTICLE 54.
GUARANTY

54.1 The obligations of Tenant under this Lease shall be guarantied by Sypris Solutions, Inc., a Delaware corporation, pursuant to a Guaranty in the form of the Guaranty attached hereto as Exhibit "E," which shall be executed and delivered to Landlord concurrently with Tenant's execution and delivery of this Lease.

IN WITNESS WHEREOF, Landlord and Tenant, acting herein through duly authorized individuals, have caused these presents to be executed as of the date first above written.

TENANT:

SYPRIS DATA SYSTEMS, INC., a
Delaware corporation

By: /s/ G. Darrell Robertson

G. Darrell Robertson

[Printed Name and Title]

LANDLORD:
VIA VERDE VENTURE, LLC,
a Delaware limited liability company

By: Marc D. Selznick

Vice President

[Printed Name and Title]

Schedules (or similar attachments) to this exhibit have not been filed because such schedules do not contain information which is material to an investment decision and which is not otherwise disclosed in the agreement or the Company's disclosure documents. The Company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.

EXHIBIT 21

SYPRIS SOLUTIONS, INC.
SUBSIDIARIES OF THE COMPANY

The Company's subsidiaries as of December 31, 2003 are as follows:

(1) Sypris Test & Measurement, Inc., a Delaware corporation.

(2) Sypris Electronics, LLC, a Delaware limited liability company.

(3) Sypris Data Systems, Inc., a Delaware corporation.

(4) Sypris Technologies, Inc., a Delaware corporation.

(5) Sypris Technologies Marion, LLC, a Delaware limited liability company.

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in (i) Form S-8 Registration Statements Nos. 33-94546, 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 to the Sypris Solutions, Inc. Independent Directors' Stock Option Plan and (ii) Form S-8 Registration Statement No. 333-70319 pertaining to the Sypris Solutions, Inc. Employee Stock Purchase Plan, of our report dated January 30, 2004 with respect to the consolidated financial statements and schedule of Sypris Solutions, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 9, 2004

Exhibit 31.1

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)) 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) 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

   (c) 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 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: February 12, 2004

By: /s/ Jeffrey T. Gill

Jeffrey T. Gill
President & Chief Executive Officer

Exhibit 31.2

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

I, David D. Johnson, 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)) 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) 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

   (c) 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 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: February 12, 2004

By: /s/ David D. Johnson

David D. Johnson
Vice President & Chief Financial Officer

Exhibit 32

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

In connection with the Annual Report of Sypris Solutions Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 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: February 12, 2004 By: /s/ Jeffrey T. Gill

Jeffrey T. Gill
President & Chief Executive Officer

Date: February 12, 2004 By: /s/ David D. Johnson

David D. Johnson
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.