

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-20852

ULTRALIFE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

16-1387013

(I.R.S. Employer Identification No.)

2000 Technology Parkway, Newark, New York 14513
(Address of principal executive offices) (Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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..X... No.....

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes.... No..X...

At October 25, 2012, there were 17,430,219 shares of common stock \$0.10 par value outstanding, net of 1,372,757 treasury shares.

ULTRALIFE CORPORATION
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ULTRALIFE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

ASSETS	(Unaudited) September 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	\$ 4,959	\$ 5,320
Restricted cash	412	166
Trade accounts receivable (less allowance for doubtful accounts of \$331 at September 30, 2012 and \$683 at December 31, 2011)	20,254	19,903
Inventories	33,092	34,967
Due from insurance company	721	1,730
Deferred tax asset - current	155	161
Income taxes receivable	117	220
Prepaid expenses and other current assets	1,645	1,766
Total current assets	61,355	64,233
Property, plant and equipment, net	12,375	12,588
Other assets:		
Goodwill	16,337	18,356
Intangible assets, net	5,164	5,533
Security deposits and other long-term assets	98	105
	<u>21,599</u>	<u>23,994</u>
Total Assets	\$ 95,329	\$ 100,815
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	\$ -	\$ -
Accounts payable	11,930	13,766
Income taxes payable	2	11
Deferred tax liability - current	73	187
Other current liabilities	7,654	9,194
Total current liabilities	19,659	23,158
Long-term liabilities:		
Deferred tax liability - long-term	4,156	4,170
Other long-term liabilities	275	261
Total long-term liabilities	4,431	4,431
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ultralife equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none issued and outstanding	-	-
Common stock, par value \$0.10 per share, authorized 40,000,000 shares; issued - 18,802,976 at September 30, 2012 and 18,716,921 at December 31, 2011	1,883	1,874
Capital in excess of par value	173,416	172,309
Accumulated other comprehensive loss	(1,066)	(985)
Accumulated deficit	(95,271)	(92,280)
	<u>78,962</u>	<u>80,918</u>
Less --Treasury stock, at cost -- 1,372,757 shares at September 30, 2012 and 1,372,757 shares at December 31, 2011 outstanding	7,658	7,658
Total Ultralife equity	71,304	73,260
Noncontrolling interest	(65)	(34)
Total shareholders' equity	71,239	73,226
Total Liabilities and Shareholders' Equity	\$ 95,329	\$ 100,815

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands, Except Per Share Amounts)
(unaudited)

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30 2012	October 2, 2011	September 30 2012	October 2, 2011
Revenues	\$ 26,181	\$ 35,204	\$ 72,388	\$ 106,231
Cost of products sold	17,962	25,844	53,109	80,897
Gross profit	8,219	9,360	19,279	25,334
Operating expenses:				
Research and development (including \$65, \$77, \$195 and \$234, respectively, of amortization of intangible assets)	1,596	2,294	5,706	6,913
Selling, general, and administrative (including \$57, \$78, \$177 and \$235 respectively, of amortization of intangible assets)	4,869	5,521	16,041	17,775
Total operating expenses	6,465	7,815	21,747	24,688
Operating income (loss)	1,754	1,545	(2,468)	646
Other income (expense):				
Interest income	1	2	4	4
Interest expense	(97)	(126)	(316)	(444)
Miscellaneous	(15)	49	17	339
Income (loss) from continuing operations before income taxes	1,643	1,470	(2,763)	545
Income tax provision-current	120	67	387	134
Income tax provision - deferred	55	55	50	164
Total income taxes provision	175	122	437	298
Net income (loss) from continuing operations	1,468	1,348	(3,200)	247
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	200	4	178	(4,174)
Net income (loss)	1,668	1,352	(3,022)	(3,927)
Net loss attributable to noncontrolling interest	11	11	31	39
Net income (loss) attributable to Ultralife	<u>\$ 1,679</u>	<u>\$ 1,363</u>	<u>\$ (2,991)</u>	<u>\$ (3,888)</u>
Other comprehensive income (loss):				
Foreign currency translation adjustments	(204)	(19)	(81)	268
Comprehensive income (loss) attributable to Ultralife	<u>\$ 1,475</u>	<u>\$ 1,344</u>	<u>\$ (3,072)</u>	<u>\$ (3,620)</u>
Net income (loss) attributable to Ultralife common shareholders - basic				
Continuing operations	\$ 0.09	\$ 0.08	\$ (0.18)	\$ 0.02
Discontinued operations	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.24)
Total	<u>\$ 0.10</u>	<u>\$ 0.08</u>	<u>\$ (0.17)</u>	<u>\$ (0.22)</u>
Net income (loss) attributable to Ultralife common shareholders - diluted				
Continuing operations	\$ 0.09	\$ 0.08	\$ (0.18)	\$ 0.02
Discontinued operations	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.24)
Total	<u>\$ 0.10</u>	<u>\$ 0.08</u>	<u>\$ (0.17)</u>	<u>\$ (0.22)</u>
Weighted average shares outstanding - basic	17,418	17,313	17,390	17,295
Weighted average shares outstanding - diluted	<u>17,418</u>	<u>17,341</u>	<u>17,390</u>	<u>17,295</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(unaudited)

	Nine-Month Periods Ended	
	September 30 2012	October 2, 2011
OPERATING ACTIVITIES		
Net (loss)	\$ (3,022)	\$ (3,927)
(Income) loss from discontinued operations, net of tax	(178)	4,174
Adjustments to reconcile net (loss) from continuing operations to net cash provided from operating activities:		
Depreciation and amortization of financing fees	2,566	2,720
Amortization of intangible assets	372	469
Loss on long-lived asset disposal and write-offs	13	105
Foreign exchange gain	(3)	(326)
Impairment of goodwill and long-lived assets	-	-
Non-cash stock-based compensation	1,001	882
Changes in deferred income taxes	74	199
Changes in operating assets and liabilities:		
Accounts receivable	3,265	8,090
Inventories	1,766	1,397
Income taxes receivable	104	-
Prepaid expenses and other current assets	(39)	92
Insurance receivable relating to fires	1,014	(1,724)
Income taxes payable	(9)	(24)
Accounts payable and other liabilities	(5,020)	(5,395)
Net cash provided from (used in) operating activities from continuing operations	1,904	6,732
Net cash provided from operating activities from discontinued operations	(2,133)	86
Net cash provided from (used in) operating activities	(229)	6,818
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,011)	(1,878)
Proceeds from asset disposal	-	7
Change in restricted cash	(250)	468
Payments for acquired companies, net of cash acquired	-	(50)
Net cash used in investing activities from continuing operations	(2,261)	(1,453)
Net cash provided from investing activities from discontinued operations	2,133	102
Net cash used in investing activities	(128)	(1,351)
FINANCING ACTIVITIES		
Net change in revolving credit facility	-	(6,060)
Proceeds from issuance of common stock	115	57
Principal payments on debt and capital lease obligations	-	(6)
Net cash provided from (used in) financing activities from continuing operations	115	(6,009)
Net cash used in financing activities from discontinued operations	-	(128)
Net cash provided from (used in) financing activities	115	(6,137)
Effect of exchange rate changes on cash	(119)	522
Change in cash and cash equivalents	(361)	(148)
Cash and cash equivalents at beginning of period	5,320	4,641
Cash and cash equivalents at end of period	\$ 4,959	\$ 4,493
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 291	\$ 158
Cash paid for interest	\$ 184	\$ 353

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

ULTRALIFE CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands – Except Share and Per Share Amounts)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Ultralife Corporation and our subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Condensed Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements contained in our Form 10-K for the twelve-month period ended December 31, 2011.

The year-end Condensed Consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.

Our monthly closing schedule is a 4/4/5 weekly-based cycle for each fiscal quarter, as opposed to a calendar month-based cycle for each fiscal quarter. While the actual dates for the quarter-ends will change slightly each year, we believe that there are not any material differences when making quarterly comparisons.

2. DISPOSITIONS AND EXIT ACTIVITIES

RedBlack Communications, Inc.

On February 16, 2012, we announced our intention to divest our RedBlack Communications, Inc. (“RedBlack”) business in 2012. RedBlack, a wholly owned subsidiary of ours based in Hollywood, Maryland, designs, integrates and fields mobile, modular and fixed site communication and electronic systems. As a result of management’s ongoing review of our business portfolio, management had determined that RedBlack offered limited opportunities to achieve the operating thresholds of our new business model.

On September 28, 2012, we entered into and closed a Stock Purchase Agreement (the “Agreement”) to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc. In exchange for the sale of RedBlack, we received \$2,533 as a purchase price, comprised of cash at closing in the amount of \$2,133, funds held in escrow for up to one year in the amount of \$250, as well as \$150 to be available for RedBlack employee retention programs. In addition, there will be a customary post-closing working capital adjustment to the purchase price which is expected to be completed within ninety days.

The Agreement contains customary representations and warranties that will survive for a period of two or three years. The Agreement also contains customary indemnification for breaches of the representations and warranties identified in the Agreement.

Pursuant to the Agreement, we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years.

Commencing with the first quarter of 2012, the results of the RedBlack operations and related divestiture costs have been reported as a discontinued operation.

As a result, the Condensed Consolidated Statements of Comprehensive Income (Loss) herein exclude the RedBlack operations from the results of continuing operations. The following amounts have been reported as discontinued operations for the three- and nine-month periods ended September 30, 2012 and October 2, 2011:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net sales	\$ 1,267	\$ 802	\$ 3,404	\$ 1,786
Income (Loss) from discontinued operations	(59)	16	(3)	(415)
Provision (Benefit) for income taxes	(196)	12	(174)	36
Income (Loss) from discontinued operations, net of tax	137	4	171	(451)

Energy Services Business

On March 8, 2011, our senior management, as authorized by our Board of Directors, decided to exit our Energy Services business, which included standby power and systems design, installation and maintenance activities. As a result of management's review of our business segments and products, and taking into account the lack of growth and profitability potential of the Energy Services segment as well as its sizeable operating losses, we determined it was appropriate to refocus our operations on profitable growth opportunities presented in our other segments, Battery & Energy Products and Communications Systems. In the fourth quarter of 2010, we recorded a non-cash impairment charge of \$13,793 to write-off the goodwill and intangible assets and certain fixed assets associated with the standby power portion of our Energy Services business.

The actions taken to exit our Energy Services segment resulted in the elimination of approximately 40 jobs and the closing of five facilities, primarily in California, Florida and Texas, over several months. As of the end of the second quarter of 2011, all exit activities with respect to our Energy Services segment were completed. As a result, the presentation of results herein excludes the Energy Services segment from the results of continuing operations. The following amounts have been reported as discontinued operations for the three- and nine-month periods ended September 30, 2012 and October 2, 2011:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net sales	\$ -	\$ -	\$ -	\$ 3,895
Gain/(loss) from discontinued operations	63	-	8	(3,796)
Provision for income taxes	-	-	-	-
Gain/(loss) from discontinued operations, net of tax	63	-	8	(3,796)

Included in the Loss from discontinued operations described above, we recorded the following exit charges:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Inventory and fixed asset write-downs	\$ -	\$ -	\$ -	\$ 941
Employee related, including termination benefits	-	-	-	703
Lease termination costs	-	-	-	250
Other costs	-	-	-	1,030
Total Exit Costs	\$ -	\$ -	\$ -	\$ 2,924
Cash Component	\$ -	\$ -	\$ -	\$ 1,984

3. INVENTORIES

Inventories are stated at the lower of cost or market with cost determined under the first-in, first-out (FIFO) method. The composition of inventories was:

	September 30, 2012	December 31, 2011
Raw materials	\$ 15,977	\$ 20,097
Work in process	5,095	4,770
Finished goods	12,020	10,100
	\$ 33,092	\$ 34,967

4. PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment consisted of the following:

	September 30, 2012	December 31, 2011
Land	\$ 123	\$ 123
Buildings and leasehold improvements	7,274	7,000
Machinery and equipment	46,044	44,770
Furniture and fixtures	1,904	1,894
Computer hardware and software	4,180	3,815
Construction in progress	889	641
	60,414	58,243
Less: Accumulated depreciation	48,039	45,655
	\$ 12,375	\$ 12,588

Depreciation expense for property, plant and equipment was \$800 and \$2,460 for the three- and nine-month periods ended September 30, 2012, respectively, and \$875 and \$2,673 for the three- and nine-month periods ended October 2, 2011, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

In accordance with the Financial Accounting Standards Board's ("FASB") guidance for goodwill and other intangible assets, we do not amortize goodwill and intangible assets with indefinite lives, but instead measure these assets for impairment at least annually, or when events indicate that impairment exists. We amortize intangible assets that have definite lives so that the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life.

The impairment analysis of goodwill and intangible assets consists first of a review of various qualitative factors of the identified reporting units to determine whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, including goodwill. This review includes, but is not limited to, an evaluation of the macroeconomic, industry or market, and cost factors relevant to the reporting unit as well as financial performance and entity or reporting unit events that may affect the value of the reporting unit. If this review leads to the determination that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, further impairment testing is not required. However, if this review cannot support a conclusion that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, or at our discretion, quantitative impairment steps are performed.

The quantitative impairment test for goodwill consists of a comparison of the fair value of the reporting unit with the carrying amount of the reporting unit to which it is assigned. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, a second step of the goodwill impairment test shall be performed to measure the amount of impairment loss, if any. The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the intangible assets with their carrying amounts. If the carrying value of the intangible assets exceeds the fair value, an impairment loss shall be recognized in an amount equal to that excess. We determine the fair value of the reporting unit for goodwill impairment testing based on a discounted cash flow model. We determine the fair value of our intangibles assets with indefinite lives (trademarks) through a royalty relief income valuation approach.

We have determined that during the third quarter of 2012 a triggering event, as defined within FASB ASC Topic 350, occurred as a result of the decrease in our market valuation in relation to our shareholder's equity. As such, we accelerated the review of our goodwill and intangible assets from October 1, 2012 to September 30, 2012. Based upon the results of that review, we have determined that no impairment was necessary for either goodwill or the indefinite-lived intangible assets.

a. Goodwill

The following table summarizes the goodwill activity by segment for the nine-month periods ended September 30, 2012 and October 2, 2011:

	<u>Battery & Energy Products</u>	<u>Communications Systems</u>	<u>Discontinued Operations</u>	<u>Total</u>
Balance at December 31, 2010	\$ 4,758	\$ 11,493	\$ 2,025	\$ 18,276
Effect of foreign currency translations	73	-	-	73
Balance at October 2, 2011	4,831	11,493	2,025	18,349
Effect of foreign currency translations	7	-	-	7
Balance at December 31, 2011	4,838	11,493	2,025	18,356
Sale of RedBlack Communications			(2,025)	(2,025)
Effect of foreign currency translations	6	-	-	6
Balance at September 30, 2012	<u>\$ 4,844</u>	<u>\$ 11,493</u>	<u>\$ -</u>	<u>\$ 16,337</u>

b. Intangible Assets

The composition of intangible assets was:

	September 30, 2012		
	<u>Gross Assets</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trademarks	\$ 3,564	\$ -	\$ 3,564
Patents and technology	4,493	3,635	858
Customer relationships	3,995	3,308	687
Distributor relationships	379	324	55
Non-compete agreements	216	216	-
Total intangible assets	<u>\$ 12,647</u>	<u>\$ 7,483</u>	<u>\$ 5,164</u>

	December 31, 2011		
	Gross Assets	Accumulated Amortization	Net
Trademarks	\$ 3,563	\$ -	\$ 3,563
Patents and technology	4,492	3,440	1,052
Customer relationships	3,993	3,143	850
Distributor relationships	378	310	68
Non-compete agreements	396	396	-
Total intangible assets	\$ 12,822	\$ 7,289	\$ 5,533

Amortization expense for intangible assets was \$122 and \$372 for the three- and nine-month periods ended September 30, 2012, respectively, and \$155 and \$469 for the three- and nine-month periods ended October 2, 2011, respectively.

The change in the cost value of total intangible assets from December 31, 2011 to September 30, 2012 is a result of the effect of foreign currency translations and the disposition of fully amortized intangible assets in conjunction with our sale of RedBlack Communications.

6. DEBT

On February 17, 2010, we entered into a senior secured asset based revolving credit facility (“Credit Facility”) of up to \$35,000 with RBS Business Capital, a division of RBS Asset Finance, Inc. (“RBS”). The proceeds from the Credit Facility can be used for general working capital purposes, general corporate purposes, and letter of credit foreign exchange support. The Credit Facility has a maturity date of February 17, 2013 (“Maturity Date”). The Credit Facility is secured by substantially all of our assets. At closing, we paid RBS a facility fee of \$263.

On February 18, 2010, we drew down \$9,870 from the Credit Facility to repay all outstanding amounts due under our previous credit facility with JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company. Our available borrowing under the Credit Facility fluctuates from time to time based upon amounts of eligible accounts receivable and eligible inventory. Available borrowings under the Credit Facility equals the lesser of (1) \$35,000 or (2) 85% of eligible accounts receivable plus the lesser of (a) up to 70% of the book value of our eligible inventory or (b) 85% of the appraised net orderly liquidation value of our eligible inventory. The borrowing base under the Credit Facility is further reduced by (1) the face amount of any letters of credit outstanding, (2) any liabilities under hedging contracts with RBS and (3) the value of any reserves as deemed appropriate by RBS. We are required to have at least \$3,000 available under the Credit Facility at all times.

On January 19, 2011, we entered into a First Amendment to the Credit Agreement (“First Amendment”) with RBS. The First Amendment amended the Credit Facility as follows:

(i) Included foreign (non-U.S.) accounts subject to credit insurance payable to RBS under the definition of eligible accounts receivable under the Credit Facility (for the determination of available borrowings - formerly, such accounts were not eligible without arranging letter of credit facilities satisfactory to RBS).

(ii) Decreased the interest rate that will accrue on outstanding indebtedness, as set forth in the following table:

Greater than \$10,000	3.00%
Greater than \$6,000 but less than or equal to \$10,000	3.25%
Greater than \$3,000 but less than or equal to \$6,000	3.50%

On September 28, 2012, we entered into a Second Amendment to the Credit Facility ("Second Amendment") with RBS. The Second Amendment amended the Credit Facility to consent to the sale of the stock of RedBlack and to release any and all liens on RedBlack.

Interest currently accrues on outstanding indebtedness under the Credit Facility at LIBOR plus 3.00%. We have the ability, in certain circumstances, to fix the interest rate for up to 90 days from the date of borrowing.

In addition to paying interest on the outstanding principal under the Credit Facility, we are required to pay an unused line fee of 0.50% on the unused portion of the \$35,000 Credit Facility. We must also pay customary letter of credit fees equal to the LIBOR rate and the applicable margin and any other customary fees or expenses of the issuing bank. Interest that accrues under the Credit Facility is to be paid monthly with all outstanding principal, interest and applicable fees due on the Maturity Date.

We are required to maintain a fixed charge coverage ratio of 1.20 to 1.00 or greater at all times as of and after March 28, 2010. As of September 30, 2012, our fixed charge coverage ratio was 1.95 to 1.00. Accordingly, we were in compliance with the financial covenants of the Credit Facility. All borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of an event of default and accuracy of our representations and warranties. The Credit Facility also includes customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, RBS would be entitled to take various actions, including accelerating the amount due under the Credit Facility, and all actions permitted to be taken by a secured creditor.

As of September 30, 2012, we had no amounts outstanding under the Credit Facility. At September 30, 2012, the interest rate on the asset based revolver component of the Credit Facility was 3.23%. As of September 30, 2012, the revolver arrangement had approximately \$14,574 of additional borrowing capacity, including outstanding letters of credit. At September 30, 2012, we had \$413 of outstanding letters of credit under the Credit Facility.

7. SHAREHOLDERS' EQUITY

a. Common Stock

In February 2012, we issued 16,271 shares of common stock to our non-employee directors, valued at \$76.

In May 2012, we issued 17,473 shares of common stock to our non-employee directors, valued at \$77.

In August 2012, we issued 24,311 shares of common stock to our non-employee directors, valued at \$77.

b. Treasury Stock

At September 30, 2012 and December 31, 2011, we had 1,372,757 shares of treasury stock outstanding, valued at \$7,658.

c. Stock Options

We have various stock-based employee compensation plans, for which we follow the provisions of the Financial Accounting Standards Board's ("FASB") guidance on share-based payments, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

Our shareholders have approved various equity-based plans that permit the grant of stock options, restricted stock and other equity-based awards. In addition, our shareholders have approved certain grants of stock options outside of these plans.

In June 2004, shareholders adopted the 2004 Long-Term Incentive Plan ("LTIP") pursuant to which we were authorized to issue up to 750,000 shares of common stock and grant stock options, restricted stock awards, stock appreciation rights and other stock-based awards. Through shareholder approved amendments to the LTIP in 2006, 2008 and 2011, the total number of authorized shares under the LTIP increased to 2,900,000.

Stock options granted under the LTIP are either Incentive Stock Options ("ISOs") or Non-Qualified Stock Options ("NQSOs"). Key employees are eligible to receive ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. Most ISOs vest over a three- or five-year period and expire on the sixth or seventh anniversary of the grant date. All NQSOs issued to non-employee directors vest immediately and expire on either the sixth or seventh anniversary of the grant date. Some NQSOs issued to non-employees vest immediately and expire within three years; others have the same vesting characteristics as options issued to employees. As of September 30, 2012, there were 2,244,722 stock options outstanding under the LTIP.

On December 19, 2005, we granted our former President and Chief Executive Officer, John D. Kavazanjian, an option to purchase 48,000 shares of common stock at \$12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The stock option is fully vested and expires on June 8, 2013.

On March 7, 2008, in connection with his becoming employed by us, we granted our Chief Financial Officer and Treasurer, Philip A. Fain, an option to purchase 50,000 shares of common stock at \$12.74 per share outside of any of our equity-based compensation plans. The stock option is fully vested and expires on March 7, 2015.

On December 30, 2010, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, options to purchase shares of common stock under the LTIP as follows: (i) 50,000 shares at \$6.42, vesting in annual increments of 12,500 shares over a four-year period commencing December 30, 2011; (ii) 250,000 shares at \$6.42, vesting in annual increments of 62,500 shares over a four-year period which commenced on December 30, 2011; (iii) 200,000 shares at \$10.00, with vesting to begin on the date the stock reaches a closing price of \$10.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date; and (iv) 200,000 shares at \$15.00, with vesting to begin on the date the stock reaches a closing price of \$15.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date. All such options in items (i) and (ii) shall expire on December 30, 2017. All such options in items (iii) and (iv) shall expire as of the later of December 30, 2017 and five years after the initial vesting commences, but in no event later than December 30, 2020. The options set forth in items (ii), (iii) and (iv) were subject to shareholder approval of an amendment to the LTIP, which approval was obtained on June 7, 2011.

On January 3, 2011, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, an option to purchase 50,000 shares of common stock at \$6.58 under the LTIP. The option vests in annual increments of 12,500 shares over a four-year period which commenced on December 30, 2011. The option expires on December 30, 2017.

In conjunction with FASB's guidance for share-based payments, we recorded compensation cost related to stock options of \$255 and \$771 for the three- and nine-month periods ended September 30, 2012, respectively, and \$282 and \$683 for the three- and nine-month periods ended October 2, 2011, respectively. As of September 30, 2012, there was \$1,317 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 2.14 years.

We use the Black-Scholes option-pricing model to estimate the fair value of non-market performance stock-based awards. The following weighted average assumptions were used to value non-market performance stock options granted during the nine-month periods ended September 30, 2012 and October 2, 2011.

	Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011
Risk-free interest rate	0.56%	1.22%
Volatility factor	63.53%	60.63%
Dividends	0.00%	0.00%
Weighted average expected life (years)	3.91	3.82

We use a Monte Carlo simulation option-pricing model to estimate the fair value of market performance stock-based awards. The following weighted average assumptions were used to value market performance stock options granted during the nine-month period ended October 2, 2011. There were no market performance stock options granted during the nine-months ended September 30, 2012.

	Nine-Month Period Ended October 2, 2011
Risk-free interest rate	2.74%
Volatility factor	63.79%
Dividends	0.00%
Weighted average expected life (years)	5.51

We calculate expected volatility for stock options by taking an average of historical volatility over the past five years and a computation of implied volatility. The computation of expected term was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield in effect at the time of grant.

Stock option activity for the first nine months of 2012 is summarized as:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option at January 1, 2012	2,356,228	\$ 8.34		
Options granted	303,150	3.63		
Options exercised	(28,000)	4.09		
Options forfeited	(75,389)	4.82		
Options expired	(213,267)	10.90		
Shares under option at September 30, 2012	2,342,722	\$ 7.66	4.83 years	\$ -
Vested and expected to vest as of September 30, 2012	2,232,729	\$ 7.80	4.79 years	\$ -
Options exercisable at September 30, 2012	848,930	\$ 9.01	2.63 years	\$ -

The total intrinsic value of stock options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the nine-month period ended September 30, 2012 was \$29.

FASB's guidance for share-based payments requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised stock options in excess of the deferred tax asset attributable to stock compensation costs for such stock options. We did not record any excess tax benefits in the first nine months of 2012 and 2011. Cash received from stock option exercises under our stock-based compensation plans for the nine-month periods ended September 30, 2012 and October 2, 2011 was \$115 and \$57, respectively.

d. Restricted Stock Awards

No restricted stock was awarded during the nine-month periods ended September 30, 2012 and October 2, 2011.

The activity of restricted stock awards for the nine months of 2012 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	1,218	\$ 11.33
Granted	-	-
Vested	(1,218)	11.33
Forfeited	-	-
Unvested at September 30, 2012	-	\$ -

We recorded compensation cost related to restricted stock awards of \$-0- and \$1 for the three- and nine-month periods ended September, 2012, respectively, and \$(8) and \$(31) for the three- and nine-month periods ended October 2, 2011, respectively. As of September 30, 2012, we had \$-0- of total unrecognized compensation cost related to restricted stock awards. The total fair value of these grants that vested during the nine-month period ended September 30, 2012 was \$5.

8. INCOME TAXES

The asset and liability method, prescribed by FASB's guidance on the accounting for income taxes, is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

For the three- and nine-month periods ended September 30, 2012, we recorded a benefit of \$21 and a provision of \$264, respectively, in income tax expense. For the three- and nine-month periods ended October 2, 2011, we recorded \$132 and \$332, respectively, in income tax expense. The expense is primarily due to (a) the recognition of deferred tax liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods, and (b) the income reported for our China operations during the periods.

Our effective consolidated tax rate for the three- and nine-month periods ended September 30, 2012 and October 2, 2011 was:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Income (Loss) from continuing operations before Incomes Taxes (a)	\$ 1,643	\$ 1,470	\$ (2,763)	\$ 545
Total Income Tax Provision (b)	\$ 175	\$ 122	\$ 437	\$ 298
Effective Tax Rate (b/a)	10.7%	8.3%	15.8%	54.7%

The overall effective rate is the result of the combination of income and losses in each of our tax jurisdictions, which is particularly influenced by the fact that we have not recognized a deferred tax asset pertaining to cumulative historical losses for our U.S. operations and our U.K. subsidiary, as management does not believe, at this time, it is more likely than not that we will realize the benefit of these losses. We have substantial net operating loss carryforwards which offset taxable income in the United States. However, we remain subject to the alternative minimum tax in the United States. The alternative minimum tax limits the amount of net operating loss available to offset taxable income to 90% of the current year income. The alternative minimum tax did not have an impact on income taxes determined for the three- and nine-month periods ended September 30, 2012 and October 2, 2011. The payment of the alternative minimum tax normally results in the establishment of a deferred tax asset; however, we have established a valuation allowance for our net U.S. deferred tax asset. Therefore, the expected payment of the alternative minimum tax does not result in a net deferred tax asset.

As of December 31, 2011, we had foreign and domestic net operating loss carryforwards totaling approximately \$57,977 available to reduce future taxable income. Foreign loss carryforwards of approximately \$11,479 can be carried forward indefinitely. The domestic net operating loss carryforwards of \$46,498 expire from 2019 through 2031. The domestic net operating loss carryforwards include approximately \$2,949 for which a benefit will be recorded in capital in excess of par value when realized.

We have adopted FASB's guidance for the accounting for uncertainty in income taxes. As a result of the implementation of this guidance, there was no cumulative effect adjustment for unrecognized tax benefits, which would have been accounted for as an adjustment to retained earnings.

Our unrecognized tax benefits related to uncertain tax positions at September 30, 2012 relate to Federal and various state jurisdictions. The following table summarizes the activity related to our unrecognized tax benefits:

	Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011
Balance at beginning of the period	\$ 6,779	\$ -
Increases related to current year tax positions	-	-
Increases related to prior year tax positions	-	-
Decreases related to prior year tax positions	-	-
Expiration of statute of limitations for assessment of taxes	-	-
Settlements	-	-
Balance at end of the period	<u>\$ 6,779</u>	<u>\$ -</u>

The total unrecognized tax benefit balance at September 30, 2012 is comprised of tax benefits that, if recognized, would result in a deferred tax asset and a corresponding increase in our valuation allowance. As a result, because the benefit would be offset by an increase in the valuation allowance, there would be no effect on the effective tax rate.

We are not required to accrue interest and penalties as the unrecognized tax benefits have been recorded as a decrease in our net operating loss carryforward. Interest and penalties would begin to accrue in the period in which the net operating loss carryforwards related to the uncertain tax positions are utilized. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

As a result of our operations, we file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. We are routinely subject to examination by taxing authorities in these various jurisdictions. Our U.S. tax matters for the years 1999 through 2011 remain subject to examination by the Internal Revenue Service ("IRS") due to our net operating loss carryforwards. Our U.S. tax matters for the years 1999 through 2011 remain subject to examination by various state and local tax jurisdictions due to our net operating loss carryforwards. Our tax matters for the years 2006 through 2011 remain subject to examination by the respective foreign tax jurisdiction authorities. The IRS has completed the examination of our 2009 U.S. federal income tax return, with no resulting material effect to our financial position or results of operations.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred during 2005 and 2006. As such, the domestic net operating loss carryforwards will be subject to an annual limitation estimated to be in the range of approximately \$12,000 to \$14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. We believe such limitation will not impact our ability to realize the deferred tax asset. The use of our U.K. net operating loss carryforwards may be limited due to the change in our U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

9. EARNINGS PER SHARE

On January 1, 2009, we adopted the provisions of FASB's guidance for determining whether instruments granted in share-based payment transactions are participating securities. The guidance requires that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (such as restricted stock awards granted by us) be considered participating securities. Because restricted stock awards are participating securities, we are required to apply the two-class method of computing basic and diluted earnings per share (the "Two-Class Method").

Basic earnings per share ("EPS") is determined using the Two-Class Method and is computed by dividing earnings attributable to Ultralife common shareholders by the weighted-average shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted EPS includes the dilutive effect of securities, if any, and reflects the more dilutive EPS amount calculated using the treasury stock method or the Two-Class Method. For the three- and nine-month periods ended September 30, 2012 and October 2, 2011, both the Two-Class Method and the treasury stock method calculations for diluted EPS yielded the same result.

The computation of basic and diluted earnings per share is summarized as follows:

	Three-Month Period Ended		Nine-Month Period Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net Income (Loss) from continuing operations attributable to Ultralife	\$ 1,479	\$ 1,359	\$ (3,169)	\$ 286
Net Income (Loss) from continuing operations attributable to participating securities (unvested restricted stock awards) (-0-, 1,000, -0- and -0- shares, respectively)	-	-	-	-
Net Income (Loss) from continuing operations attributable to Ultralife common shareholders (a)	1,479	1,359	(3,169)	286
Effect of Dilutive Securities	-	-	-	-
Net Income (Loss) from continuing operations attributable to Ultralife common shareholders - Adjusted (b)	\$ 1,479	\$ 1,359	\$ (3,169)	\$ 286
Net Income (Loss) from discontinued operations attributable to Ultralife common shareholders (c)	\$ 200	\$ 4	\$ 178	\$ (4,174)
Effect of Dilutive Securities	-	-	-	-
Net Income (Loss) from discontinued operations attributable to Ultralife common shareholders - Adjusted (d)	\$ 200	\$ 4	\$ 178	\$ (4,174)

Average Common Shares Outstanding – Basic (e)	17,418,000	17,313,000	17,390,000	17,295,000
Effect of Dilutive Securities:				
Stock Options / Warrants	-	28,000	-	-
Average Common Shares Outstanding – Diluted (f)	17,418,000	17,341,000	17,390,000	17,295,000
EPS – Basic (a/e) - continuing operations	\$ 0.09	\$ 0.08	\$ (0.18)	\$ 0.02
EPS – Basic (c/e) - discontinued operations	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.24)
EPS – Diluted (b/f) - continuing operations	\$ 0.09	\$ 0.08	\$ (0.18)	\$ 0.02
EPS – Diluted (d/f) - discontinued operations	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.24)

There were 2,342,722 and 2,060,802 outstanding stock options, warrants and restricted stock awards for the three-month periods ended September 30, 2012 and October 2, 2011, respectively, that were not included in EPS as the effect would be anti-dilutive. The dilutive effect of -0- and 259,552 outstanding stock options, warrants and restricted stock awards were included in the dilution computation for the three-month periods ended September 30, 2012 and October 2, 2011, respectively.

There were 2,342,722 and 2,320,354 outstanding stock options, warrants and restricted stock awards for the nine-month periods ended September 30, 2012 and October 2, 2011, respectively, that were not included in EPS as the effect would be anti-dilutive.

10. COMMITMENTS AND CONTINGENCIES

a. Purchase Commitments

As of September 30, 2012, we have made commitments to purchase approximately \$477 of production machinery and equipment.

b. Product Warranties

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the first nine months of 2012 were as follows:

Balance at December 31, 2011	\$ 839
Accruals for warranties issued	394
Settlements made	(320)
Balance at September 30, 2012	<u>\$ 913</u>

c. Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise in the normal course of business. We believe that the final disposition of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

On September 23, 2011, we initiated an action against Arista Power, Inc. (“Arista”) and our former senior sales and engineering employee, David Modeen, in the State of New York Supreme Court, County of Wayne (Index No. 73379). In our initial Complaint, we allege that Arista recruited all but one of the members of its executive team from us, subsequently changed its business to compete directly with us by using our confidential information, and during the summer of 2011, recruited Modeen to become an Arista employee. We allege that, as a result of actions by Arista and Modeen: (i) Modeen has breached the terms of his Employee Confidentiality, Non-Disclosure, Non-Compete, Non-Disparagement and Assignment Agreement with us; (ii) Modeen has breached certain agreements, duties and obligations he owed us, including to protect and refrain from disclosing our trade secrets and confidential and proprietary information; (iii) Arista’s employment of Modeen will inevitably lead to the disclosure and use of our trade secrets by Arista, in violation of Modeen’s duties and obligations to us; (iv) Arista unlawfully induced Modeen to breach his agreements with and duties and obligations to us; and (v) Arista’s recruitment and employment of Modeen has breached a subcontract between Arista and us. We seek damages as determined at trial and preliminary and permanent injunctive relief. The defendants answered the allegations set forth in the Complaint, without asserting any counterclaims.

On December 5, 2011, Arista served us with a Complaint it filed on November 29, 2011 in the State of New York Supreme Court, County of Monroe (Index No. 11-13896) against us, our officers, several of our directors, and an employee. In its Complaint, Arista alleges that we and our named defendants have violated the terms of a Confidentiality Agreement with Arista and have unfairly competed against Arista by unlawfully appropriating Arista’s trade secrets and that as a result of such activity, Arista has incurred damages in excess of \$60,000. Arista seeks damages, an accounting, and preliminary and permanent injunctive relief.

On December 21, 2011, we and our officers, directors and employee named in Arista’s Complaint filed a motion to dismiss Arista’s Complaint against our officers, directors and employee as Arista’s Complaint fails to state any cause of action against any of them and to dismiss the claim of fraud against our officers, directors and employee. Subsequently, Arista filed an Amended Complaint alleging essentially the same causes of action but adding additional factual allegations against us and our officers, directors and employee. In addition, Arista filed a motion to disqualify our outside legal counsel representing us and our officers, directors and employee in both Arista’s Complaint and our Complaint against Arista. In response, we and our officers, directors and employee filed a new motion to dismiss Arista’s Complaint against us in its entirety and seeking dismissal of the fraud claim against us. Arista’s motion to disqualify our outside legal counsel was denied on February 10, 2012. On March 9, 2012, the Court issued its decision on our motion to dismiss, granting the motion to the extent of dismissing some claims against us, but denying the motion to dismiss the individuals from the lawsuit at this preliminary stage. On April 19, 2012, an Answer was filed on behalf of us, our officers, directors and employee.

On February 16, 2012, we filed an Amended Complaint in the action in Supreme Court, Wayne County, adding claims in that action against Modeen and Arista for misappropriation of our trade secrets and unfair competition, based on Arista’s strategy to hire Modeen and other former Ultralife employees, and thereby obtain improper access to information that is confidential and proprietary to us for Arista’s own benefit. We seek damages and injunctive relief limiting Arista’s employment of Modeen, and precluding Arista from using or disclosing information and trade secrets it acquired from us. Arista and Modeen answered the Amended Complaint on March 19, 2012 and discovery has commenced and is ongoing in both cases.

We initiated the September 23, 2011 Complaint against Arista to protect our customers, employees and shareholders from the unauthorized use and theft of our investments in intellectual property, trade secrets and confidential information by Arista and its employees. Protecting our collective intellectual property and know-how, developed at great cost to us to form our competitive position in the marketplace and create value for our shareholders, is a fundamental responsibility of all our employees.

We believe the action Arista filed on November 29, 2011 is retaliatory and without merit. Our development of the foundation for the new product concept for which Arista claims we allegedly used its trade secrets commenced in 2008, long prior to the departure of those individuals who now constitute the executive team of Arista. Furthermore, we believe the purported damage of \$60,000 being claimed by Arista is based solely on the reduction in its market capitalization between November 2009 and the filing date of the Complaint. This market value loss is totally unrelated to any actions attributable to us, and claims for recovery of this or any other amount are legally and factually baseless.

Accordingly, we are vigorously pursuing our complaint against Arista and defending what we believe to be a meritless action on the part of Arista.

9-Volt Battery Litigation

In July 2010, we were served with a summons and complaint filed in Japan by one of our 9-volt battery customers. The complaint alleged damages associated with claims of breach of warranty in an amount of approximately \$1,100. We disputed the customer's allegations against us and vigorously defended the lawsuit. A trial was held on May 25, 2012 in Japan before a panel of three judges, after which the parties agreed to settle the matter for approximately \$125, which has been reflected in our cost of products sold for the second quarter of 2012. The terms of the settlement agreement include no legal liability on our part and the plaintiff abandoning all other claims against us.

d. Post-Audits of Government Contracts

We had certain "exigent", non-bid contracts with the U.S. government, which were subject to audit and final price adjustment, which resulted in decreased margins compared with the original terms of the contracts. As of September 30, 2012, there were no outstanding exigent contracts with the U.S. government. As part of its due diligence, the U.S. government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately \$1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense ("DoD IG") seeking certain information and documents relating to our business with the Department of Defense. We cooperated with the DCAA audit and DoD IG inquiry by making our personnel available to government auditors and investigators and furnishing the requested information and documents. The DCAA Audit and DoD IG inquiry were consolidated and the US Attorney's Office represented the government in connection with these matters. Under applicable federal law, we may have been subject up to treble damages and penalties associated with the potential pricing adjustment. In light of the uncertainty, we decided to enter into discussions with the U.S. Attorney's Office in April 2011 to negotiate a settlement that would be in the best interests of our customers, employees and shareholders. On April 21, 2011, we were advised by the government that there was a \$2,730 settlement-in-principle to resolve all claims related to the contracts, subject to final approval by the Department of Justice. As a result, we recorded a \$2,730 charge as a reduction in revenues for the first quarter of 2011. On June 1, 2011, we entered into a Settlement Agreement with the United States of America, acting through the United States Department of Justice and on behalf of the Department of Defense which provides that we shall pay the U.S. \$2,700 plus accrued interest thereon at the rate of 2.625% per annum from May 6, 2011, with principal payments of \$1,000, \$567, \$567 and \$566 being due on June 8, 2011, December 1, 2011, June 1, 2012 and December 1, 2012, respectively. Each principal payment will be accompanied by a payment of accrued interest. As of September 30, 2012, we have made the first three required payments.

e. Government Grants/Loans

In conjunction with the City of West Point, Mississippi, we applied for a Community Development Block Grant (“CDBG”) from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The CDBG was awarded and as of September 30, 2012, approximately \$480 has been distributed under the grant. Under an agreement with the City of West Point, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within three years of completion of the CDBG improvement activities. In addition, we agreed to invest at least \$1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that our commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the CDBG.

In conjunction with Clay County, Mississippi, we applied for a Mississippi Rural Impact Fund Grant (“RIFG”) from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The RIFG was awarded and as of September 30, 2012, approximately \$150 has been distributed under the grant. Under an agreement with Clay County, we agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs had to be filled or made available to low or moderate income families, within two years of completion of the RIFG improvement activities. In September 2010, we received an extension for this commitment to March 31, 2011. In addition, we agreed to invest at least \$1,000 in equipment and working capital into the facility within the first three years of operation of the facility. While we have yet to receive formal notice from the applicable government agency confirming the closure of the grant, we believe that our commitments were satisfied as of March 2011 and, therefore, have not recorded an accrual with respect to any potential liability for the grant amounts received under the RIFG.

11. BUSINESS SEGMENT INFORMATION

On March 8, 2011, our senior management, as authorized by our Board of Directors, decided to exit our Energy Services business, which previously was a stand alone business segment. See Note 2 in these Notes to Condensed Consolidated Financial Statements for additional information.

On February 15, 2012, our senior management, as authorized by our Board of Directors, decided to divest our RedBlack Communications business, which previously was reported in the Communications Systems segment. See Note 2 in these Notes to Condensed Consolidated Financial Statements for additional information.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment, integrated communication system kits and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as Corporate charges.

The components of segment performance were as follows:

Three-Month Period Ended September 30, 2012

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	\$ 16,633	\$ 9,548	\$ -	\$ -	\$ 26,181
Segment contribution	4,770	3,449	-	(6,465)	1,754
Interest expense, net				(96)	(96)
Miscellaneous				(15)	(15)
Income taxes-current				(120)	(120)
Income taxes-deferred				(55)	(55)
Income from discontinued operations			200		200
Noncontrolling interest				11	11
Net income attributable to Ultralife					\$ 1,679
Total assets	\$ 54,031	\$ 32,290	\$ 11	\$ 8,997	\$ 95,329

Three-Month Period Ended October 2, 2011

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	\$ 28,834	\$ 6,370	\$ -	\$ -	\$ 35,204
Segment contribution	7,929	1,431	-	(7,815)	1,545
Interest expense, net				(124)	(124)
Miscellaneous				49	49
Income taxes-current				(67)	(67)
Income taxes-deferred				(55)	(55)
Income from discontinued operations			4		4
Noncontrolling interest				11	11
Net income attributable to Ultralife					\$ 1,363
Total assets	\$ 54,661	\$ 34,001	\$ 2,885	\$ 9,800	\$ 101,347

Nine-Month Period Ended September 30, 2012

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	\$ 52,238	\$ 20,150	\$ -	\$ -	\$ 72,388
Segment contribution	12,476	6,803	-	(21,747)	(2,468)
Interest expense, net				(312)	(312)
Miscellaneous				17	17
Income taxes-current				(387)	(387)
Income taxes-deferred				(50)	(50)
Income from discontinued operations			178		178
Noncontrolling interest				31	31
Net loss attributable to Ultralife					\$ (2,991)
Total assets	\$ 54,031	\$ 32,290	\$ 11	\$ 8,997	\$ 95,329

Nine-Month Period Ended October 2, 2011

	Battery & Energy Products	Communications Systems	Discontinued Operations	Corporate	Total
Revenues	\$ 84,321	\$ 21,910	\$ -	\$ -	\$ 106,231
Segment contribution	18,223	7,111	-	(24,688)	646
Interest expense, net				(440)	(440)
Miscellaneous				339	339
Income taxes-current				(134)	(134)
Income taxes-deferred				(164)	(164)
Loss from discontinued operations			(4,174)		(4,174)
Noncontrolling interest				39	39
Net loss attributable to Ultralife					\$ (3,888)
Total assets	\$ 54,661	\$ 34,001	\$ 2,885	\$ 9,800	\$ 101,347

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB's guidance for the disclosure regarding fair value of financial instruments requires disclosure of an estimate of the fair value of certain financial instruments. The fair value of financial instruments pursuant to FASB's guidance for the disclosure regarding fair value of financial instruments approximated their carrying values at September 30, 2012 and December 31, 2011. The fair value of cash, trade accounts receivable, trade accounts payable, accrued liabilities, and our revolving credit facility approximates carrying value due to the short-term nature of these instruments.

13. FIRE AT MANUFACTURING FACILITY

In June 2011, we experienced a fire that damaged certain inventory and machinery and equipment at our facility in China. The fire occurred after business hours and was fully extinguished quickly with no injuries, and the plant was back in full operation shortly thereafter with no significant disruption in supply or service to customers. We maintain adequate insurance coverage for this operation.

The total amount of the loss pertaining to assets and the related expenses was approximately \$1,584. The majority of our insurance claim is related to the recovery of damaged inventory. In June 2012, we received approximately \$1,017 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. As of September 30, 2012, we reflect a receivable from the insurance company relating to this claim of \$432, which is net of our deductible of approximately \$132, and represents additional proceeds to be received. The deductible charge was expensed in the second quarter of 2011 and reflected as a component of cost of products sold in the Condensed Consolidated Statements of Operations.

14. RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In June 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". ASU No. 2011-05 requires entities to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements of net income and other comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity, which is our current presentation. Further, in December 2011, the FASB issued ASU No. 2011-12 "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." This update defers the effective date of ASU No. 2011-05's requirement to present on the face of the financial statements reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income so that the FASB can reconsider those requirements during calendar 2012. These standards are effective retrospectively for annual and interim reporting periods beginning after December 15, 2011, with early adoption permitted. The partial adoption of ASU No. 2011-05, as of January 1, 2012, only impacted the presentation of our consolidated financial statements and did not have a material impact on our consolidated results of operations and financial condition. The adoption of the deferred portions of ASU No. 2011-05 is not expected to have a material impact on our consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, “Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment”. ASU 2012-02 was issued to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. We plan to adopt this standard during our fourth quarter impairment review process. We do not expect adoption of this standard to have a material impact on our consolidated results of operations and financial condition

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, future demand for our products and services, addressing the process of U.S. defense procurement, reduced U.S. defense spending, the successful commercialization of our products, our reliance on certain key customers, the impairment of our intangible assets, general domestic and global economic conditions, including the uncertainty with government budget approvals, the unique risks associated with our Chinese operations, government and environmental regulations, finalization of non-bid government contracts, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, including those caused by fires, raw material supplies, and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words "anticipate", "believe", "estimate" or "expect" or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect new information, future events or other developments.

The following discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2011.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in thousands of dollars, except for share and per share amounts. All figures presented below represent results from continuing operations, unless otherwise specified.

General

We offer products and services ranging from portable power solutions to communications and electronics systems. Through our engineering and collaborative approach to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including: rechargeable and non-rechargeable batteries, communications and electronics systems and accessories, and custom engineered systems and solutions. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers ("OEMs"), industrial and retail distributors, national retailers and directly to U.S. and international defense departments.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment, integrated communication system kits and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such we report segment performance at the gross profit level and operating expenses as Corporate charges.

We continually evaluate ways to grow, including opportunities to expand through mergers, acquisitions and joint ventures, which can broaden the scope of our products and services, expand operating and market opportunities and provide the ability to enter new lines of business synergistic with our portfolio of offerings.

On March 8, 2011, our senior management, as authorized by our Board of Directors, decided to exit our Energy Services business. As a result of management's review of our business segments and products, and taking into account the lack of growth and profitability potential of the Energy Services segment as well as its sizeable operating losses, we determined it was appropriate to refocus our operations on profitable growth opportunities presented in our other segments, Battery & Energy Products and Communications Systems. In the fourth quarter of 2010, we recorded a non-cash impairment charge of \$13,793 to write-off the goodwill and intangible assets and certain fixed assets associated with the standby power portion of our Energy Services business. The actions taken to exit our Energy Services business resulted in the elimination of approximately 40 jobs and the closing of five facilities, primarily in California, Florida and Texas. We completed all exit activities with respect to our Energy Services segment by the end of the second quarter of 2011, and have reclassified our Energy Services segment as a discontinued operation.

In connection with the exit activities described above, we recorded total restructuring charges of approximately \$2,924. The restructuring charges include approximately \$703 of employee-related costs, including termination benefits, approximately \$250 of lease termination costs, approximately \$941 of inventory and fixed asset write-downs and approximately \$1,030 of other associated costs. The cash component of the aggregate total restructuring charges was approximately \$1,984. Subsequent to the completion of our exit activities, adjustments have been made to estimates of certain reserves and accruals that existed at that time. These adjustments amount to \$39 and were due to the difference in our actual experience compared to our expectations as of the completion of our exit activities.

In 2011, we implemented a series of Lean initiatives throughout our entire organization. Lean is a disciplined management philosophy which is 100% focused on using resources more effectively and the elimination of non-value added functions to any process. The expected result is a reduction in costs and increased efficiency.

On February 16, 2012, we announced our intention to divest our RedBlack Communications, Inc. ("RedBlack") business in 2012. RedBlack, a wholly owned subsidiary of ours based in Hollywood, Maryland, designs, integrates and fields mobile, modular and fixed site communication and electronic systems. As a result of management's ongoing review of our business portfolio, management had determined that RedBlack offered limited opportunities to achieve the operating thresholds of our new business model.

On September 28, 2012, we entered into and closed a Stock Purchase Agreement to sell 100% of our capital stock in RedBlack to BCF Solutions, Inc (the "Agreement"). In exchange for the sale of RedBlack, we received \$2,533 as a purchase price, comprised of cash at closing in the amount of \$2,133, funds held in escrow for up to one year in the amount of \$250, as well as \$150 to be available for RedBlack employee retention programs. In addition, there will be a customary post-closing working capital adjustment to the purchase price which is expected to be completed within ninety days.

The Agreement contains customary representations and warranties that will survive for a period of two or three years. The Agreement also contains customary indemnification for breaches of the representations and warranties identified in the Agreement.

Pursuant to the Agreement, we are prohibited from engaging or participating with any current customer of RedBlack in any business, directly or indirectly, that competes with the business conducted by RedBlack for two years. We are also prohibited from hiring, soliciting, or recruiting any current employee, independent contractor, or consultant of BCF Solutions, Inc. or RedBlack for two years.

Commencing with the first quarter of 2012, the results of the RedBlack operations and related divestiture costs will be reported as a discontinued operation. Certain items included within income from discontinued operations are based upon management's best estimates as of the date of sale and may change should our estimates be different from our actual experience.

Overview

Consolidated revenues for the three-month period ended September 30, 2012 decreased by \$9,023, or 25.6%, from the three-month period ended October 2, 2011. The decrease was primarily attributable to continued slowdown in the government and defense order rate for rechargeable and non-rechargeable batteries, partially offset by an order for our M-1 battery products to service an allied country's department of defense and an increase in Communications Systems sales, reflecting shipments of SATCOM systems and the fulfillment of amplifier orders that were delayed from the second quarter.

Gross profit for the third quarter of 2012 was \$8,219, or 31.4% of revenues, compared to \$9,360, or 26.6% of revenues, for the same quarter a year ago. The year-over-year comparison was impacted by the \$1,100 non-cash charge recorded in the third quarter of 2011 to write-off discontinued legacy amplifiers, which equaled approximately 300 basis points of gross margin. The increase in the gross margin percentage was attributable to improved 9-volt margins resulting from the transition of production to our China operations and increases in average selling price of the newly designed 9-volt product, scrap and productivity improvements in our manufacturing operations, as well as favorable sales mix in both our business segments.

Operating expenses decreased to \$6,465 during the three-month period ended September 30, 2012, a decrease of \$1,350, or 17.3%, from the \$7,815 during the three-month period ended October 2, 2011, primarily due to headcount reductions completed in the first half of 2012 in addition to discretionary spending cuts and lower sales commissions. Operating expenses as a percentage of revenue increased from 22.2% during the quarter ended October 2, 2011 to 24.7% during the quarter ended September, 2012 primarily because of lower sales volumes.

Operating income was \$1,754, a 13.6% increase over the \$1,545 for the same period in 2011, reflecting the benefits of favorable sales mix, productivity gains and operating expense reductions. Operating margin was 6.7%, compared to 4.4% for the year-earlier period, an increase of 230 basis points.

Net income from continuing operations was \$1,468, or \$0.09 per share, compared to net income of \$1,348, or \$0.08 per share, for the third quarter of 2011. Net income from discontinued operations was \$200 or \$0.01 per share, versus \$4 or \$0.00 per share for the same quarter last year.

Adjusted EBITDA from continuing operations, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, plus/minus expenses/income that we do not consider reflective of our ongoing continuing operations, amounted to \$3,052 in the third quarter of 2012 compared to \$3,000 for the third quarter of 2011. This increase in Adjusted EBITDA from continuing operations was primarily attributable to our operating results. See the section "Adjusted EBITDA from continuing operations" beginning on page 32 for a reconciliation of Adjusted EBITDA from continuing operations to net income (loss) attributable to Ultralife.

There was no outstanding balance on our credit facility as of September 30, 2012. By comparison, as of October 2, 2011 and as of December 31, 2011, the outstanding revolver balance under our credit facility was \$2,481 and \$-0-, respectively. The decrease from the third quarter of 2011 is primarily attributable to cash generated from operations and diligent working capital management.

Outlook

Management reaffirms its outlook for 2012. Management expects high-single to low-double digit year-over-year revenue growth for its Communication Systems segment and China operations. Given the continued uncertainty in government and defense orders for the Battery & Energy Products segment, the company's largest segment, management expects year-over-year total sales to decline by between 20% and 30%. Based on the third quarter results and the actions taken in the first half of 2012 to reduce spending and align capacity, management expects a return to operating profitability for the second half of 2012 with operating margin in the low- to mid- single digits. The magnitude of the first half operating loss is expected to result in a total year operating loss.

Three-month periods ended September 30, 2012 and October 2, 2011

Revenues. Consolidated revenues for the three-month period ended September 30, 2012 amounted to \$26,181, a decrease of \$9,023, or 25.6%, from the \$35,204 reported in the same quarter in 2011.

Battery & Energy Products sales decreased \$12,201, or 42.3%, from \$28,834 during the third quarter last year to \$16,633 during the third quarter this year. This decrease was primarily attributable to the continued slowdown in the US government and defense order rate for rechargeable and non-rechargeable batteries and charger systems. Partially offsetting this decline was an order for our M-1 battery products to service an allied country's department of defense.

Communications Systems revenues increased \$3,178, or 49.9%, from \$6,370 during the third quarter last year to \$9,548 during the third quarter this year. This increase was attributable to shipments of SATCOM units to a large prime customer contract which services the US Department of Defense and continued solid global demand for our 20 watt amplifier products.

Cost of Products Sold. Cost of products sold totaled \$17,962 for the quarter ended September 30, 2012, a decrease of \$7,882, or 30.5%, from the \$25,844 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue decreased from 73.4% for the three-month period ended October 2, 2011 to 68.6% for the three-month period ended September 30, 2012. Correspondingly, consolidated gross margin was 31.4% for the three-month period ended September 30, 2012, compared with 26.6% for the three-month period ended October 2, 2011. The year-over-year comparison was impacted by the \$1,100 non-cash charge recorded in the third quarter of 2011 to write-off discontinued legacy amplifiers, which equaled approximately 300 basis points of gross margin. The increase in the gross margin percentage was attributable to improved 9-volt margins resulting from the transition of production to our China operations and increases in average selling price of the newly designed 9-volt, scrap and productivity improvements in our manufacturing operations, as well as favorable sales mix in both our business segments.

In our Battery & Energy Products segment, the cost of products sold decreased \$9,042, from \$20,905 during the three-month period ended October 2, 2011 to \$11,863 during the three-month period ended September 30, 2012. Battery & Energy Products' gross profit for the third quarter of 2012 was \$4,770, or 28.7% of revenues, a decrease of \$3,159 from gross profit of \$7,929, or 27.5% of revenues, for the third quarter of 2011. Battery & Energy Products' gross margin as a percentage of revenues increased by 120 basis points for the three-month period ended September 30, 2012, primarily attributable to scrap reductions and productivity improvements, as well as improved 9-volt margins and favorable sales mix.

In our Communications Systems segment, the cost of products sold increased \$1,160 from \$4,939 during the three-month period ended October 2, 2011 to \$6,099 during the three-month period ended September 30, 2012. Communications Systems' gross profit for the third quarter of 2012 was \$3,449, or 36.1% of revenues, an increase of \$2,018 from gross profit of \$1,431, or 22.5% of revenues, for the third quarter of 2011, which was impacted by the \$1,100 inventory charge to write-off discontinued legacy amplifiers. Excluding this adjustment, the gross margin for the third quarter of 2011 would have been 38.4%. Gross margin as a percent of revenues, excluding the 2011 inventory charge, decreased 230 basis points because of the higher proportion of amplifier sales in 2011.

Operating Expenses. Total operating expenses for the three-month period ended September 30, 2012 totaled \$6,465, a decrease of \$1,350 from \$7,815 for the three-month period ended October 2, 2011, resulting from the reductions in force completed in the first half of 2012, general and administrative discretionary spending cuts, lower sales commissions and more focused R&D and new product spending.

Overall, operating expenses as a percentage of revenues increased to 24.7% during the third quarter of 2012 from 22.2% reported in the third quarter of 2011 because of lower sales volumes. Amortization expense associated with intangible assets related to our acquisitions was \$122 for the third quarter of 2012 (\$57 in selling, general and administrative expenses and \$65 in research and development costs), compared with \$155 for the third quarter of 2011 (\$78 in selling, general, and administrative expenses and \$77 in research and development costs). Research and development costs were \$1,596 in the third quarter of 2012, a decrease of \$698, or 30.4%, from the \$2,294 reported in the third quarter of 2011, as we focused our spending on the development of new products with the highest estimated return on investment. Selling, general, and administrative expenses decreased \$652, or 11.8%, to \$4,869 during the third quarter of 2012 as compared to \$5,521 in the third quarter of 2011, reflecting lower sales commission and the impact of actions taken in the first half of 2012 to reduce general and administrative expenses.

Other Income (Expense). Other income (expense) totaled \$(111) for the third quarter of 2012, compared to \$(75) for the third quarter of 2011. Interest expense, net of interest income, decreased \$28, to \$96 for the third quarter of 2012 from \$124 for the comparable period in 2011, as a result of lower average borrowings under our revolving credit facilities. Miscellaneous income/expense amounted to expense of \$15 for the third quarter of 2012 compared with income of \$49 for the third quarter of 2011. The expense in the third quarter of 2012 and income in the third quarter of 2011 were primarily due to transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of \$175 for the third quarter of 2012 compared with \$122 during the third quarter of 2011. The expense is primarily due to (a) the recognition of deferred tax liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods, and (b) the income reported for our China operations during the periods. The effective consolidated tax rate for the three-month periods ended September 30, 2012 and October 2, 2011 was:

	Three-Month Periods Ended	
	September 30, 2012	October 2, 2011
Income (Loss) before Incomes Taxes (a)	\$ 1,643	\$ 1,470
Total Income Tax Provision (b)	\$ 175	\$ 122
Effective Tax Rate (b/a)	10.7%	8.3%

See Note 8 in the Notes to Condensed Consolidated Financial Statements for additional information regarding our income taxes.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic net operating loss ("NOL") carryforward will be subject to an annual limitation estimated to be in the range of approximately \$12,000 to \$14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. Our ability to utilize NOL carryforwards due to successive ownership changes is currently limited to a minimum of approximately \$12,000 annually, plus the carryover from unused portions of the annual limitations. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for the second quarters of 2012 and 2011. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

Discontinued Operations. Income (loss) from discontinued operations, net of tax, totaled \$200 for the third quarter of 2012, compared to \$4 for the third quarter of 2011. The income in the third quarter of 2012 reflects the operating results, sale, and related divestiture costs and tax benefits for RedBlack. For more information, see Note 2 to the Condensed Consolidated Financial Statements.

Net Income (Loss) Attributable to Ultralife. Net income attributable to Ultralife and income attributable to Ultralife common shareholders per diluted share was \$1,679 and \$0.10, respectively, for the three months ended September 30, 2012, compared to a net income attributable to Ultralife and income attributable to Ultralife common shareholders per diluted share of \$1,363 and \$0.08, respectively, for the third quarter of 2011. Average common shares outstanding used to compute diluted earnings per share increased from 17,341,000 in the third quarter of 2011 to 17,418,000 in the third quarter of 2012, mainly due to stock option exercises and shares of common stock issued to our non-employee directors.

Nine-month periods ended September 30, 2012 and October 2, 2011

Revenues. Consolidated revenues for the nine-month period ended September 30, 2012 amounted to \$72,388, a decrease of \$33,843, or 31.9%, from the \$106,231 reported in the same period in 2011.

Battery & Energy Products sales decreased \$32,083, or 38.0%, from \$84,321 during the first nine months last year to \$52,238 during the first nine months this year. Revenues for Battery & Energy Products decreased due to the absence of shipments of 5390 batteries to the DLA, the completion of large non-recurring telematics orders in 2011 and a slower government and defense order rate for rechargeable and non-rechargeable batteries and charger systems.

Communications Systems revenues decreased \$1,760, or 8.0%, from \$21,910 during the first nine months last year to \$20,150 during the first nine months this year. The year-over-year comparison was impacted by larger shipments of SATCOM units in 2011 over 2012, partially offset by our broader focus on large, global modernization opportunities, which resulted in higher amplifier sales in 2012.

Cost of Products Sold. Cost of products sold totaled \$53,109 for the nine-month period ended September 30, 2012, a decrease of \$27,788, or 34.3%, from the \$80,897 reported for the same nine-month period a year ago. Consolidated cost of products sold as a percentage of total revenue decreased from 76.2% for the nine-month period ended October 2, 2011 to 73.4% for the nine-month period ended September 30, 2012. Correspondingly, consolidated gross margin was 26.6% for the nine-month period ended September 30, 2012, compared with 23.8% for the nine-month period ended October 2, 2011, primarily attributable to higher margins in our Batteries and Energy Products segment, last year's \$2,730 DCAA settlement charge and \$1,100 charge to write-off components associated with a discontinued amplifier line, partially offset by lower sales volumes and sales mix in our Communications Systems segment.

In our Battery & Energy Products segment, the cost of products sold decreased \$26,336, from \$66,098 during the nine-month period ended October, 2011 to \$39,762 during the nine-month period ended September 30, 2012. Battery & Energy Products' gross profit for the first nine months of 2012 was \$12,476, or 23.9% of revenues, a decrease of \$5,747 from gross profit of \$18,223, or 21.6% of revenues, for the first nine months of 2011. Battery & Energy Products' gross margin increased by 230 basis points for the nine-month period ended September 30, 2012, primarily as a result of last year's DCAA settlement charge.

In our Communications Systems segment, the cost of products sold decreased \$1,452 from \$14,799 during the nine-month period ended October 2, 2011 to \$13,347 during the first nine months of 2012. Communications Systems' gross profit for the first nine months of 2012 was \$6,803, or 33.8% of revenues, a decrease of \$308 from gross profit of \$7,111, or 32.5% of revenues. The year-over-year comparison was impacted by the \$1,100 non-cash charge recorded in the third quarter of 2011 to write-off discontinued legacy amplifiers. Excluding this adjustment, the gross margin for the first nine months period of 2011 would have been 37.5%. The decrease in gross margin was attributable to sales mix, which included a much higher concentration of radio accessory products and the sale of some legacy products in the current period, as well as, reduced volume pricing for certain large projects in the first quarter of 2012.

Operating Expenses. Total operating expenses for the nine-month period ended September 30, 2012 totaled \$21,747, a decrease of \$2,941 or 11.9% from \$24,688 for the nine-month period ended October 3, 2011, resulting from continued actions to reduce general and administrative expenses and focused spending in the development of new products.

Overall, operating expenses as a percentage of revenues increased to 30.0% during the first nine months of 2012 from 23.2% reported in the first nine months of 2011 because of lower sales volumes. Amortization expense associated with intangible assets related to our acquisitions was \$372 for the first nine months of 2012 (\$177 in selling, general and administrative expenses and \$195 in research and development costs), compared with \$469 for the first nine months of 2011 (\$235 in selling, general, and administrative expenses and \$234 in research and development costs). Research and development costs were \$5,706 in the first nine months of 2012, a decrease of \$1,207, or 17.5%, from the \$6,913 reported in the first nine months of 2011, as we focused our spending on the development of new products with the highest estimated return on investment. Selling, general, and administrative expenses decreased \$1,734, or 9.8%, to \$16,041 during the first nine months of 2012 as compared to \$17,775 in first nine months of 2011, reflecting on-going actions to reduce general and administrative expenses.

Other Income (Expense). Other income (expense) totaled \$(295) for the first nine months of 2012, compared to \$(101) for the first nine months of 2011. Interest expense, net of interest income, decreased \$128, to \$312 for the first nine months of 2012 from \$440 for the comparable period in 2011, as a result of lower average borrowings under our revolving credit facilities. Miscellaneous income/expense amounted to income of \$17 for the first nine months of 2012 compared with income of \$339 for the first nine months of 2011. The income in the first nine months of 2012 and 2011 was primarily due to transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of \$437 for the first nine months of 2012 compared with \$298 during the first nine months of 2011. The expense is primarily due to (a) the recognition of deferred tax liabilities generated from goodwill and certain intangible assets that cannot be predicted to reverse for book purposes during our loss carryforward periods, and (b) the income reported for our China operations during the periods. The effective consolidated tax rate for the nine-month periods ended September 30, 2012 and October 2, 2011 was:

	Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011
Income (Loss) before Incomes Taxes (a)	\$ (2,763)	\$ 545
Total Income Tax Provision (b)	\$ 437	\$ 298
Effective Tax Rate (b/a)	15.8%	54.7%

See Note 8 in the Notes to Condensed Consolidated Financial Statements for additional information regarding our income taxes.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately \$12,000 to \$14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. Our ability to utilize NOL carryforwards due to successive ownership changes is currently limited to a minimum of approximately \$12,000 annually, plus the carryover from unused portions of the annual limitations. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for the first nine months of 2012 and 2011. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

Discontinued Operations. Income from discontinued operations, net of tax, totaled \$178 for the first nine months of 2012, compared to a loss of \$4,174 for the first nine months of 2011. The first nine months of 2012 include operating results and costs related to the divestiture of our RedBlack Communication business which was completed on September 28, 2012. The loss from discontinued operations for the first nine months of 2011 reflects the inclusion of costs associated with our exit from the Energy Services business completed in the second quarter of 2011. For more information, see Note 2 to the Condensed Consolidated Financial Statements.

Net Income (Loss) Attributable to Ultralife. Net loss attributable to Ultralife and loss attributable to Ultralife common shareholders per diluted share was \$2,991 and \$0.17, respectively, for the nine months ended September 30, 2012, compared to a net loss attributable to Ultralife and loss attributable to Ultralife common shareholders per diluted share of \$3,888 and \$0.22, respectively, for the first nine months of 2011. Average common shares outstanding used to compute diluted earnings per share increased from 17,295,000 in the first nine months of 2011 to 17,390,000 in the first nine months of 2012, mainly due to stock option exercises and shares of common stock issued to our non-employee directors.

Adjusted EBITDA from continuing operations

In evaluating our business, we consider and use Adjusted EBITDA from continuing operations, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA from continuing operations as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, plus/minus expenses/income that we do not consider reflective of our ongoing continuing operations. We use Adjusted EBITDA from continuing operations as a supplemental measure to review and assess our operating performance and to enhance comparability between periods. We also believe the use of Adjusted EBITDA from continuing operations facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in such items as capital structures (affecting relative interest expense and stock-based compensation expense), the book amortization of intangible assets (affecting relative amortization expense), the age and book value of facilities and equipment (affecting relative depreciation expense) and other significant non-operating expenses or income. We also present Adjusted EBITDA from continuing operations because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. We reconcile Adjusted EBITDA from continuing operations to net income (loss) attributable to Ultralife, the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

We use Adjusted EBITDA from continuing operations in our decision-making processes relating to the operation of our business together with U.S. GAAP financial measures such as income (loss) from operations. We believe that Adjusted EBITDA from continuing operations permits a comparative assessment of our operating performance, relative to our performance based on our U.S. GAAP results, while isolating the effects of depreciation and amortization, which may vary from period to period without any correlation to underlying operating performance, and of non-cash stock-based compensation, which is a non-cash expense that varies widely among companies. We believe that by limiting Adjusted EBITDA to continuing operations, we assist investors in gaining a better understanding of our business on a going forward basis. We provide information relating to our Adjusted EBITDA from continuing operations so that securities analysts, investors and other interested parties have the same data that we employ in assessing our overall operations. We believe that trends in our Adjusted EBITDA from continuing operations are a valuable indicator of our operating performance on a consolidated basis and of our ability to produce operating cash flows to fund working capital needs, to service debt obligations and to fund capital expenditures.

The term Adjusted EBITDA from continuing operations is not defined under U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our Adjusted EBITDA from continuing operations has limitations as an analytical tool, and when assessing our operating performance, Adjusted EBITDA from continuing operations should not be considered in isolation, or as a substitute for net income (loss) attributable to Ultralife or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to, the following:

- Adjusted EBITDA from continuing operations does not reflect (1) our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) changes in, or cash requirements for, our working capital needs; (3) the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) income taxes or the cash requirements for any tax payments; and (5) all of the costs associated with operating our business;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA from continuing operations does not reflect any cash requirements for such replacements;
- while stock-based compensation is a component of cost of products sold and operating expenses, the impact on our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the stock-based awards and assumed volatility of our common stock;
- although discontinued operations does not reflect our current business operations, discontinued operations includes the costs we incurred by exiting our Energy Services business and divesting our RedBlack Communications business; and
- other companies may calculate Adjusted EBITDA from continuing operations differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA from continuing operations only supplementally. Adjusted EBITDA from continuing operations is calculated as follows for the periods presented:

	Three-Month Periods Ended		Nine-Month Periods Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net income (loss) attributable to Ultralife	\$ 1,679	\$ 1,363	\$ (2,991)	\$ (3,888)
Add: interest expense, net	96	124	312	440
Add: income tax provision	175	122	437	298
Add: depreciation and amortization of financing fees	849	890	2,566	2,720
Add: amortization of intangible assets	122	155	372	469
Add: stock-based compensation expense	331	350	1,001	882
Add (less): loss (gain) from discontinued operations	(200)	(4)	(178)	4,174
Adjusted EBITDA	\$ 3,052	\$ 3,000	\$ 1,519	\$ 5,095

Liquidity and Capital Resources

As of September 30, 2012, cash and cash equivalents totaled \$4,959, a decrease of \$361 from December 31, 2011. During the nine-month period ended September 30, 2012, we used \$229 of cash from operating activities as compared to the generation of \$6,818 for the nine-month period ended October 2, 2011. The use of cash from operating activities in 2012 resulted mainly from our net loss of \$3,200, net of approximately \$1,081 of cash generated from working capital due mainly to decreases in the balance of accounts receivable, accounts payable, and inventories. The significant change year over year is a result of the significant change from Accounts Receivable and the changes in cash attributable to the operating activities of our discontinued operations.

We used \$128 in cash for investing activities during the first nine months of 2012 compared with \$1,351 in cash used for investing activities in the same period in 2011. In the first nine months of 2012, we spent \$2,011 to purchase plant, property and equipment. In the first nine months of 2011, we spent \$1,878 to purchase plant, property and equipment and \$50 was used in connection with the contingent purchase price payout related to RPS Power Systems, Inc. Further, investing activities provided \$2,133 from our discontinued operations due to our sale of RedBlack compared to \$102 provided in the prior year.

During the nine-month period ended September 30, 2012, we generated \$115 in funds from financing activities compared to the use of \$6,137 in funds in the same period of 2011. The financing activities in the first nine months of 2012 included an inflow of \$115 from stock option exercises. The financing activities in the first nine months of 2011 included a \$6,060 outflow from repayments on the revolver portion of our Credit Facilities (as defined below), and an outflow of \$6 for principal payments on debt and capital lease obligations, partially offset by an inflow of \$57 from stock option exercises.

Inventory turnover for the first six months of 2012 was an annualized rate of approximately 2.3 turns per year, a decrease from the 3.0 turns for the full year of 2011. The decrease in this metric is mainly due to the overall decrease in sales volume in 2012.

As of September 30, 2012, we had made commitments to purchase approximately \$477 of production machinery and equipment, which we expect to fund through operating cash flows or draws upon the revolver portion of our Credit Facilities (as defined below).

Debt Commitments

On February 17, 2010, we entered into a senior secured asset based revolving credit facility (“Credit Facility”) of up to \$35,000 with RBS Business Capital, a division of RBS Asset Finance, Inc. (“RBS”). The proceeds from the Credit Facility can be used for general working capital purposes, general corporate purposes, and letter of credit foreign exchange support. The Credit Facility has a maturity date of February 17, 2013 (“Maturity Date”). The Credit Facility is secured by substantially all of our assets. At closing, we paid RBS a facility fee of \$263.

On February 18, 2010, we drew down \$9,870 from the Credit Facility to repay all outstanding amounts due under our previous credit facility with JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company. Our available borrowing under the Credit Facility fluctuates from time to time based upon amounts of eligible accounts receivable and eligible inventory. Available borrowings under the Credit Facility equals the lesser of (1) \$35,000 or (2) 85% of eligible accounts receivable plus the lesser of (a) up to 70% of the book value of our eligible inventory or (b) 85% of the appraised net orderly liquidation value of our eligible inventory. The borrowing base under the Credit Facility is further reduced by (1) the face amount of any letters of credit outstanding, (2) any liabilities under hedging contracts with RBS and (3) the value of any reserves as deemed appropriate by RBS. We are required to have at least \$3,000 available under the Credit Facility at all times.

On January 19, 2011, we entered into a First Amendment to the Credit Agreement (“First Amendment”) with RBS. The First Amendment amended the Credit Facility as follows:

(i) Included foreign (non-U.S.) accounts subject to credit insurance payable to RBS under the definition of eligible accounts receivable under the Credit Facility (for the determination of available borrowings - formerly, such accounts were not eligible without arranging letter of credit facilities satisfactory to RBS).

(ii) Decreased the interest rate that will accrue on outstanding indebtedness, as set forth in the following table:

Excess Availability	LIBOR Rate Plus
Greater than \$10,000	3.00%
Greater than \$6,000 but less than or equal to \$10,000	3.25%
Greater than \$3,000 but less than or equal to \$6,000	3.50%

On September 28, 2012, we entered into a Second Amendment to the Credit Facility (“Second Amendment”) with RBS. The Second Amendment amended the Credit Facility to consent to the sale of the stock of RedBlack and to release any and all liens on RedBlack.

Interest currently accrues on outstanding indebtedness under the Credit Facility at LIBOR plus 3.00%. We have the ability, in certain circumstances, to fix the interest rate for up to 90 days from the date of borrowing.

In addition to paying interest on the outstanding principal under the Credit Facility, we are required to pay an unused line fee of 0.50% on the unused portion of the \$35,000 Credit Facility. We must also pay customary letter of credit fees equal to the LIBOR rate and the applicable margin and any other customary fees or expenses of the issuing bank. Interest that accrues under the Credit Facility is to be paid monthly with all outstanding principal, interest and applicable fees due on the Maturity Date.

We are required to maintain a fixed charge coverage ratio of 1.20 to 1.00 or greater at all times as of and after March 28, 2010. As of September 30, 2012, our fixed charge coverage ratio was 1.95 to 1.00. Accordingly, we were in compliance with the financial covenants of the Credit Facility. All borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of an event of default and accuracy of our representations and warranties. The Credit Facility also includes customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, RBS would be entitled to take various actions, including accelerating the amount due under the Credit Facility, and all actions permitted to be taken by a secured creditor.

As of September 30, 2012, we had no amounts outstanding under the Credit Facility. At September 30, 2012, the interest rate on the asset based revolver component of the Credit Facility was 3.23%. As of September 30, 2012, the revolver arrangement had approximately \$14,574 of additional borrowing capacity, including outstanding letters of credit. At September 30, 2012, we had \$413 of outstanding letters of credit under the Credit Facility.

Other Matters

We periodically explore various sources of liquidity to ensure financing flexibility, including leasing alternatives, issuing new or refinancing existing debt, and raising equity through private or public offerings. Although we stay abreast of such financing alternatives, we believe we have the ability during the next 12 months to finance our operations primarily through internally generated funds or through the use of additional financing that currently is available to us pursuant to our Credit Facility, which matures on February 17, 2013. In the event that we are unable to finance our operations with internally generated funds or through the use of additional financing from our Credit Facility, we may need to seek additional credit or access the capital markets for additional funds. We can provide no assurance that we would be successful in this regard.

With respect to our battery products, we typically offer warranties against any defects due to product malfunction or workmanship for a period up to one year from the date of purchase. With respect to our communications accessory products, we typically offer a three-year warranty. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves would be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

Critical Accounting Policies

Management exercises judgment in making important decisions pertaining to choosing and applying accounting policies and methodologies in many areas. Not only are these decisions necessary to comply with U.S. generally accepted accounting principles, but they also reflect management's view of the most appropriate manner in which to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 ("Summary of Operations and Significant Accounting Policies") to our Consolidated Financial Statements in our 2011 Annual Report on Form 10-K should be reviewed for a greater understanding of how our financial performance is recorded and reported.

During the first nine months of 2012, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the nine months ended September 30, 2012, there were no material changes to our quantitative and qualitative disclosures about market risk as presented in Item 7A of Part II of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Our president and chief executive officer (principal executive officer) and our chief financial officer and treasurer (principal financial officer) have evaluated our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, our president and chief executive officer and chief financial officer and treasurer concluded that our disclosure controls and procedures were effective as of such date.

Changes In Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) that occurred during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 6. Exhibits

Exhibit Index	Description of Document	Incorporated By Reference from:
2.1	Stock Purchase Agreement by and between BCF Solutions, Inc. and Ultralife Corporation.	Filed herewith
10.37	Second Amendment to Credit Facility, dated as of September 28, 2012, by and among Ultralife Corporation, RedBlack Communications, Inc., Ultralife Energy Services Corporation, and RBS Asset Finance, Inc.	Filed herewith
31.1	Rule 13a-14(a) / 15d-14(a) CEO Certifications	Filed herewith
31.2	Rule 13a-14(a) / 15d-14(a) CFO Certifications	Filed herewith
32	Section 1350 Certifications	Filed herewith
*101.INS	XBRL Instance Document	
*101.SCH	XBRL Taxonomy Extension Schema Document	
*101.CAL	XBRL Taxonomy Calculation Linkbase Document	
*101.LAB	XBRL Taxonomy Label Linkbase Document	
*101.PRE	XBRL Taxonomy Presentation Linkbase Document	
*101.DEF	XBRL Taxonomy Definition Document	

* Pursuant to Rule 406T of Regulation S-T, the information in this exhibit is deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is otherwise not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ULTRALIFE CORPORATION

(Registrant)

Date: November 8, 2012

By: /s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2012

By: /s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Index to Exhibits

2.1	Stock Purchase Agreement by and between BCF Solutions, Inc. and Ultralife Corporation.
10.37	Second Amendment to Credit Facility, dated as of September 28, 2012, by and among Ultralife Corporation, RedBlack Communications, Inc., Ultralife Energy Services Corporation, and RBS Asset Finance, Inc.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document
101.DEF	XBRL Taxonomy Definition Document

STOCK PURCHASE AGREEMENT

BY AND BETWEEN

BCF SOLUTIONS, INC.

and

ULTRALIFE CORPORATION

HOLDER OF 100% OF CAPITAL STOCK

OF

REDBLACK COMMUNICATIONS, INC.

September 28, 2012

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT ("Stock Purchase Agreement") is made effective as of 12:00 Midnight, September 28, 2012 (the "Effective Date") by and between (i) BCF Solutions, Inc., a Delaware corporation with its principal place of business in Virginia ("BCF" or "Buyer") and (ii) Ultralife Corporation, a Delaware corporation with its principal place of business in New York ("Seller") (Buyer and Seller each a "Party" and together, the "Parties"). Terms used but not immediately defined herein shall have the meanings ascribed to them in Section 11.15 hereof.

RECITALS:

A. Seller is the record and beneficial holder of all of the issued and outstanding shares of Capital Stock (the "Company Shares") of RedBlack Communications, Inc., a Maryland corporation (the "Company").

B. Buyer desires to acquire the business of the Company.

C. BCF and Seller have agreed that Buyer will purchase, and Seller will sell, all of the Company Shares upon the terms and subject to the conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the representations, warranties, covenants and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree under seal as follows:

SECTION 1. PURCHASE AND SALE OF THE COMPANY SHARES.

1.1 Purchase and Sale of the Company Shares. Upon the terms and subject to the conditions of this Stock Purchase Agreement at the Closing provided for in Section 1.4(a) hereof (the "Closing"), Seller shall sell to Buyer, and Buyer shall purchase from Seller, all of the legal and beneficial interests in the Company Shares held by Seller free and clear of all Liens.

1.2 Purchase Price. As consideration for the Company Shares and upon the terms and subject to the conditions of this Stock Purchase Agreement, Buyer shall pay the Purchase Price provided herein to Seller on the Closing Date. The Purchase Price for all the Company Shares shall be equal to (a) the Cash at Closing, plus (b) the Escrow Funds, plus the (c) Retention Fund, plus or minus (d) the Net Working Capital Adjustment, subject to the terms and conditions hereof.

1.3 Payment of Purchase Price.

1.3(a) Cash at Closing. The Cash at Closing shall be an amount equal to Two Million One Hundred Thirty-Three Thousand Dollars (\$2,133,000), (the "Cash at Closing"). At the Closing, Buyer shall deliver the Cash at Closing to Seller. For the purposes of clarification, in addition to the Cash at Closing, the Purchase Price also includes the Escrow Funds described more particularly below as well as the Retention Fund, all of which together total Two Million Five Hundred Thirty-Three Thousand Dollars (\$2,533,000).

1.3(b) Escrow Funds. The Escrow Funds shall be an amount equal to Two Hundred Fifty Thousand Dollars (\$250,000) (the “Escrow Funds”). At the Closing, Buyer shall deposit the Escrow Funds with U.S. Bank National Association, a national banking association (the “Escrow Agent”), to be held, safeguarded and released pursuant to the terms of the Escrow Agreement (as hereinafter defined).

1.3(c) Net Working Capital Adjustment. The Purchase Price shall be increased (or decreased) by the amount by which the actual Net Working Capital of the Company at Closing is more than (or less than) Target Net Working Capital (the “Net Working Capital Adjustment”). “Net Working Capital” means (A) current assets not including (i) cash, (ii) uncollected accounts receivable that were invoiced more than ninety (90) prior to the Closing Date, and/or (iii) the Retention Fund (as hereinafter defined), minus (B) current liabilities, each as determined using GAAP and the Company’s existing accounting practices, each applied on a consistent basis, with GAAP prevailing in the event of conflict. For clarification purposes, accruals and unrecorded liabilities will be deemed to have been recorded as of the Closing Date. “Target Net Working Capital” means Five Hundred Eight Thousand Dollars (\$508,000). If the Net Working Capital Adjustment is positive, the amount thereof shall be paid by Buyer to Seller in immediately available funds. If the Net Working Capital Adjustment is negative, the amount thereof shall be paid by Seller to Buyer in immediately available funds.

Within ninety (90) days after the Closing Date, Buyer will prepare and deliver to Seller a certificate (the “NWC Certificate”), signed by Buyer, certifying Buyer’s good faith determination of the actual Net Working Capital of the Company as of the Closing Date, and identifying any Net Working Capital Adjustments to the Purchase Price as a result of the actual Net Working Capital as of the Closing Date being greater than (or less than) Target Net Working Capital. If Seller does not object to the calculation of actual Net Working Capital in the NWC Certificate within thirty (30) days after Seller’s receipt thereof, or accepts Buyer’s determination of Net Working Capital as set forth in the NWC Certificate during such thirty (30) day period, then the Purchase Price will be adjusted as set forth in the NWC Certificate, and payment or set off, as the case may be, shall be made in accordance with this Section 1.3(c). If Seller objects to the calculation of actual Net Working Capital in the NWC Certificate, then Seller must notify Buyer in writing of such objection within thirty (30) days after Seller’s receipt thereof (such notice setting forth in reasonable detail the basis for such objection, an “Objection Notice”). During such thirty (30) day period (i.e. being that period during which Seller must determine whether or not to accept Buyer’s NWC Certificate), Buyer will permit Seller or his delegates access to such work papers relating to the preparation of the NWC Certificate, as may be reasonably necessary to permit Seller to review in detail the manner in which the NWC Certificate was prepared, and all information received pursuant to this Section 1.3(c) will be kept confidential by the Party receiving it. Buyer and Seller will thereafter negotiate in good faith to resolve any such objections. Upon disposal of the dispute, the Working Net Capital Adjustment will be subject to payment within ten (10) business days.

1.4 Closing.

1.4(a) Date of Closing. The Closing of the transactions contemplated by this Stock Purchase Agreement shall take place at the offices of McMahon, Welch and Learned, PLLC, 2100 Reston Parkway, Suite 325, Reston, VA 20191 at 10:00 a.m., local time, on or before September 28, 2012, or if the conditions to Closing set forth in Section 7 hereof shall not have been satisfied or waived by such date, as soon as practicable after such conditions shall have been satisfied or waived, or at such other place, date and time as shall be mutually agreed upon by the Parties; provided, however, that the Parties intend that such Closing shall be deemed to be effective, and the transactions contemplated by this Stock Purchase Agreement shall be deemed to occur, at 12:01 p.m. on the date on which the Closing actually occurs (the "Closing Date").

1.4(b) Deliveries by Seller. Prior to or at the Closing, Seller shall deliver or cause to be delivered to Buyer the following (the "Seller's Closing Documents"):

1.4(b)(i) certificates representing all of the outstanding Company Shares, duly endorsed or accompanied by stock powers duly executed effective to transfer complete unrestricted and unencumbered ownership of the Company Shares to Buyer;

1.4(b)(ii) the minute books, stock books, stock ledgers and corporate seal of the Company, together with a certification by the Secretary of the Company that such items are true, correct and complete in all material respects;

1.4(b)(iii) the resignations of all directors and officers of the Company from each such director and officers required to deliver such instrument;

1.4(b)(iv) an affidavit of Seller, certifying that there are no outstanding options, warrants or other rights to acquire stock of the Company and any other rights or obligations of a similar nature;

1.4(b)(v) the Seller's Certificates, referred to in Section 7.3(c) hereof;

1.4(b)(vi) The Parties recognize that it is critical to Buyer that prior to or at Closing, the Employment Agreements referred to in Section 7.3(d) shall have been entered into. The above notwithstanding, the identification of Company's employees for such purpose and execution of such Employment Agreements are matters out of Seller's control. Seller acknowledges that while such agreements are a Condition of Closing for Buyer under Section 7 below, they shall not be delivered by Seller;

1.4(b)(vii) the Escrow Agreement substantially in the form of Exhibit B attached hereto (the "Escrow Agreement");

1.4(b)(viii) the Transition Services Agreement substantially in the form of Exhibit C attached hereto (the "Transition Services Agreement"); and

1.4(b)(ix) all other documents, certificates, instruments or writings required to be delivered by Seller prior to or at the Closing pursuant to this Stock Purchase Agreement or otherwise required in connection herewith.

1.4(c) Deliveries by Buyer. Prior to or at the Closing, Buyer shall deliver or cause to be delivered to Seller the following (the "Buyer's Closing Documents"):

1.4(c)(i) cash in an amount equal to the Cash at Closing, which shall be paid by wire transfer of immediately available funds to Seller, per written wiring instructions provided by Seller;

1.4(c)(ii) cash in an amount equal to the Escrow Funds, which shall be paid by wire transfer of immediately available funds to the Escrow Agent;

1.4(c)(iii) the Officer's Certificate referred to in Section 7.2(c) hereof;

1.4(c)(iv) the Employment Agreements referred to above in Section 7.3(d);

1.4(c)(v) the Escrow Agreement;

1.4(c)(vi) the Transition Services Agreement; and

1.4(c)(vii) all other documents, certificates, instruments or writings required to be delivered by Buyer prior to or at the Closing pursuant to this Stock Purchase Agreement or otherwise required in connection herewith.

1.5 Escrow Disbursements. Disbursements of the Escrow Funds will be made as follows:

1.5(a) The Escrow Agreement will provide that disbursements of the Escrow Funds shall only be made in accordance with written instructions jointly signed by Buyer and Seller or pursuant to a judgment or court order issued by a court of competent jurisdiction or a final arbitration award pursuant to this Agreement.

1.5(b) In the event that Seller becomes obligated finally to Buyer or any of the other Buyer Indemnitees under this Agreement (as determined by final, non-appealable judgment), at Buyer's request, Seller shall promptly execute a joint instruction letter with Buyer directing the Escrow Agent to disburse Escrow Funds to satisfy such obligations.

1.5(c) On the first business day on or after the first anniversary of the Closing Date, Buyer and Seller shall jointly instruct the Escrow Agent to disburse to Seller an amount equal to the remaining Escrow Funds as of such date, if any, less (A) the amount, if any, of Escrow Funds that the Escrow Agent has been instructed to disburse in accordance with the Escrow Agreement but not actually disbursed as of such date and (B) a reasonable reserve amount (to be determined by Buyer and Seller in good faith, or, to the extent Buyer and Seller are unable to agree, pursuant to the dispute resolution provisions contained in Section 10 of this Agreement) in respect of any claims submitted by any Buyer Indemnitee in accordance with Section 9 that remain pending at such time.

1.5(d) Following resolution from time to time of any claim for which a reserve of a portion of the Escrow Funds was established, Buyer and Seller will jointly instruct the Escrow Agent to release such reserve amount from the Escrow Funds to Seller, to a Buyer Indemnitee or to both, as appropriate for the resolution of such claim.

SECTION 2. REPRESENTATIONS AND WARRANTIES OF SELLERS.

As of the Effective Date of this Agreement, and upon delivery at Closing of Seller's Certificates specified in Section 7.3(c) as of the Closing Date, Seller hereby represents and warrants to Buyer, subject to the limitations set forth in Section 5 and Section 9 as follows:

2.1 Seller's Status, Authority, Execution and Delivery.

2.1(a) Seller's Status. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and corporate authority to own, lease and operate its properties and to conduct its business as conducted on the date hereof.

2.1(b) Seller's Authority. Seller has the full capacity, power and authority to execute, deliver and perform this Stock Purchase Agreement and the transactions contemplated by this Stock Purchase Agreement. This Stock Purchase Agreement constitutes a valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except that (i) such enforcement may be subject to (A) bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (B) general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law) and (ii) rights to indemnity may be limited by applicable law or the public policies underlying such laws.

2.2 Title to the Company Shares.

2.2(a) 100% Ownership. Seller is the record and beneficial owner of the Company Shares (which in the aggregate constitute one hundred percent (100%) of the issued and outstanding Capital Stock of the Company), free and clear of all liens, claims, encumbrances, options, pledges, restrictions on transfer and security interests ("Liens"), except as disclosed on Schedule 2.2 (all of which will be cancelled or otherwise terminated to the satisfaction of Buyer at or prior to Closing), and upon consummation of the transactions contemplated hereby, Seller will transfer good and valid title to the Company Shares to Buyer, free and clear of all Liens.

2.2(b) No Options. Seller represents that the Company does not have any outstanding rights to subscribe for or to purchase, or any agreements providing for the issuance (contingent or otherwise), of, or any calls against, commitments by or claims against it of any character relating to, any shares of its Capital Stock or any securities convertible into or exchangeable or exercisable for any shares of its Capital Stock.

2.3 Organization and Qualification of the Company. Except as disclosed on Schedule 2.3, the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland and has all requisite corporate power and corporate authority to own, lease and operate its properties and to conduct its business as conducted on the date hereof. The Company is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary, each of which is identified on Schedule 2.3. Schedule 2.3 also discloses those additional jurisdictions (A) in which the Company owns or leases property, has employees, conducts regular or intermittent (more frequently than five (5) business days per year during any of the preceding three (3) years) visits or performs tasks on customer sites and facilities, (B) where the Company conducts some business activity but the failure to be so duly qualified or licensed and in good standing does not have a “Company Material Adverse Effect,” and (C) where the Company conducts some business activity but is not required to so qualify by virtue of a United States Government Treaty or Status of Forces Agreement. The Company does not have any subsidiary or any investments in any Entity and is not a partner or other participant in any unincorporated association or partnership.

2.4 Capitalization. The authorized Capital Stock of the Company consists of One Million (1,000,000) shares of common stock, par value \$0.10 per share, of which 11,265,676 shares are validly issued and outstanding, fully paid and non-assessable. The Company Shares were not issued in violation of, and are not subject to, any preemptive, subscription or similar rights. The holders of the Company Capital Stock have no preemptive rights with respect to the securities of the Company. There are no outstanding voting agreements, trusts or proxies, warrants, options, agreements, convertible or exchangeable securities or other commitments pursuant to which Seller, or the Company, are or may become obligated to vote, issue, sell, purchase, return or redeem any shares of Capital Stock or other securities of the Company of any kind or nature whatsoever.

2.5 No Violation; Consents and Approvals. Except as set forth on Schedule 2.5, the execution and delivery by Seller of this Stock Purchase Agreement does not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof will not, directly or indirectly, with or without notice, immediately or with the passage of time, conflict with, result in any violation of or default under, or give any person the right to terminate, cancel, rescind, modify, vary, renegotiate, accelerate, delay or forfeit any term or payment under (a) any provision of the Certificate of Incorporation or Bylaws of the Company, (b) any judgment, order, injunction or decree (an “Order”), or currently effective statute, currently effective law, ordinance, rule or regulation, applicable to Seller or the Company or the property or assets of the Company (“Applicable Law”) or (c) any note, bond, mortgage, indenture, license, agreement, lease or other instrument or contractual or legal obligation (“Contracts”) to which Seller, or the Company is a party or by which Seller or the Company or any of the Company’s assets may be bound, except, in the case of clauses (b) and (c), for such conflicts, violations or defaults as to which requisite waivers or consents will have been obtained prior to the Closing (which are listed on Schedule 2.5) or which, individually or in the aggregate, would not have a Company Material Adverse Effect. Except as set forth on Schedule 2.5, no consent, approval, order or authorization of, or registration, declaration or filing with (“Governmental Approval”) any court, administrative agency or commission or other governmental entity, authority or instrumentality, domestic or foreign (“Governmental Authority”) is required to be obtained or made by or with respect to Seller, or the Company, in connection with the execution and delivery of this Stock Purchase Agreement or the consummation by Seller of the transactions contemplated hereby, other than, in each case, (a) compliance with and filings under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), (b) compliance with and filings under state environmental statutes, (c) compliance with and filings under applicable governmental and defense industrial security clearances, (d) compliance with Applicable Law relating to Government Contracts, (e) those, the failure of which to obtain or make, individually or in the aggregate, would not have a Company Material Adverse Effect and (f) those which may be required by reason of Buyer’s (as opposed to any other party’s) participation in the transactions contemplated hereby.

2.6 Financial Schedules.

2.6(a) Company Financials Delivered. The Company has heretofore delivered to Buyer true and correct copies of:

2.6(a)(i) The unreviewed balance sheets of the Company as of December 31, 2010 and December 31, 2011 and the related income and cash flow statements for the years ended on the same dates, copies of which are attached hereto as Schedule 2.6(a)(i) (such statements collectively, the “Annual Company Financial Schedules”);

2.6(a)(ii) The internally generated balance sheet of the Company as of end of the fiscal month prior to Closing and the related income and cash flow statements for the fiscal year-to-date periods through the same month., copies of which are attached hereto as Schedule 2.6(a)(ii) (collectively the “Interim Company Financial Schedules”); and

2.6(a)(iii) The Annual Company Financial Schedules, together with the Interim Company Financial Schedules are hereinafter collectively referred to as the “Company Financial Schedules”

2.6(b) Fair Representation. The Company Financial Schedules (i) fairly present in all material respects, the financial condition and the results of operations and cash flows of the Company as of the dates and for the periods indicated and (ii) have been prepared in accordance with GAAP, except as disclosed therein.

2.6(c) Schedule of Receivables. Attached as Schedule 2.6(c) is a schedule of all receivables (including unbilled receivables) reflected in the Interim Company Financial Schedules. This schedule will be updated as of Closing to reflect information as of Closing (such update the “Updated Schedule 2.6(c)”) and the representation under this Section 2.6(c) as of Closing shall apply to such Updated Schedule 2.6(c). Except as otherwise disclosed on Schedule 2.6(c), all of the receivables (including unbilled receivables) listed on Schedule 2.6(c): (i) resulted from the Company’s Ordinary Course; (ii) have been properly recorded in the Ordinary Course; and (iii) subject to the reserves reflected in the Company Financial Statements or on Schedule 2.6(c) (which reserves are adequate and determined in accordance with GAAP applied on a basis consistent with prior periods and throughout the periods involved), are good and collectible in full without discount, setoff or valid counterclaim (net of recovery from vendors or subcontractors), in amounts not less than the aggregate face amounts thereof, within ninety (90) days after the date of each respective invoice.

2.6(d) Other Financial Obligations. Except as reflected in the Company Financial Schedules, or as set forth on Schedule 2.6(d), the Company (i) does not have any loans, credit facilities, letters of credit outstanding, and is not a party to any other arrangements which might be characterized as “off balance sheet financing” and as to which the Company has any actual, contingent or practical operating necessity for repayment or reimbursement obligations, and (ii) is not a party to or bound, either absolutely or on a contingent basis, by any agreement of guarantee, indemnification or any similar commitment with respect to the liabilities or obligations of any other Person (whether accrued, absolute or contingent).

2.7 Absence of Certain Changes or Events. Except as set forth on Schedule 2.7, during the period from August 3, 2012 to the Closing Date, there have not occurred any changes or events which, individually or in the aggregate, would have a Company Material Adverse Effect. The Company has operated its business and Seller has caused the Company to conduct its business and operations in the ordinary course of business consistent with past practice (“Ordinary Course”) and, to the extent consistent therewith, has caused the Company to have used commercially reasonable efforts to preserve its relationships with customers, employees, suppliers and others having business dealings with it. Without limiting the generality of the foregoing, except as contemplated by or disclosed on Schedule 2.7 of this Stock Purchase Agreement, during the period from August 3, 2012 to the Closing Date, the Company has not engaged in any of the following activities:

2.7(a) created, incurred, assumed or guaranteed any indebtedness for borrowed money (including, without limitation, obligations in respect of capital leases), other than in the Ordinary Course;

2.7(b) increased the rate of compensation of, or pay or agree to pay any benefit to, its directors, officers or Key Employees, except in the Ordinary Course;

2.7(c) except in the Ordinary Course;

2.7(c)(i) sold, leased, transferred, or otherwise disposed of any properties or assets, real, personal or mixed, which have an aggregate book value in excess of Twenty Five Thousand Dollars (\$25,000), or

2.7(c)(ii) mortgaged or encumbered any properties or assets, whether real or personal, which have an aggregate book value in excess of Twenty Five Thousand Dollars (\$25,000);

2.7(d) acquired or agreed to acquire by merging or consolidating, with, or by purchasing the stock or equity interests or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquired or agreed to acquire any assets which exceed Twenty Five Thousand Dollars (\$25,000)], individually or in the aggregate, to the Company;

2.7(e) entered into any binding agreement with any agent or representative with respect to business outside of the United States;

2.7(f) made any Bid which is outstanding at Closing for, any fixed price contract for an amount for which the anticipated cost of performance would exceed Twenty Five Thousand Dollars (\$25,000);

2.7(g) made any bid which is outstanding at Closing for, any cost plus contract with a contract value in excess of exceed Twenty Five Thousand Dollars (\$25,000);

2.7(h) failed to pay its payables in the Ordinary Course; and

2.7(i) collected its receivables other than in the Ordinary Course.

2.8 Absence of Undisclosed Liabilities. Except as set forth on Schedule 2.8 and for liabilities or obligations which are accrued or reserved against on the Company Financial Schedules, the Company does not have any material liabilities or obligations, whether absolute, accrued, contingent or otherwise, and is not a party to any other arrangements which might be characterized as “off balance sheet financing” other than liabilities or obligations: (a) incurred in the Ordinary Course since the date of the Annual Company Financial Schedules, (b) under the executory portion of any Government Contract or Material Contract, or (c) that would not reasonably be expected to have, individually, or in the aggregate a Company Material Adverse Effect.

2.9 Assets - In General. Except as set forth on Schedule 2.9, the assets and rights of the Company include all assets reflected in the Company Financial Schedules, subject to such changes as have occurred in the Ordinary Course. Except as set forth on Schedule 2.9, the Company has good and marketable title to all of its assets, or, in the case of leased properties and assets, valid leasehold interests in such leased properties and assets, free and clear of any Lien, except for Permitted Liens. Except as set forth on Schedule 2.9, all assets reasonably necessary for the conduct of the business of the Company in accordance with past practice are (a) in satisfactory operating condition and repair, ordinary wear and tear excepted, (b) not in need of maintenance or repair, except for ordinary routine maintenance or repairs, that are not material in nature or cost, and (c) adequate and sufficient for the continuing conduct of the business of the Company as generally conducted prior to the date hereof.

2.10 Personal Property. As used in this Stock Purchase Agreement, the term “Personal Property” shall mean all personal property, whether tangible or intangible, owned by the Company, as well as any valid and enforceable rights to use personal property leased by or licensed to the Company, which is shown on or reflected in the Company Financial Schedules or acquired after the date thereof or used in and reasonably necessary for the conduct of the business of the Company as generally conducted on the date hereof (except such as have been subsequently sold or otherwise disposed of in the Ordinary Course, or for which any lease or license shall have terminated in accordance with its terms, and accounts, bills and notes receivables subsequently collected). A list of each item of tangible Personal Property having a depreciated book value in excess of One Thousand Dollars (\$1,000) is set forth on Schedule 2.10.

2.11 Title to Real Property. As used in this Stock Purchase Agreement, the term “Real Property” shall mean all real property and interests in real property owned in fee, leased or otherwise used by the Company in the conduct of business by the Company, all of which is identified on Schedule 2.11. Except as otherwise indicated on Schedule 2.11, the Real Property constitutes all real property and interests in real property shown on or reflected in the Company Financial Schedules, acquired after the date thereof, or used in and reasonably necessary for the conduct of the business of the Company as generally conducted on the date hereof.

2.12 Intellectual Property.

2.12(a) Intellectual Property. Schedule 2.12(a) sets forth a complete list of all material inventions, patents (whether or not a patent application has been filed, but only to the extent that there is a current intent to so file), , trademarks (registered and material unregistered trademarks), trade names, service marks, and assumed names used in the conduct of the business of the Company or owned by the Company, registered copyrights and all applications therefore, and all material trade names, service marks, assumed names, and material trade secrets which are used in the conduct of the business of the Company or owned by the Company (collectively, the “Intellectual Property”) and are:

2.12(a)(i) owned by the Company (the “Owned Intellectual Property”);

2.12(a)(ii) filed but not yet issued or approved (the “Claims Filed Intellectual Property”);

2.12(a)(iii) licensed (other than “Commercial Off the Shelf Software,” as defined herein) by or to the Company (the “Licensed Intellectual Property”); or

2.12(a)(iv) used in and reasonably necessary for the conduct of the business of the Company as generally conducted on the date hereof or otherwise owned by the Company (other than “Commercial Off the Shelf Software”) (the “Know How IP”). For purposes of this Stock Purchase Agreement “Commercial Off the Shelf Software” means software which has a cost per licensed user of \$500 or less, for which the Company has five (5) or fewer licenses, and which is generally commercially available in the marketplace. Seller and Buyer recognize that there are several Commercial Off the Shelf Software products that the Company currently uses as set forth on Schedule 2.12(a)(iv). The Parties shall coordinate with the providers of such Commercial Off the Shelf Software to seek an orderly transition of license arrangements to allow Buyer’s continued use after Closing; provided, however, that any cost associated with such transition and continued use shall be borne solely by the Buyer.

2.12(b) Status of Rights in Intellectual Property. Schedule 2.12(b) indicates which of the Company’s Intellectual Property is (i) Owned Intellectual Property, or (ii) Licensed Intellectual Property (and, if licensed, the latest year or version with respect to which such license has been paid, and, the type and amount of any periodic payment required to maintain or renew such license) and, with respect to registered trademarks, all jurisdictions in which such trademarks are registered. Except as disclosed on Schedule 2.12(b), the Company is the sole owner and has the sole right to use the Owned Intellectual Property without making any payment to others or granting rights to others in exchange therefore.

2.12(c) Rights of Others. Except as set forth on Schedule 2.12(c), (i) no Person (other than the Company) has any right to use any Owned Intellectual Property, and (ii) no stockholder, director, officer, employee (or former stockholder, director, officer or employee) of, or consultant to, the Company has any right to use, other than in connection with the business activities of the Company, any of the Owned Intellectual Property.

2.12(d) Absence of Infringement. Except as set forth on Schedule 2.12(d), the business of the Company as generally conducted in the Ordinary Course prior to the date hereof, including the development, manufacture, marketing, sale or use of any product or service by the Company, has operated satisfactorily without the use any intellectual property rights other than the Intellectual Property. To the Seller's Knowledge, the use and application of the Intellectual Property and the operation of the business of the Company in the Ordinary Course prior to the date hereof does not infringe in any respect upon the intellectual property rights of any Person, and no Person has claimed or threatened to claim the right to use any Intellectual Property, or to deny the right of the Company to use the same. No proceeding alleging infringement of the intellectual property rights of any Person is pending or to the Knowledge of Seller, threatened against the Company. The Company has taken all commercially reasonable precautions to protect the secrecy, confidentiality, and value of its material trade secrets and to the Seller's Knowledge, none of the Company's material trade secrets (except for those trade secrets that the Company has, in its business judgment, decided not to continue to protect as trade secrets, if any) (i) are part of the public knowledge or literature, or (ii) have been used, divulged, or appropriated either for the benefit of any Person (other than the Company) or to the detriment of the Company.

2.12(e) Government Rights. Schedule 2.12(e) sets forth all material written agreements that the Company has entered into with any Government Authority with respect to technical data or computer software owned by the Company and that the Company uses in its business and includes in its products and services (whether the rights granted to the Government Authority are unlimited, limited, restrictive, government purpose license rights, etc.). Except as set forth on Schedule 2.12(e), the Company has not developed any item, component, patentable invention, process or software as a requirement of any Government Contract.

2.13 Litigation.

2.13(a) Pending Proceedings. Except as set forth on Schedule 2.13, there are no actions, suits, claims, trials, written demands, investigations, arbitrations, and other proceedings (whether or not purportedly on behalf of the business of the Company) pending or, to the Knowledge of Seller, threatened against the Company or with respect to the Company, or its properties or business.

2.13(b) Outstanding Judgments and Orders. Except as set forth on Schedule 2.13, there are no outstanding judgments, orders, decrees, writs, injunctions, decisions, rulings or awards against the Company or, with respect to the Company, its properties or business.

2.14 Contracts and Commitments.

2.14(a) List of Contracts. Subject to the exclusions set forth in Section 2.14(b) below, Schedule 2.14(a) sets forth a list of all of the agreements, contracts and commitments to which the Company is a party or by which the Company or any of its assets are bound (each, a “Material Contract”), including, without limitation:

2.14(a)(i) employment agreements that by their terms are not terminable at will by the Company without penalty;

of the Company;

2.14(a)(ii) any severance agreements, employee termination arrangements, or change of control agreements with employees

2.14(a)(iii) covenants not to compete;

2.14(a)(iv) “teaming” agreements;

2.14(a)(v) nondisclosure agreements;

2.14(a)(vi) memorandums of understanding between the Company and any other party;

2.14(a)(vii) agreements, contracts or plans (other than Employee Benefit Plans under Section 2.20(e) hereof) with or for the benefit of any officer, director or employee of the Company, or any of Seller (other than employment, severance and change of control agreements covered by clauses (i) or (ii) above) and agreements and contracts with consultants and leasing organizations providing services of leased employees (within the meaning of Section 414(n) of the Code);

2.14(a)(viii) agreements or contracts under which the Company has borrowed or loaned money, or any note, bond, indenture or other evidence of indebtedness for borrowed or loaned money or any guarantee of such indebtedness;

2.14(a)(ix) joint venture agreements or other agreements involving the sharing of profits, losses or costs;

2.14(a)(x) leases, or other similar arrangements of any kind or nature whatsoever pursuant to which real or personal property is leased or otherwise made available for use to, from or by the Company;

2.14(a)(xi) powers of attorney to or from the Company;

2.14(a)(xii) guaranties, suretyships or other contingent agreements of the Company;

2.14(a)(xiii) contracts pursuant to which the Company will receive or expend in excess of Twenty Five Thousand Dollars (\$25,000) over the life of the contract or pursuant to which the Company is a reseller, value added reseller, distributor and for which the continued ability to sell, service or distribute covered products is material to the Company;

2.14(a)(xiv) any other material agreements, contracts and commitments not entered into in the Ordinary Course;

2.14(a)(xv) contracts or other work or projects being performed “at risk” pending approval of funding or contract approval or ratification; and

2.14(a)(xvi) any other agreements which are either (1) an Active Government Contract within the meaning of Section 2.25(a)(i) or (2) a Completed Government Contract within the meaning of Section 2.25(a)(iii).

2.14(b) Contracts Not Listed. Notwithstanding the forgoing, the following agreements, contracts and commitments need not be and are not listed on Schedule 2.14(a) (and shall not constitute Material Contracts hereunder):

2.14(b)(i) such agreements or other commitments as may be terminated without more than a nominal (less than Five Thousand Dollars (\$5,000)) penalty by the Company upon notice of ninety (90) days or less; and

2.14(b)(ii) such agreements or other commitments as will not individually result in future annual expenditures by the Company of more than Ten Thousand Dollars (\$10,000).

2.14(c) No Material Contract Breaches. Except as set forth on Schedule 2.14(c), the Company is not in breach of or in default under any Material Contract, except for breaches or defaults, which, individually or in the aggregate, would not have a Company Material Adverse Effect.

2.14(d) No Terminations. Except as set forth on Schedule 2.14(d), during the past three (3) years no termination for convenience, stop work, termination for default, cure notice or show cause notice has been issued to the Company with respect to any of the Company’s Material Contracts, and no event, condition or omission has occurred or exists (including, in the case of reseller, value added reseller, distributor or similar agreements, a failure to meet minimum sales or licensure targets required to continue such contract or to continue current price or other material terms) that would constitute grounds for any such action.

2.14(e) No “At Risk” Work. Except as set forth on Schedule 2.14(e), the Company has not made any expenditures or incurred costs or obligations with respect to any Material Contract which are “at risk pending customer approval or funding or approval or funding by any third party.”

2.15 Customers. Except as set forth on Schedule 2.15 or disclosed pursuant to Section 2.24(b)(xxii), the Company has not received any notice from a customer that is a party to any Material Contract requiring the performance of services by the Company that such customer will not do business on substantially the same terms and conditions subsequent to the Closing Date as such customer did before such date and Seller has not received any oral communication to such effect.

2.16 Compliance with Laws; Permits. Except as set forth on Schedule 2.16, the Company is in compliance with all Applicable Laws and all Orders of any Governmental Authority applicable to the Company or any of its material assets. Except as set forth on Schedule 2.16, the Company has all material permits, certificates, licenses, approvals and other authorizations reasonably required in connection with the conduct of its business as conducted on the date hereof under Applicable Laws, except those the failure of which to obtain, individually or in the aggregate, would not have a Company Material Adverse Effect.

2.17 Insurance. The Company maintains policies of fire and casualty, liability and other forms of insurance in such amounts, with such deductibles and retained amounts, and against such risks and losses, as are, in the judgment of the Company, reasonable for the conduct of the business as conducted on the date hereof and assets of the Company. Schedule 2.17 sets forth a list of the Company's insurance policies which are in full force and effect as of the date of this Stock Purchase Agreement. Copies of each of the insurance policies referenced on Schedule 2.17 have been provided to Buyer. Seller shall, or shall cause the Company to, maintain in full force and effect all of the insurance policies referenced on Schedule 2.17 during the period from the date of this Stock Purchase Agreement through the Closing Date.

2.18 Personnel Matters.

2.18(a) Personnel. True, accurate, and complete lists of all of the directors, officers, and employees of the Company as of September 14, 2012 (collectively, "Personnel") and their positions are included on Schedule 2.18(a). Seller shall update Schedule 2.18(a) as of the Closing Date. True and complete information concerning the respective salaries, wages, and other compensation paid by the Company, as the case may be, during fiscal years 2010, 2011 and 2012 as well as dates of employment, and date and amount of last salary increase, of such Personnel has been provided previously to Buyer.

2.18(b) No Employment Disputes. Except as set forth on Schedule 2.18(b), there are no material employment related disputes, grievances, or disciplinary actions pending or threatened, by or between the Company and any Personnel.

2.18(c) Personnel Manuals. All written personnel policies and manuals of the Company are listed on Schedule 2.18(c) and true, accurate, and complete copies of all such written personnel policies and manuals have been made available to Buyer.

2.18(d) Other Personnel Obligations. Except as set forth on Schedule 2.18(d) or in Section 2.20, the Company is not a party to, and has no liability under or with respect to, any:

2.18(d)(i) management, employment, consulting, or other agreement with any Personnel or other person providing for services or employment over a period of time or for termination, severance or increased benefits, whether or not conditioned upon a change in control of the Company;

2.18(d)(ii) bonus, incentive, deferred compensation, severance pay, profit-sharing, stock purchase, stock option, benefit, or similar plan, agreement, or arrangement;

2.18(d)(iii) collective bargaining agreement or other agreement with any labor union or other Personnel organization (and no such agreement is currently being requested by, or is under discussion by management with, any Personnel or others);

2.18(d)(iv) other employment contract, non-competition agreement, or other compensation agreement or arrangement affecting or relating to Personnel or current or former employees, officers, directors or agents of the Company; or

2.18(d)(v) any plan, agreement or arrangement providing for “fringe benefits” or perquisites to Personnel or current or former employees, officers, directors or agents of the Company, including but not limited to benefits relating to automobiles, clubs, vacation, child care, parenting, sabbatical, sick leave, medical, dental, hospitalization, life insurance and other types of insurance.

2.18(e) Accrued Items. The amount of accrued sick leave and vacation benefits for each employee of the Company as of September 14, 2012 is set forth on Schedule 2.18(e). There have been no material changes other than in the Ordinary Course.

2.19 Labor Matters.

2.19(a) Compliance with Applicable Laws. Except as set forth in Schedule 2.19(a), the Company is in material compliance with all Applicable Laws regarding employment and employment practices.

2.19(b) Labor Agreements. Except as set forth in Section 2.19(b), the Company is not a party to or bound by any collective bargaining agreement, or other agreement with any labor union or other personnel organization (and no such agreement is currently being requested by, or is under discussion by management with, any personnel or others).

2.19(c) Pending Labor Matters. Except as set forth in Schedule 2.19(c), (i) there is no unfair labor practice charge or complaint pending against the Company, pending or, to the Knowledge of Seller, threatened before the National Labor Relations Board, nor is there any material grievance nor any material arbitration proceeding arising out of or under any employment-related collective bargaining agreements pending with respect to the business of the Company; (ii) there are no pending or threatened wage determination matters against the Company; (iii) there is no labor strike, slowdown or work stoppage pending against the Company; (iv) there is no material charge or complaint pending or threatened against the Company before the Equal Employment Opportunity Commission or any similar state, local or foreign agency responsible for the prevention of unlawful employment practices; and (v) the Company has not received written notice of the intent of any federal, state, local or foreign agency responsible for the enforcement of employment laws to conduct an investigation of or relating to the Company, and no such investigation is in progress.

2.20 ERISA.

2.20(a) ERISA Definitions. Capitalized terms used in this Section 2.20 which are not otherwise defined in this Stock Purchase Agreement shall have the respective meanings set forth below:

2.20(a)(i) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.20(a)(ii) “Employee Benefit Plan” and “Employee Benefit Plans” refer respectively to any one or more of any “employee benefit plans,” as defined in Section 3(3) of ERISA as well as all other employee benefit plans or other benefit arrangements, including executive compensation and directors, benefit plans, and payroll practices which the Company maintains, contributes to or has any obligation to or liability for.

2.20(a)(iii) “Pension Plan” shall refer to any Employee Benefit Plans that are “employee pension benefit plans” within the meaning of Section 3(2) of ERISA.

2.20(b) Vested Benefit Plans. All Employee Benefit Plans of the Company are listed on Schedule 2.20(b).

2.20(c) True Copies Provided. Copies or descriptions of each Employee Benefit Plan (and, where applicable, the most recent summary plan description, actuarial report, determination letter, most recent Form 5500 and trust agreement) have been made available to Buyer for review prior to the date hereof.

2.20(d) Obligations Current. As of the date hereof, and except as disclosed on Schedule 2.20(d), (i) all material payments required to be made by or under any Employee Benefit Plan, any related trusts, or any collective bargaining agreement have been made or are being processed in accordance with normal operating procedures, and except as set forth in the Company Financial Statements, all material amounts required to be reflected thereon have been properly accrued to date as liabilities under or with respect to each Employee Benefit Plan for the current year; (ii) the Company has performed all obligations required to be performed by it under any Employee Benefit Plan; (iii) the Employee Benefit Plans have been administered in compliance with their terms and the requirements of ERISA, the Code and all other applicable statutes, laws, ordinances, rules, orders and regulations of any applicable Governmental Authority; (iv) there are no material actions, suits, arbitrations or claims (other than routine claims for benefits) pending or threatened with respect to any Employee Benefit Plan; and (v) the Company has no liability as a result of any “prohibited transaction” (as defined in Section 406 of ERISA and Section 4975 of the Code) for any material excise tax or civil penalty.

2.20(e) No Title IV Plans. None of the Employee Benefit Plans that are Pension Plans are subject to Title IV of ERISA.

2.20(f) Qualified Status. Except as set forth on Schedule 2.20(f), each of the Pension Plans which is intended to be “qualified” within the meaning of Section 401(a) of the Code has been determined by the IRS to be so “qualified” and nothing has occurred which would adversely affect the qualified status of any such Pension Plan.

2.20(g) No Obligation Triggered. Except as set forth on Schedule 2.20(g), neither the execution and delivery of this Stock Purchase Agreement nor the consummation of the transactions contemplated hereby will (i) result in any material payment becoming due, or materially increase the amount of compensation due, to any current or former employee of the Company, (ii) materially increase any benefits otherwise payable under any Employee Benefit Plan, or (iii) result in the acceleration of the time of payment or vesting of any such material benefits.

2.21 Environmental Matters. Except as set forth on Schedule 2.21, (i) the Company is and has been in compliance with all applicable Environmental Laws, which compliance includes, but is not limited to, the possession by the Company of all material permits and governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof; (ii) the Company has not received any communication from any Person, including without limitation any Governmental Authority that alleges that the Company is not in such compliance; (iii) the Company has never had any contracts or subcontract arrangement or performed any work for any customer in connection with which the Company may have been subject to any material obligations or liabilities under any Environmental Law or which involved activities that could reasonably be expected to give rise to material obligations or liabilities of the Company under any Environmental Law (“Environmental Damages”); (iv) the Company has not engaged in any activities or decisions regarding the management, transportation, or disposal of Hazardous Substances that could reasonably be expected to result in a Release or an Environmental Claim; and (v) There are no Environmental Claims pending or, to the Knowledge of Seller, threatened against the Company, which would result in any Environmental Damages whatsoever.

2.22 Brokers. Neither Seller or the Company has engaged any broker, finder or financial advisor or other person who is entitled to any brokerage fees, commissions, finders’ fees or financial advisory fees in connection with the transactions contemplated hereby by reason of any action taken by Seller or the Company or any of the Company’s directors, officers, employees, representatives or agents, other than The McLean Group, LLC, the fees being the sole responsibility of Seller.

2.23 Bank Accounts and Powers of Attorney. Schedule 2.23 sets forth: (a) the name of each Person with whom the Company maintains an account or safety deposit box and the names of all Persons authorized to draw thereon or to have access thereto, and (b) the name of each Person holding a general or special power of attorney from the Company, and a summary of the terms thereof. For the purposes of clarification, the Company uses Seller’s lock box account and associated bank accounts, and as promptly as possible after the Closing (subject to the Transition Services Agreement executed between the Parties as of the Closing Date), Buyer must establish its own lock box accounts and associated bank accounts.

2.24 Tax Matters.

2.24(a) Tax Definitions. As used in this Stock Purchase Agreement:

2.24(a)(i) “Taxes” means all (and “Tax” shall mean any specific) taxes, government levies or other like government assessments, charges or fees (including estimated taxes, charges and fees), including, without limitation, income, corporation, advance corporation, gross receipts, transfer, excise, property, sales, use, value-added, license, payroll, pay as you earn, withholding, social security and franchise or other governmental taxes or charges, imposed by the United States or any state, county, local or foreign government or subdivision or agency thereof, and such term shall include any interest, penalties or additions to tax attributable to such taxes and any Tax or liability assumed or arising as a result of the Company being, having been, or ceasing to be a member of any affiliated group (or being included or required to be included in any Tax Return relating thereto) or as a result of any Tax indemnity, Tax sharing, Tax allocation or similar contract; and

2.24(a)(ii) "Tax Return" means any report, return, claim for refund, statement or other written information required to be supplied by the Company (or any Affiliate on behalf of Company) to a taxing authority in connection with any Taxes and any amendment thereto.

2.24(b) Representations Regarding Tax Matters.

2.24(b)(i) Except as set out on Schedule 2.24(b)(i), the Company has (A) timely filed with the appropriate taxing authorities all Tax Returns required to be filed by or with respect to the Company and such Tax Returns, insofar as they relate to the Company, are true, correct and complete in all material respects and (B) paid or made adequate provision on the Company Financial Schedules in accordance with accepted accounting standards for the payment of all Taxes of the Company shown to be due (or otherwise due whether or not reflected as shown to be due when filed) on such filed Tax Returns;

2.24(b)(ii) Except as set out on Schedule 2.24(b)(ii), neither Seller nor the Company have received any written notice of deficiency or assessment from any federal, state, local or other taxing authority with respect to liabilities for Taxes of the Company that have not been fully paid or finally settled;

2.24(b)(iii) Except as set out on Schedule 2.24(b)(iii), no claim has ever been made by a taxing authority with which the Company does not file Tax Returns that the Company is or may be subject to taxation by that taxing authority, nor is there any factual basis for any such claim;

2.24(b)(iv) There is no pending or threatened inquiry, request for information, action, audit, proceeding, or investigation with respect to the Company involving (and neither Seller nor any of its officers or directors expect there to be any inquiry, request for information, action, audit, proceeding or investigation):

- (1) the assessment or collection of Taxes, or
- (2) a claim for refund made by the Company, with respect to Taxes previously paid;

2.24(b)(v) Except as set out on Schedule 2.24(b)(v), the Company has never been included in an affiliated group (as defined in Section 1504 of the Code) nor has any liability for the Taxes of any person under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise;

2.24(b)(vi) Except as set out on Schedule 2.24(b)(vi), there are no outstanding waivers or extensions of any statute of limitations with respect to the assessment of any Tax payable by the Company;

2.24(b)(vii) The Company has not taken any action other than in accordance with past practice that would have the effect of deferring any liability for Taxes of the Company from any period ending on or before the Closing Date to any period ending after such date;

2.24(b)(viii) The Company has not participated in, or cooperated with, an international boycott within the meaning of Section 999 of the Code;

2.24(b)(ix) Except as set out on Schedule 2.24(b)(ix), the Company has not made any payments, is not obligated to make any payments, nor is it a party to any agreement that under certain circumstances could obligate it to make any payments, that will not be deductible or that may subject it to excise tax payments under either Sections 162(m) or 280G of the Code;

2.24(b)(x) The Company is not a party to any tax-sharing agreement, or similar agreement (whether express or implied), including any terminated agreement, as to which it could have any continuing liabilities;

2.24(b)(xi) The Company has not applied for a ruling relating to Taxes from any taxing authority or entered into any closing agreement with any taxing authority;

2.24(b)(xii) The Company has not made an election, nor is it required, to treat any asset as (A) owned by another person pursuant to the provisions of Section 168(f) or (g) of the Code, or the safe harbor leasing provisions of the Code, or (B) tax-exempt bond-financed property or tax-exempt use property within the meaning of Section 168 of the Code;

2.24(b)(xiii) The Company has never had a subsidiary corporation;

2.24(b)(xiv) Except as set out on Schedule 2.24(b)(xiv), the unpaid Taxes of the Company (A) did not, as of August 3, 2012, exceed the reserve for tax liabilities (other than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the respective Company Financial Statements for such date (other than in any notes thereto) and (B) will not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Company in filing its Tax Returns;

2.24(b)(xv) The Company does not have a “permanent establishment” in any foreign country as such term is defined in any applicable Tax treaty or convention between the United States and such foreign country and the Company has not otherwise taken steps or conducted business operations that have exposed, or will expose it to the taxing jurisdiction of a foreign country. The Company has complied with all applicable tax laws and regulations of each country (including political subdivisions thereof) in which the Company, has performed services, even where such services relate or are provided solely to agencies of the United States government;

2.24(b)(xvi) The Company has properly collected or withheld and timely paid and reported all Taxes required to have been collected or withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party and has properly classified all workers for Tax withholding and other purposes;

2.24(b)(xvii) Schedule 2.24(b)(xvii) lists all federal, state, local, and foreign Tax Returns filed with respect to the Company for all taxable periods from the date of its acquisition by the Seller (September 2007) and also indicates those Tax Returns that have been audited and indicates those Tax Returns that currently are the subject of an audit by a Governmental Authority. For the purposes of clarity, the Company's federal Tax Returns are consolidated into Seller's corporate Tax Return, and will not be available to Buyer. Seller will, however, provide to Buyer prior to the Closing Date any pro forma federal tax return and supporting schedules reflecting Company's taxes prior to any rollup into a consolidated return for the years 2008 through 2011. If the same is not available, then Seller will provide any schedules in any federal income Tax Return reflecting the income and expenses of Company reported for Tax purposes for any period that includes January 1, 2008 and to the date of Closing as well as a listing as of the Closing Date of all assets of Company including any basis information and any tax attributes including, but not limited to, any loss, credit, unused deductions, deferred gains or losses or other carryovers. Seller has delivered or will promptly deliver to Buyer correct and complete copies of all state income Tax Returns filed by the Company, foreign tax returns (if any) filed by the Company, as well as any examination reports, and statements of deficiencies assessed against or agreed to by the Company, since the date of its acquisition by Seller.

2.24(b)(xviii) The Company is not a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Code Section 897(c)(1)(A)(ii) and Seller is not a foreign person within the meaning of Section 1445 of the Code;

2.24(b)(xix) The Company has disclosed on its federal income Tax Return all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662 and there is no pending application with respect to the same;

2.24(b)(xx) The Company has not agreed, nor is it required, to make any adjustment under Section 481(a) of the Code by reason of a change in accounting method or otherwise that will affect the liability of the Company for Taxes;

2.24(b)(xxi) There are no joint ventures, partnerships, limited liability companies or other arrangements or contracts to which the Company is a party that is required to be treated as a partnership for federal income Tax purposes;

2.24(b)(xxii) The Company has made all required estimated Tax payments sufficient to avoid any underpayment penalties with respect to Taxes required to be paid by it;

2.24(b)(xxiii) There are no Liens for Taxes upon the assets of the Company, except for statutory Liens for current Taxes not yet due;

2.24(b)(xxiv) The Company has not entered into a transaction that is being accounted for under the installment method of Section 453 of the Code or similar provision of state, local or foreign Law;

2.24(b)(xxv) The Company does not owe any “corporate acquisition indebtedness” within the meaning of Section 279 of the Code;

2.24(b)(xxvi) Any adjustment of Taxes of the Company made by a Taxing Authority, which is required to be reported to another Taxing Authority, has been so reported;

2.24(b)(xxvii) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period as a result of (i) any intercompany transaction or excess loss account described in the treasury regulations under Code Section 1502 (or any corresponding or similar provision of state, local or non-U.S. income tax laws), (ii) an open transaction disposition made on or prior to the Closing Date, or a (iii) a prepaid amount received on or prior to the Closing Date;

2.24(b)(xxviii) The Company has not distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Sections 355 or 361 of the Code;

2.24(b)(xxix) Except as set out on Schedule 2.24(b)(xxix), neither the Company nor any Affiliate of the Company has (i) consummated or participated in, and is not currently participating in, any transaction which was or is a “Tax shelter” transaction as defined in Sections 6662, 6011, 6111 or 6112 of the Code, applicable United States Treasury Regulations or other published guidance from the Internal Revenue Service or (ii) engaged in any transaction that could give rise to (a) a registration obligation with respect to any Person under Section 6111 of the Code or the regulations thereunder, (b) a list maintenance obligation with respect to any Person under Section 6112 of the Code or the regulations thereunder, or (c) a disclosure obligation as a “reportable transaction” under Section 6011 of the Code and the regulations thereunder;

2.24(b)(xxx) Except as set out on Schedule 2.24(b)(xxx), no election under Regulation §301.7701-3 has ever been filed with respect to the Company or any Affiliate of the Company; and

2.24(b)(xxxi) Neither the Company nor any Affiliate of the Company is a party to (i) any deferred compensation arrangement subject to Section 409A of the Code that does not comply with the requirements of Sections 409A(b)(2), (3), and (4) of the Code or (ii) any contract that could obligate it to indemnify any Person against any Taxes resulting from the application of Section 409A of the Code.

2.25 Federal and State Government Contracts.

2.25(a) Definitions Related to Government Contracts. The following capitalized terms, when used in this Section 2.24(b)(xxii) and other provisions of this Stock Purchase Agreement, shall have the respective meanings set forth below:

2.25(a)(i) “Active Government Contract” means a Government Contract which is not a Completed Government Contract;

2.25(a)(ii) “Bid” means any bid, proposal, offer or quotation made by the Company or by a contractor team or joint venture, in which the Company is participating, that, if accepted, would lead to a Government Prime Contract or a Government Subcontract;

2.25(a)(iii) “Completed Government Contract” means a Government Contract (A) whose period of performance, including any base period and all exercised option periods, has expired, (B) on which there exist no unexercised options, (C) on which the Company has completed performance and made all required deliveries, which performance and deliveries have been finally accepted by the customer, (D) on which the Company has received final payment, (E) regarding which there are no pending claims, appeals, or lawsuits by or against the Company, and (F) for which the time period for audit or adjustment has lapsed;

2.25(a)(iv) “Government Contract” means any Government Prime Contract or Government Subcontract;

2.25(a)(v) “Government Prime Contract” means any prime contract, basic ordering agreement, letter contract, purchase order, delivery order, change order, arrangement or other commitment of any kind between the Company and either the U.S. Government or a State Government;

2.25(a)(vi) “Government Subcontract” means any subcontract, basic ordering agreement, letter subcontract, purchase order, delivery order, change order, grant, arrangement or other commitment of any kind between the Company and any person who is either (i) a prime contractor to either the U.S. Government or a State Government, or (ii) a subcontractor with respect to a Government Prime Contract;

2.25(a)(vii) “Industrial Funding Fee” means the fee provided by 48 CFR §552.238-74 “Industrial Funding Fee and Sales Reporting” and referred to as the Industrial Funding Fee;

2.25(a)(viii) “State Government” means any state, territory or possession of the United States or any department or agency of any of the above with statewide jurisdiction and responsibility;

2.25(a)(ix) "Teaming Agreement" has the same meaning as the term, "contractor team arrangement," as defined in Federal Acquisition Regulation ("FAR") 9.601; and

2.25(a)(x) "U.S. Government" means the United States Government or any department, agency or instrumentality thereof.

2.25(b) Government Contracts.

2.25(b)(i) Schedule 2.25(b)(i) lists each and every Active Government Contract to which the Company is (or has been at any time during the past three (3) years) a party with a contract value in excess of Twenty Five Thousand Dollars (\$25,000).

2.25(b)(ii) Schedule 2.25(b)(ii) lists each and every pending Bid.

2.25(b)(iii) Schedule 2.25(b)(iii) lists each and every active Teaming Agreement to which the Company is a party.

2.25(c) Status of Government Contracts. Except as set forth on Schedule 2.25(c), with respect to the Company's Government Contracts:

2.25(c)(i) The Company has complied with all _____ material terms and conditions of the Company's Government Contracts, including all clauses, provisions and requirements incorporated expressly by reference or by operation of Applicable Law therein, and Teaming Agreements;

2.25(c)(ii) The Company has complied with all requirements of Applicable Law;

2.25(c)(iii) All representations and certifications executed, acknowledged or set forth in or pertaining to any Bid which was submitted by the Company within the past three (3) years which resulted in an Active Government Contract or any Government Contract, to which the Company is (or has been at any time during the past three (3) years) a party, were current, accurate and complete in all material respects as of their effective date, and the Company has complied in all material respects with all such representations and certifications;

2.25(c)(iv) Neither the U.S. Government, any State Government nor any prime contractor, subcontractor or other person has notified the Company that the Company has breached or violated any Applicable Law or any certification, representation, clause, provision or requirement of any Government Contract or Bid;

2.25(c)(v) In every material respect, the cost accounting practices that the Company is using (and has used at all times during its ownership by Seller) to estimate and record costs in connection with the submission of Bids and performance of Government Contracts are (and have been) in compliance with Applicable Law, including but not limited to, the FAR Cost Principles and Cost Accounting Standards, and have been properly disclosed to the U.S. Government (if required to be disclosed by Applicable Law);

2.25(c)(vi) Neither the Company, nor any of its directors, officers or employees (for persons other than Seller, while employed by or serving in such capacity for the Company) or any of them, is (or has been at any time during the past three (3) years) subject to a negative Contractor Performance Assessment Report (or “CPAR”), suspended or debarred from doing business with the U.S. Government or any State Government, or has been declared nonresponsible or ineligible for U.S. Government or State Government contracting, and the Company does not know of any circumstances that would warrant in the future the institution of suspension or debarment proceedings, criminal or civil fraud or other criminal or civil proceedings or a determination of nonresponsibility or ineligibility against the Company or any of its directors, officers or employees;

2.25(c)(vii) Except as set out on Schedule 2.25(c)(vii) since its acquisition by Seller, no termination for convenience, stop work, termination for default, cure notice or show cause notice has been issued to the Company with respect to any of the Company’s Government Contracts, and no event, condition or omission has occurred or exists that would constitute grounds for any such action;

2.25(c)(viii) Except as set out on Schedule 2.25(c)(viii), no pending cost item in excess of \$1,000 or group, type or class of cost in excess of \$25,000 in the aggregate and which was incurred or invoiced by the Company on any Active Government Contract to which the Company is a party has been questioned or disallowed, or otherwise been the subject of a formal dispute;

2.25(c)(ix) Except as set out on Schedule 2.25(c)(ix), no money presently due to the Company on any Active Government Contract to which the Company is a party has been withheld or set off or subject to attempts to withhold or setoff;

2.25(c)(x) The Company has not made any expenditures or incurred costs or obligations in excess of any applicable limitation of government liability, limitation of cost, limitation of funds or similar clause limiting the U.S. Government’s liability on any Active Government Contract to which the Company is a party (including, without limitation, any work being performed “at risk” in advance of receipt of funding);

2.25(c)(xi) With respect to all active cost reimbursable Government Contracts to which the Company is a party, the Company’s actual indirect cost rates are not less than the applicable provisional billing indirect cost rates and the Company’s actual indirect cost rates do not exceed the applicable indirect cost rate ceilings;

2.25(c)(xii) Except as set out on Schedule 2.25(c)(xii), neither the Defense Contract Audit Agency (“DCAA”) or any other cognizant Government audit agency has conducted an incurred cost audit of the Company at any time. Neither the United States Government nor any prime contractor of higher-tier subcontractor under any Active Government Contract or Completed Government Contract has questioned or disallowed any costs claimed by the Company under any such contract, and there is no fact or occurrence that would be a basis for disallowing any such costs. The reserves, if any, established by the Company with respect to possible adjustments to the indirect and direct costs incurred by the Company on any such contracts are reasonable and are adequate to cover any potential adjustments resulting from audits of any such contracts.

2.25(c)(xiii) Except as set out on Schedule 2.25(c)(xiii), the Company and its respective employees, hold such security clearances as are required to perform Government Contracts of the type performed prior to the date hereof by the Company; to the Seller's Knowledge, there are no facts or circumstances that could reasonably be expected to result in the suspension or termination of such clearances or that could reasonably be expected to render the Company ineligible for such security clearances in the future, and the Company has complied in all respects with all security measures required by Government Contracts or Applicable Law; and

2.25(c)(xiv) Based on experience and submissions to the U.S. Government to date, Seller does not reasonably expect the Company's provisional rates going forward for work to be performed for or on behalf of the U.S. Government during 2013 to be materially different from the provisional rates for 2012, except for certain contracts containing escalation rates, and provisions for cost of living adjustments as such are identified on Schedule 2.25(c)(xiv).

2.25(d) Investigations and Audits. Except as set forth on Schedule 2.25(d):

2.25(d)(i) Neither the Company, Seller nor to the Knowledge of Seller, any of its directors, officers, employees or any of its agents or consultants are (or have been, during any of the last three (3) years) under administrative, civil (including, but not limited to, claims made under the False Claims Act) or criminal investigation, indictment or information, audit or internal investigation with respect to any alleged irregularity, misstatement or omission arising under or relating to any Government Contract;

2.25(d)(ii) The Company has not made a voluntary disclosure to the U.S. Government or any State Government during any of the last three (3) years with respect to any alleged irregularity, misstatement or omission arising under or relating to a Government Contract;

2.25(d)(iii) Except as set out on Schedule 2.25(d)(iii), Seller is not aware of any irregularities, misstatements or omissions arising under or relating to any Active Government Contract that has led or could reasonably be expected to lead, either before or after the Closing Date, to any of the consequences set forth in Section 2.25(d)(i) or Section 2.25(d)(ii), or to any other damage, penalty assessment, recoupment of payment, or disallowance of cost; and

2.25(d)(iv) During the past three (3) years the Company has not received any negative CPAR, negative audit reports or other negative reports of non-compliance, or drafts thereof, in respect of any Government Contract.

2.25(e) Claims.

2.25(e)(i) Except as set forth on Schedule 2.25(e)(i), the Company has no interest in any pending or potential claim or request for equitable adjustment against the U.S. Government, any State Government or any prime contractor, subcontractor or vendor arising under or relating to any Government Contract, Bid or Teaming Agreement, and the Company is not a party (either as the protestor or an interested party) to any protest to the procuring agency or the United States General Accounting Office.

2.25(e)(ii) Except as set forth on Schedule 2.25(e)(ii), there exist no outstanding claims against the Company, either by the U.S. Government or a State Government or by any prime contractor, subcontractor, vendor or other third party, arising out of or relating to any Government Contract, Bid or Teaming Agreement, and to Seller's Knowledge, there are no facts that are known or should be known to the Company and Seller that might give rise to or result in such a claim.

2.25(e)(iii) Except as set forth on Schedule 2.25(e)(iii), there exist no pending disputes between the Company and the U.S. Government or any State Government, or between the Company and any prime contractor, subcontractor, vendor or other third party, arising out of or relating to any Government Contract, Bid or Teaming Agreement, and to Seller's Knowledge there are no facts known or should be known to the Company and Seller that might give rise to or result in such a dispute.

2.25(e)(iv) Except as set forth on Schedule 2.25(e)(iv), there exist no financing arrangements (e.g., an assignment of money due or to become due) with respect to any Active Government Contract to which the Company is a party.

2.25(f) Multiple Award Schedules.

2.25(f)(i) Except as disclosed on Schedule 2.25(f)(i), the Company has not at any time charged the U.S. government a price higher than its commercial customers with respect to each multiple award schedule Government Contract identified on Schedule 2.25(b)(i).

2.25(f)(ii) Except as set forth on Schedule 2.25(f)(ii), the Company has complied with the notice and pricing requirements of the Price Reduction clause in each multiple award schedule Government Contract identified on Schedule 2.25(b)(i), and there are no facts or circumstances that could reasonably be expected to result in a demand by the U.S. Government for a refund based upon the Company's failure to comply with the Price Reductions clause.

2.25(f)(iii) Except as set forth on Schedule 2.25(f)(iii), the Company has complied with all payment requirements of the Industrial Funding Fee in each award schedule Government Contract identified on Schedule 2.25(b)(i), and there are no facts or circumstances that could reasonably be expected to result in a demand by the U.S. Government for additional payment(s) based upon the Company's failure to comply with the Industrial Funding Fee payments.

2.25(g) Government Furnished Property. Schedule 2.25(g) identifies all personal property, equipment and fixtures loaned, bailed or otherwise furnished to the Company by or on behalf of the U.S. Government for use in the performance of a Government Contract ("Government-Furnished Property") and the Government Contracts to which each item of Government-Furnished Property relates. The Company has complied in all material respects with all of its obligations relating to the Government-Furnished Property.

2.25(h) Former Government Officials. Except as set forth on Schedule 2.25(h), the Company does not employ or engage as a consultant any former procurement official or former high ranking military officer or other government officials.

2.25(i) Ethics Policy. Except as set forth on Schedule 2.25(i), the Company does not have an “ethics compliance” policy regarding how its employees are required to conduct themselves and perform work done under Government Contracts, and, Seller has no Knowledge of any past conduct or practices of the Company employees or agents which could reasonably be characterized as unethical conduct or practices in place.

2.25(j) Timekeeping. Except as set forth on Schedule 2.25(j), the Company, and each of its employees, has complied with all timekeeping/time recordation requirements of the applicable Government Contracts, and Seller has no Knowledge of any facts or circumstances that could reasonably be expected to result in an investigation by the U.S. Government based upon the Company’s failure to comply with such applicable timekeeping/time recordation requirements.

2.26 Corporate Organic Documents and Records. True and complete copies of the Certificate of Incorporation and Bylaws of the Company, as currently in effect, and the director and shareholder minutes and stock record books (ledger, transfer book, all issued and cancelled certificates) of the Company from the date of its formation to the Closing Date have been provided to Buyer. The minute book of the Company contains accurate and complete records of all meetings held of, and corporate actions taken by, Seller, the Board of Directors and any committees of the Board of Directors of the Company and no meeting of Seller, the Board of Directors or any committees of the Board of Directors has been held for which minutes have not been prepared and are not contained in the minute books.

2.27 Full Disclosure. No representations or warranties by Seller in this Stock Purchase Agreement including any Schedules or Exhibits attached hereto, or any document or certificate signed or acknowledged by Seller and delivered pursuant hereto, contain any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which such statements were made, not misleading. There is no fact that has specific application to the Company (other than general economic or industry conditions) and that materially adversely affects the assets, business, financial condition or results of operations of the Company (or to the Knowledge of Seller the business prospects of the Company) that has not been set forth in or otherwise disclosed in connection with the negotiation, preparation, or execution of this Stock Purchase Agreement or any Exhibit or Schedule attached hereto or contemplated hereby.

SECTION 3. REPRESENTATIONS AND WARRANTIES OF BUYER.

Buyer hereby represents and warrants to Seller as follows:

3.1 Buyer’s Status, Authority, Execution and Delivery.

3.1(a) Buyer's Status. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and corporate authority to own, lease and operate its properties and to conduct its business as conducted on the date hereof.

3.1(b) Buyer's Authority. Buyer has the full capacity, power and authority to execute, deliver and perform this Stock Purchase Agreement and the transactions contemplated by this Stock Purchase Agreement. This Stock Purchase Agreement constitutes a valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except that (i) such enforcement may be subject to (A) bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally and (B) general principles of equity (regardless of whether enforcement is considered in a proceeding in equity or at law) and (ii) rights to indemnity may be limited by applicable law or the public policies underlying such laws.

3.2 No Violation and Consents and Approvals. The execution and delivery of this Stock Purchase Agreement by Buyer do not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof and thereof will not directly or indirectly, with or without notice, immediately or with the passage of time, conflict with, or result in any violation of or default under, (a) any provision of the Articles of Incorporation or Bylaws of Buyer, (b) any Order or Applicable Laws applicable to Buyer, or the property or assets of Buyer, or (c) any Contracts to which Buyer is a party or by which Buyer or the assets of either may be bound, except, in the case of clauses (b) and (c), for such conflicts, violations or defaults as to which requisite waivers or consents have been obtained prior to Closing or which, individually or in the aggregate, would not impair Buyer's ability to consummate the transactions contemplated hereby. No Governmental Approval is required to be obtained or made by or with respect to Buyer or the Affiliates of either in connection with the execution and delivery of this Stock Purchase Agreement, or the consummation by Buyer of the transactions contemplated hereby, other than, in each case, (i) compliance with and filings under the Exchange Act, if applicable, (ii) compliance with and filings under state environmental statutes, (iii) compliance with and filings under applicable governmental and defense industrial security clearances, (iv) compliance with Applicable Law relating to Government Contracts, and (v) those the failure of which to obtain, individually or in the aggregate, would not impair Buyer's ability to consummate the transactions contemplated hereby.

3.3 Brokers. No broker, finder or financial advisor or other person is entitled to any brokerage fees, commissions, finders' fees or financial advisory fees in connection with the transactions contemplated hereby by reason of any action taken by Buyer or any of the directors, officers, employees, representatives or agents of Buyer, other than The McLean Group, LLC, the fees being the sole responsibility of Seller.

SECTION 4. COVENANTS OF THE PARTIES.

4.1 Conduct of the Company's Business. During the period from August 3, 2012 to the Closing Date, Seller has and will continue to cause the Company to conduct its business and operations in the Ordinary Course and, to the extent consistent therewith, to use reasonable efforts to preserve its current relationships with customers, employees, suppliers and others having business dealings with it. Without limiting the generality of the foregoing, except as contemplated by or disclosed on Schedule 4.1 of this Stock Purchase Agreement, during the period from August 3, 2012 to the Closing Date, without the prior written consent of Buyer, Seller has not and will not permit the Company to:

4.1(a) create, incur, assume or guarantee any indebtedness for borrowed money (including, without limitation, obligations in respect of capital leases), other than in the Ordinary Course;

4.1(b) issue, sell or deliver any shares of its Capital Stock or any securities convertible into or exchangeable for any shares of its Capital Stock, or grant or enter into any options, warrants, rights, agreements or commitments with respect to the issuance of its Capital Stock, or amend any terms of any such securities or agreements;

4.1(c) pay any dividends or make any distributions to Seller;

4.1(d) increase the rate of compensation of, or pay or agree to pay any benefit to, its directors, officers or Key Employees, except in the Ordinary Course;

4.1(e) enter into, adopt or amend any Employee Benefit Plan, or employment or severance agreement, except as required by law;

4.1(f) except in the Ordinary Course,

4.1(f)(i) sell, lease, transfer, or otherwise dispose of any properties or assets, real, personal or mixed, which have an aggregate book value in excess of One Thousand Dollars (\$1,000), or

4.1(f)(ii) mortgage or encumber any properties or assets, whether real or personal, which have an aggregate book value in excess of Five Thousand Dollars (\$5,000);

4.1(f)(iii) acquire or agree to acquire by merging or consolidating, with, or by purchasing the stock or equity interests or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the Company;

4.1(f)(iv) except as set out on Schedule 4.1(f)(iv), enter into any agreement with any agent or representative with respect to business outside of the United States;

4.1(f)(v) enter into, or make any Bid for, any fixed price contract for an amount for which the anticipated cost of performance would exceed Twenty-Five Thousand Dollars (\$25,000);

4.1(f)(vi) enter into, or make any Bid for, any cost plus contract with a contract value in excess of Twenty-Five Thousand Dollars (\$25,000);

4.1(f)(vii) enter into any agreement (other than this Stock Purchase Agreement) that would prevent the Company from operating in a manner consistent with its past practices;

4.1(f)(viii) fail to pay its payables in the Ordinary Course;

4.1(f)(ix) collect its receivables other than in the Ordinary Course;

4.1(f)(x) modify, amend or terminate any contract or agreement listed above or any material lease of Real Property (except modifications or amendments in connection with extensions, renewals of leases in the Ordinary Course);

4.1(f)(xi) take any action that could reasonably be expected to cause any of the representations or warranties of Seller to be untrue in any material respect; or

4.1(f)(xii) agree, whether in writing or otherwise, to do any of the foregoing.

4.2 Prior to the Closing.

4.2(a) Access to Information. During the period from the Effective Date Stock Purchase Agreement through the Closing Date, Seller will cause the Company to give Buyer and its authorized representatives reasonable access during regular business hours to all plants, offices, warehouses, facilities, books and records of the Company as they may reasonably request; provided, however, that Buyer and its representatives shall take such action as is deemed necessary in the reasonable judgment of Seller to schedule such access and visits through a designated officer of the Company and in such a way as to avoid disrupting the normal business of the Company.

4.2(b) Confidentiality. Until Closing, Buyer will hold and will cause its employees, agents, Affiliates, consultants, representatives and advisors to hold any information which it or they receive in connection with the activities and transactions contemplated by this Stock Purchase Agreement in strict confidence (the "Confidentiality Agreement").

4.3 Reasonable Efforts. Subject to the terms and conditions of this Stock Purchase Agreement, each of the Parties will use its reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under Applicable Laws and regulations to consummate the transactions contemplated by this Stock Purchase Agreement at the earliest practicable date.

4.4 Consents. Without limiting the generality of Section 4.3 and subject to Section 4.7 hereof, each of the Parties will use its reasonable efforts to obtain all licenses, permits, authorizations, consents and approvals of all third parties and Governmental Authorities necessary in connection with the consummation of the transactions contemplated by this Stock Purchase Agreement prior to the Closing; provided, however, that, any provision hereof to the contrary notwithstanding, neither Seller nor the Company shall have any obligation to pay any fee to any third party for the purpose of obtaining any consent or approval or any costs and expenses of any third party resulting from the process of obtaining such consent or approval. Each of the Parties will make or cause to be made all filings and submissions under Applicable Laws as may be required for the consummation of the transactions contemplated by this Stock Purchase Agreement. Buyer and Seller will coordinate and cooperate with each other in exchanging such information and assistance as any of the parties hereto may reasonably request in connection with the foregoing.

4.5 Public Announcements. Seller and Buyer will not, and Seller will cause the Company not to, issue any report, statement or press release or otherwise make any public statement with respect to this Stock Purchase Agreement and the transactions contemplated hereby without prior consultation with and approval of the other Parties, except as may be required by law or securities exchange regulations or as may be necessary in order to discharge the disclosure obligations of any such Party, in which case (provided it is legally permissible to do so) such Party shall give reasonable notice to the other Party and discuss the contents of the disclosure before issuing any such report, statement or press release.

4.6 Access to Books and Records Following the Closing. Following the Closing, Buyer shall permit Seller and their authorized representatives (for bona fide business purposes and subject to execution of a confidentiality agreement reasonably satisfactory in form and substance to Buyer), during normal business hours and upon reasonable notice, to have reasonable access to, and examine and make copies of, all books and records of the Company which relate to transactions or events occurring prior to the Closing or transactions or events occurring subsequent to the Closing which are related to or arise out of transactions or events occurring prior to the Closing; provided, however, (a) that Seller and their representatives shall take such action as is deemed necessary in the reasonable judgment of Buyer and the Company to schedule such access and visits through a designated officer of the Company and in such a way as to avoid disrupting the normal business of the Company, (b) the Company shall not be required to take any action which would constitute a waiver of the attorney-client or other privilege and (c) the Company need not supply Seller with any information which, in the reasonable judgment of Buyer or the Company, the Company is under a contractual or legal obligation not to supply, including, without limitation, as a result of any governmental or defense industrial security clearance requirement or program requirements of any Governmental Authority prohibiting certain persons from sharing information. Buyer agrees that it shall retain all such books and records for a period of seven (7) years following the Closing, or for such longer period following the Closing as may be required by law.

4.7 Novation or Waivers of Government Contracts and Subcontract Agreements.

4.7(a) Cooperation to Obtain Novations. If any novation of a Government Contract with the U.S. Government (each a “U.S. Government Contract”) is required or requested (even if such novation is not legally required) by the U.S. Government and/or the appropriate prime contractor, Buyer and Seller will each use his, her or its reasonable efforts, and will cooperate with each other, to obtain all such novations. Seller shall render all necessary assistance to Buyer in obtaining such novations in such manner as Buyer reasonably requests.

4.7(b) Reciprocal Actions. Without limiting the generality of Section 4.7(a), in connection with the transactions contemplated hereby, (i) Buyer and the Company will execute novation agreements and any other appropriate and reasonable documents, in such form as may be reasonably required or requested (even if such novation is not legally required) by the U.S. Government and/or the appropriate prime contractor, with respect to the U.S. Government Contracts, (ii) subject to the provisions of Section 9 relating to notice, the claims procedure, limitations of liability, and dispute resolution with respect to claims for indemnification, Seller will indemnify Buyer against any liability (including, without limitation, setoff by the U.S. Government or other third party, guarantees, and payments) which Buyer may incur under any such novation agreement by reason of any failure by the Company to perform its obligations under the novated U.S. Government Contracts prior to the Closing Date to the extent that such liability is one for which Buyer is entitled to indemnity under Section 9.2 of this Stock Purchase Agreement, and (iii) Buyer will indemnify Seller against any liability (including setoff by the U.S. Government or other third party, guarantees, and payments) which Seller may incur under such novation agreement by reason of any failure by Buyer or any assignee thereof to perform its obligations under the novated U.S. Government Contracts following the Closing Date.

4.7(c) Buyer Acknowledgement. Buyer acknowledges that (i) U.S. Government Contracts are subject to rules and regulations of the U.S. Government and to certain standard governmental contract clauses, including, without limitation, with respect to organizational conflicts of interest and termination for convenience, (ii) the novation and waiver processes, if applicable, may occur after Closing, (iii) Seller makes no representation or warranty with respect to the novation or waiver of the U.S. Government Contracts, and (iv) any refusal by the U.S. Government and/or the appropriate prime contractor to novate or grant a waiver with respect to the U.S. Government Contracts or any of them shall not constitute a breach of this Stock Purchase Agreement or give rise to any claim for indemnification or adjustment to the Purchase Price. At all times prior to Closing, Buyer and Seller will each use reasonable efforts, and will cooperate with each other, to obtain, if requested by Buyer, the approval of the U.S. Government to allow Buyer to perform as a subcontractor throughout any applicable novation or waiver process. Failure to obtain such approval shall not affect the Buyer's or Seller's rights and responsibilities as set forth in this Stock Purchase Agreement.

SECTION 5. TAX MATTERS.

5.1 Responsibility for Tax Returns. Seller shall be responsible for all Tax Returns and shall also be responsible for or may enjoy all tax liabilities and/or benefits of the Company incurred through the Closing Date, as allowable by Applicable Law. Buyer shall be responsible for filing all periodic Tax Returns required under Applicable Law for periods ending after the Closing Date. In the case of any taxable period that includes the Closing Date, the rights and obligations of the Parties shall be based upon an interim closing of the books as of the close of business of the Closing Date consistent with the above.

5.2 Transfer and Similar Taxes. Notwithstanding any other provisions of this Stock Purchase Agreement to the contrary, all sales, use, transfer, stamp, duties, recording and similar Taxes (but excluding Taxes based upon or measured by income) incurred in connection with the transactions contemplated by this Stock Purchase Agreement shall be borne by the Party subject to such Taxes under applicable laws. Each Party shall, at its own expense, accurately file all necessary Tax Returns and other documentation with respect to such Taxes and timely pay all such Taxes. If required by applicable law, the other Party will join in the execution of any such Tax Returns or such other documentation.

5.3 Return Filings; Refunds and Credits.

5.3(a) Future Cooperation. Seller and Buyer shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents, auditors and representatives reasonably to cooperate, in preparing and filing all Tax Returns of the Company (including amended returns and claims for refund, if applicable), including maintaining and making available to each other all records necessary in connection with Taxes of the Company and in resolving all disputes and audits with respect to all taxable periods relating to Taxes of the Company. After the date hereof, the Company, Seller, and Buyer shall provide each other and their respective agents and representatives timely access and reasonable assistance and cooperation during normal business hours in making tax information relating to the Company and copies thereof (at each requesting Party's own cost and expense) relating to taxable periods of the Company available to each other and their respective agents and representatives, including access for the timely filing of short-period returns to the extent such access is reasonably required. The Company may require Seller to execute and enter into a confidentiality agreement of reasonable form and substance acceptable to Buyer. All pertinent books of account, papers and records relating to the Company shall be retained and available for review and copying by each of the Parties either until the statute of limitations to which they relate has expired by lapse of time (but not more than seven (7) years) or by the terms of an agreement for extension of time or until such date as the Parties hereto shall have otherwise agreed and ending on or before the date hereof.

5.3(b) Destruction of Records. For a period of the later to occur of (i) seven (7) years from the Closing Date or (ii) the expiration of the applicable statute of limitations (taking into account any applicable extensions or tollings), Buyer shall not, and shall cause the Company not to, dispose of or destroy any of the business records and files of the Company relating to Taxes with respect to the Company in existence on the Closing Date without first offering to turn over possession thereof to Seller by written notice to Seller at least thirty (30) days prior to the proposed date of such disposition or destruction. Seller shall have reciprocal obligations to Buyer with respect to any business records and files relating to the Company's Taxes retained by Seller and in existence on the Closing Date.

5.3(c) Refunds and Credits. Any refunds and credits of Taxes of or relating to the Company with respect to (i) any taxable period ending on or before the Closing Date shall be for the account of Seller, and if received or utilized by Buyer or the Company, shall be paid to Seller within five (5) business days after Buyer or the Company receives such refund or utilizes such credit, and (ii) any taxable period beginning after the Closing Date shall be for the account of Buyer, and if received or utilized by Seller shall be paid by Seller to the Company within five (5) business days after Seller receives such refund or utilizes such credit.

5.4 Timing Adjustments.

5.4(a) Notification of Adjustments. If an audit or other examination of any Tax Return prepared in connection with income taxes ("Income Tax Return") of Seller or the Company for taxable periods ending on or before the Closing Date shall result (by final settlement or other final disposition) in any adjustment the effect of which is to increase deductions, losses or tax credits or decrease income, gains or recapture of tax credits ("Changes") reflected on the Income Tax Returns of Buyer or the Company for taxable periods commencing on or after the Closing Date, Seller will notify Buyer and provide Buyer with all necessary information so that it can reflect on the Income Tax Returns of Buyer or the Company any appropriate Changes. If an audit or examination of any Income Tax Return of Buyer or the Company for taxable periods ending on or after the Closing Date shall result (by settlement or other final disposition) in any Changes that could be used on Income Tax Returns (or amendments thereto) of the Company or Seller for taxable periods ending on or before the Closing Date, Buyer will notify Seller and provide Seller with all necessary information and authorizations so that Seller can reflect on the applicable Income Tax Returns for (or amendments thereto) any applicable Changes. Seller shall provide for Buyer's approval a copy of any such filing prior to Seller filing the same and provide Buyer with an opportunity to consent in writing to any such filing, with any non-Company information either redacted if not necessary for Buyer's analysis for the applicable Changes or protected through a confidentiality agreement to be executed between the Parties. Buyer agrees to cooperate with Seller in the filing of any such Tax Returns.

5.4(b) Closing of Tax Year. If requested by one Party, the other Party agrees to join in the election to terminate the Company's taxable year as of the Closing Date as permitted under Section 1377 (a) of the Code.

5.5 Tax Indemnification.

5.5(a) Buyer to Seller. Notwithstanding anything in this Stock Purchase Agreement to the contrary, Buyer shall indemnify, defend and hold harmless Seller, at any time after the Closing, from and against any liability for Taxes with respect to the Company for any taxable period ending after the Closing Date (except to the extent such taxable period began before the Closing Date, in which case Buyer's indemnity will cover only that portion of any such Taxes that are not attributable a period prior to the Closing Date).

5.5(b) Seller to Buyer. Notwithstanding anything in this Stock Purchase Agreement to the contrary, Seller shall indemnify, defend and hold harmless Buyer and its Affiliates from and against any liability for Taxes of the Company (including any Taxes required to be withheld by the Company with respect to any of its shareholders) or on any other Person with respect to whom the Company may be responsible for the payment of said Taxes or the failure to pay the same may otherwise be a breach of a representation set forth above in Section 2.24, for all taxable periods ending on or before the Closing Date.

5.5(c) Notice of Claims. If a claim for Taxes shall be made by any taxing authority in writing, which, if successful, might result in an indemnity payment pursuant to this Section 5.5, the Party seeking indemnification (the "Tax Indemnified Party") shall promptly notify the other Party (the "Tax Indemnifying Party") in writing of such claim (a "Tax Claim") within a reasonably sufficient period of time to allow the Tax Indemnifying Party effectively to contest such Tax Claim, and in reasonable detail to apprise the Tax Indemnifying Party of the nature of the Tax Claim, and provide copies of all correspondence and documents received by it from the relevant taxing authority.

5.6 Control of Contests. Buyer shall have the sole right to control and make all decisions regarding the Company's interests in any Tax audit or administrative or court proceeding relating to Taxes incurred for periods subsequent to the Closing Date, including selection of counsel and selection of a forum for such contest, Seller shall have the sole right to control and make all decisions regarding the Company's interests in any Tax audit or administrative or court proceeding relating to Taxes incurred for periods prior to the Closing Date, including selection of counsel and selection of a forum for such contest. In the event of a tax audit of fiscal year 2012:, (i) Buyer, the Company and Seller shall cooperate in the conduct of any audit or proceeding relating to such period, (ii) Seller shall have the right (but not the obligation) to participate in such audit or proceeding at Seller's expense, (iii) Buyer shall not enter into any agreement with the relevant taxing authority pertaining to such Taxes without the written consent of Seller, which consent shall not unreasonably be withheld, and (iv) Buyer may, without the written consent of Seller, enter into such an agreement provided that Buyer shall have agreed in writing to accept responsibility and liability for the payment of such Taxes and to forego any indemnification under this Stock Purchase Agreement with respect to such Taxes.

5.7 Tax Elections For tax reporting purposes, Buyer and Seller mutually agree to file IRS form 8023 to evidence their Code Section 338(h)(10) election, and any corresponding state election, as same is defined within the Code (the "Election"). Buyer will prepare any such Election prior to the Closing Date for Seller's signature on the Closing Date. In addition:

5.7(a) Buyer shall send to Seller credible evidence of mailing IRS form 8023 (i.e. copy of certified mail receipt) within thirty (30) days of the Closing Date.

5.7(b) Each Party will pay all costs and expenses attributable to such Party's filing of the Tax Election;

5.7(c) Seller shall be responsible for any income tax resulting from the Election notwithstanding any provision herein to the contrary;

5.7(d) The Purchase Price shall not be "grossed up" or otherwise increased by reason of the Tax Election;

5.7(e) Within ninety (90) days after the Closing Date, Buyer shall propose the allocation of the Purchase Price to Seller (the "Proposed Allocation"). The Proposed Allocation shall be determined in a manner consistent with the Code. If Seller does not object to the Proposed Allocation within ten (10) days after Seller's receipt thereof, then the Proposed Allocation shall be deemed the final allocation of the Purchase Price (the "Final Allocation"). If Seller objects to the Proposed Allocation, then Seller must notify Buyer in writing of such objection within ten (10) days after Seller's receipt thereof (such notice setting forth in reasonable detail the basis for such objection). The Parties will thereafter negotiate in good faith to resolve any such objections. If the Parties are unable to resolve all of such differences within ten (10) calendar days after Buyer's receipt of Seller's notice, then upon request of either party the parties will resolve the dispute by way of the Dispute Resolution Procedure set forth in Section 9 (which shall then determine the "Final Allocation").

5.7(f) The Parties shall report the allocation of the Purchase Price as of the Closing Date on all Tax Returns and Tax forms (including, without limitation, Form 8883 of the Internal Revenue Service) in a manner consistent with such the Final Allocation and shall not, in connection with the filing of such returns or forms or in any examination, claim for refund, or any contest (administrative or judicial) of any adjustment to any return, make any allocation of the Purchase Price or take any position that is inconsistent with the Final Allocation. The Parties agree to consult with one another with respect to any examination, claim for refund, or any contest (administrative or judicial) of any adjustment to any return relating to the Final Allocation.

SECTION 6. ADDITIONAL AGREEMENTS.

6.1 Seller's Post-Closing Confidentiality Obligation. Following the Closing, except as otherwise expressly provided in this Stock Purchase Agreement, Seller shall (and to the extent applicable shall cause their respective Affiliates and their officers, directors, employees, agents and representatives) (collectively, "Seller Related Parties") (a) maintain the confidentiality of, (b) not use, and (c) not divulge, to any Person any confidential or proprietary information of the Company, except with the prior written consent of Buyer or to the extent that such information is required to be divulged by legal process, except as may reasonably be necessary in connection with the performance of any indemnification obligations under this Stock Purchase Agreement or except as may be required by Applicable Law or to enforce any provision of this Stock Purchase Agreement or the transactions or agreements contemplated herein; provided, however, that Seller and Seller Related Parties shall not be subject to such obligation of confidentiality for information that (i) otherwise becomes lawfully available to Seller or Seller Related Parties after the Closing Date on a non-confidential basis from a third party who is not under an obligation of confidentiality to Buyer or the Company or (ii) is or becomes generally available to the public without breach of this Stock Purchase Agreement by Seller and Seller Related Parties.

6.2 Retention Fund. At the Closing, Buyer shall contribute an amount equal to One Hundred Fifty Thousand Dollars (\$150,000) (the "Retention Fund") into an interest bearing account owned and controlled by the Company and/or Buyer. From and after the Closing, Buyer shall maintain the Retention Fund in an interest bearing account until paid to Company employees or paid to Seller pursuant to this Section 6.2. The Retention Fund may be used by Buyer solely for the purpose of compensation to retain Company employees; provided, that the Company employees to receive such payments and the amounts of such payments shall be determined in the sole and absolute discretion of Buyer. In the event that any portion of the Retention Fund has not been paid to Company employees as of February 28, 2015, such unpaid portion of the Retention Fund shall be paid to Seller within five (5) business days, together with any interest accrued on such amount.

6.3 Seller's Post-Closing Restrictive Covenants. Seller agrees that during the period beginning on the Closing Date and ending on the second anniversary of the Closing Date, Seller shall not (whether directly or indirectly, through any Affiliate or other Person, or in the name or on behalf of any Affiliate or other Person, whether acting as an officer, director, shareholder, owner, partner, member, trustee, beneficiary, employee, promoter, consultant, technical adviser, agent, lender, manager or otherwise or as the assign of any such Person):

6.3(a) engage or participate with any current customer of the Company (including without limitation, any prospective customer who, on the Closing Date, is actively being pursued by the Company) in any business, either directly or indirectly, that competes with the business of the Company, which customers are identified on Schedule 6.3(a).

6.3(b) knowingly recruit, hire or solicit any current employee, consultant or independent contractor of Buyer or the Company, or encourage any such employee, consultant or independent contractor to leave the employ or service of either Buyer or the Company unless such former employee, consultant or independent contractor has not been employed or retained by Buyer or the Company for a period in excess of one year.

In the event of a breach by Seller or any of Seller's Affiliates of any covenant set forth in this Section 6.3, the term of such covenant will be extended by the period of the duration of such breach.

SECTION 7. CONDITIONS TO CLOSING.

7.1 Conditions to Both Parties' Obligations. The obligations of the Parties to consummate the transactions contemplated by this Stock Purchase Agreement are subject to the fulfillment prior to or at the Closing of each of the following conditions (any or all of which may be waived by the Parties):

7.1(a) No Injunction. On the Closing Date, there shall not be in effect any Order issued by a court of competent jurisdiction restraining or prohibiting consummation of the transactions contemplated by this Stock Purchase Agreement.

7.1(b) Consents and Approvals; Permits. Seller shall have obtained (i) the material consents and approvals, or waivers thereof, of third parties, including, without limitation, those of governmental regulatory entities, other than with respect to U.S. Government Contracts and (ii) the material permits, in each case, as set forth on Schedule 7.1(b).

7.2 Conditions to Seller's Obligations. The obligations of Seller to consummate the transactions contemplated by this Stock Purchase Agreement are subject to the fulfillment at or prior to the Closing of each of the following conditions (any or all of which may be waived in whole or in part by Seller):

7.2(a) Representations and Warranties. The representations and warranties of Buyer in this Stock Purchase Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date, except for changes permitted by the terms of this Stock Purchase Agreement.

7.2(b) Performance. Buyer shall have, in all material respects, performed and complied with all agreements, obligations, covenants and conditions required by this Stock Purchase Agreement to be so performed or complied with by Buyer at or prior to the Closing, including, but not limited to the delivery of Buyer's Closing Documents pursuant to Section 1.4(b).

7.2(c) Officer's Certificate. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date, executed by an officer of Buyer, certifying the fulfillment of the conditions specified in Sections 7.2(a) and 7.2(b) hereof (the "Officer's Certificate").

7.2(d) Board Approval. The Board of Directors of Seller shall have granted all necessary consents to this Stock Purchase Agreement, the execution of this Stock Purchase Agreement and the transactions contemplated hereby, and such consents shall not have been revoked.

7.2(e) Delivery of Buyer's Closing Documents. Buyer shall have delivered to Seller prior to or at the Closing, the "Buyer's Closing Documents" referred to in Section 1.4(b).

7.3 Conditions to Buyer's Obligations. The obligations of Buyer to consummate the transactions contemplated by this Stock Purchase Agreement are subject to the fulfillment at or prior to the Closing of each of the following conditions (any or all of which may be waived in whole or in part by Buyer):

7.3(a) Representations and Warranties. The representations and warranties of Seller in this Stock Purchase Agreement shall be true and correct in all material respects as of the date when made and at and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date (with references therein to the date of this Stock Purchase Agreement being treated as references to the Closing Date), except for changes permitted by the terms of this Stock Purchase Agreement.

7.3(b) Performance. Seller shall have, in all material respects, performed and complied with all agreements, obligations, covenants and conditions required by this Stock Purchase Agreement to be so performed or complied with by Seller at or prior to the Closing, including the delivery of Seller's Closing Documents pursuant to Section 1.4(c).

7.3(c) Seller's Certificates. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date, executed by Seller, certifying the fulfillment of the conditions specified in Sections 7.3(a) and 7.3(b) hereof.

7.3(d) Key Employee Agreements. The Parties recognize that it is critical to Buyer that prior to or at Closing, the employees of the Company identified on Exhibit A (the "Key Employees") shall have entered into employment agreements in form and substance reasonably satisfactory to BCF and the Key Employees (collectively the "Employment Agreements") in form and substance reasonably satisfactory to BCF and the Key Employees. Seller acknowledges that while such agreements are a Condition of Closing for Buyer pursuant to this Section 7, they shall not be delivered by Seller.

7.3(e) Delivery of Seller's Closing Documents. Seller shall have delivered to Buyer prior to or at the Closing, the "Seller's Closing Documents" referred to in Section 1.4(b).

7.3(f) Form and Substance of Deliverables. The form and substance of all certificates, instruments and other documents delivered or to be delivered to Buyer under this Stock Purchase Agreement shall be reasonably satisfactory to Buyer in all material respects.

7.3(g) Board Approval. The Board of Directors of Buyer shall have granted all necessary consents to this Stock Purchase Agreement, the execution of this Stock Purchase Agreement and the transactions contemplated hereby, and such consents shall not have been revoked.

7.3(h) Resignations. Unless otherwise requested by Buyer, all officers and directors of the Company shall have submitted their resignations as officers and directors effective as of the Closing.

7.3(i) Domain Name Assignments. Prior to, concurrent with or immediately after the Closing, the Company shall change the technical, administrative and billing contacts of record for all internet domain names owned by the Company to representatives specified by Buyer.

7.3(j) Trademark Assignment. Prior to, concurrent with or immediately after the Closing, Seller shall assign the registered trademark "RedBlack" to Buyer, free and clear of all Liens.

SECTION 8. TERMINATION.

8.1 Termination. This Stock Purchase Agreement may be terminated and the transactions contemplated hereby may be abandoned:

8.1(a) at any time, by mutual written agreement of Seller and Buyer;

8.1(b) at any time after October 1, 2012, by Seller or Buyer immediately upon written notice to the other Party, if the Closing shall not have occurred for any reason other than a breach of this Stock Purchase Agreement by the terminating Party;

8.1(c) by Buyer, if there has been a material violation or breach by Seller of any agreement, representation or warranty contained in this Stock Purchase Agreement, which has rendered the satisfaction of any condition to the obligations of Buyer impossible and such violation or breach has not been waived by Buyer;

8.1(d) by Seller, if there has been a material violation or breach by Buyer of any agreement, representation or warranty contained in this Stock Purchase Agreement, which has rendered the satisfaction of any condition to the obligations of Seller impossible and such violation or breach has not been waived by Seller; or

8.1(e) by either Buyer, or Seller if a court of competent jurisdiction shall have issued an Order permanently restraining or prohibiting the transactions contemplated by this Stock Purchase Agreement, and such Order shall have become final and non-appealable.

8.2 Procedure and Effect of Termination. In the event of the termination of this Stock Purchase Agreement and the abandonment of the transactions contemplated hereby, written notice thereof shall be given by the terminating Party to the other Party and this Stock Purchase Agreement shall terminate and the transactions contemplated hereby shall be abandoned without further action by Seller or Buyer. If this Stock Purchase Agreement is terminated pursuant to Section 8.1 hereof:

8.2(a) Buyer shall return all documents, work papers and other materials (and all copies thereof) obtained from Seller or the Company relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the Seller and all confidential information received by Buyer with respect to the Company shall be treated in accordance with Section 4.2(b);

8.2(b) The obligations provided for in this Section 8.2 and Section 9 hereof with respect to confidential information, the confidentiality provision contained in Section 6.1 hereof and the Confidentiality Agreement referred to in Section 4.2(b) shall survive any such termination of this Stock Purchase Agreement for the applicable statute of limitations; and

8.2(c) Notwithstanding anything in this Stock Purchase Agreement to the contrary, the termination of this Stock Purchase Agreement shall not relieve either Party from liability for damages attributed to such Party's breach of this Stock Purchase Agreement. In no event shall either Party be liable to the other for indirect, consequential or special damages, even if such Party has been advised of the possibility of same.

SECTION 9. SURVIVAL OF REPRESENTATIONS; INDEMNIFICATION.

9.1 Survival of Representations and Covenants. The representations and warranties in this Stock Purchase Agreement and in any other document delivered in connection herewith shall survive the Closing Date and shall terminate for such purposes upon the earlier of: (i) expiration of the period for which indemnification for breach thereof may be sought pursuant to this Section 9 and other provisions of this Stock Purchase Agreement; and (ii) the applicable statute of limitations. The covenants contained in this Stock Purchase Agreement shall terminate on the Closing Date, except for those rights and covenants which, by their terms, are to be performed after the Closing Date, which rights and covenants shall terminate as provided therein.

9.2 Seller's Agreement to Indemnify. Upon the terms and subject to the conditions of this Section 9, without duplication of any amounts recovered by Buyer by offset against the Escrow Funds, for a period of two (2) years from the Closing Date, Seller shall indemnify, defend and hold harmless Buyer and its officers, directors, employees, agents and Affiliates (including the Company, from and after the Closing Date) (collectively, "Buyer Indemnitees"), from and against all demands, claims, actions or causes of action, assessments, losses, damages, liabilities, costs and expenses, including, without limitation, interest, penalties and reasonable attorneys' fees and expenses (collectively, "Damages") suffered by, imposed upon or incurred by Buyer Indemnitees by reason of or resulting from (i) a breach of any representation or warranty of Seller contained in this Stock Purchase Agreement; or (ii) non-performance of any agreement or covenant of Seller contained in or made pursuant to this Stock Purchase Agreement (collectively, "Buyer Claims"), provided, that the Buyer Indemnitees make a claim for indemnification within the applicable survival period. Notwithstanding the foregoing, Seller's indemnity obligations with respect to a breach of Section 2.24(b)(xxii) shall continue for a period of three (3) years, and Seller's indemnification obligations with respect to Special Claims shall continue until expiration of the applicable statutes of limitations. For purposes of this Agreement, the term "Special Claims" shall mean and refer to those claims (1) relating to Tax Claims or other amounts described in or pursuant to Section 5.5(b); (2) resulting from fraud by Seller; (3) resulting from willful misconduct of Seller or the Company; (4) amounts due under Sections 9.5, 9.6 and/or 9.7; and (5) relating to claims by a third party with respect to any Third Party Contractual Requirements Contracts which are not listed on Schedule 2.14(a) with respect to the representations and warranties made under Section 2.24. As used in the previous sentence the willful misconduct shall be limited to conduct which constitutes a violation of criminal law as finally determined (or by guilty or nolo contendere plea) in a judicial or arbitration proceeding by clear and convincing evidence or otherwise constitutes intentional and knowing malfeasance as finally determined in a judicial or arbitration proceeding by clear and convincing evidence (or by guilty or nolo contendere plea).

The amounts for which Seller shall be liable under this Section 9 are subject to the Indemnity Limitations set out in Section 9.8 below, and shall also be net of any insurance proceeds paid to the Buyer Indemnitees by insurance in connection with the facts giving rise to the right of indemnification or which would have been payable to Buyer Indemnitees in the event that any Buyer Indemnitee had made a valid claim with respect to any such amount under any insurance policies maintained by Buyer Indemnitees which provide coverage with respect to the facts giving rise to the right of indemnification.

9.3 Buyer's Agreement to Indemnify. Upon the terms and subject to the conditions of this Section 9, without duplication of any amounts recovered by Seller by offset against the Escrow Funds, for a period of two (2) years from the Closing Date, Buyer shall indemnify, defend and hold harmless Seller and its officers, directors, employees, agents and Affiliates (collectively, "Seller Indemnitees"), from and against all suffered by, imposed upon or incurred by Seller Indemnitees by reason of or resulting from (i) a breach of any representation or warranty of Buyer contained in this Stock Purchase Agreement; or (ii) non-performance of any agreement or covenant of Buyer contained in or made pursuant to this Stock Purchase Agreement (collectively, "Seller Claims"), provided, that the Seller Indemnitees make a claim for indemnification within the applicable survival period.

9.4 Indemnity Claims. Seller acknowledges and agrees that to the extent Buyer incurs any Damages with respect to Buyer Claims (other than Special Claims) (such claims, the "Indemnity Claims"), then upon a determination pursuant to Section 9.9 that sums are due Buyer from Seller pursuant to Seller's indemnification obligations under this Section 9 or Section 5.5 (all such amounts, after complete resolution of any disputes with regard thereto, a "Determined Offsettable Amount"), Buyer may recover any such Determined Offsettable Amount from the Escrow Funds.

9.5 Uncollected Accounts Receivable. Seller acknowledges and agrees that to the extent that any of the receivables (including unbilled receivables, but excluding receivables that were excluded from the definition of Net Working Capital in Section 1.3(c)) are not collected in full by the first anniversary of the Closing Date, then Buyer may offset an amount equal to, on a dollar-for-dollar basis, such uncollected receivables against the Escrow Funds. Notwithstanding the foregoing, if such a receivable is, in fact, subsequently collected, Buyer shall refund the amount of such offset, to the extent actually collected, net of collection costs, to the Escrow Funds (if and to the extent the Escrow Funds were offset). In the event that any receivables that were excluded from the definition of Net Working Capital in Section 1.3(c) is, in fact, subsequently collected, Buyer shall deliver the proceeds of such collections to Seller within five (5) business days of receipt thereof.

9.6 Undisclosed Payables. Seller acknowledges and agrees that to the extent that any payables to vendors, suppliers, consultants, or employees related to periods prior to the Closing Date are not disclosed then Buyer may offset an amount equal to, on a dollar-for-dollar basis, such undisclosed payables against the Escrow Funds.

9.7 Other Special Claims. Seller acknowledges and agrees that it shall indemnify, defend and hold harmless the Buyer Indemnitees from and against all Damages suffered by, imposed upon or incurred by Buyer Indemnitees after the Closing Date by reason of or resulting from the termination for convenience of any U.S. Government Contract to the extent such terminations occurred prior to the Closing Date. The above notwithstanding, to the extent that there are any net positive financial benefits to be enjoyed after the Closing Date resulting from such terminations prior to the Closing Date, Buyer shall notify Seller within five (5) days of Knowledge of same, and reimburse Seller for same within thirty (30) days of receipt of such positive net benefits.

9.8 Indemnity Limitations.

9.8(a) General Limitation of Seller's Liability. Except in the case of indemnity claimed for Special Claims, the liability of Seller for indemnity obligations under this Stock Purchase Agreement shall be limited to future offset against the Escrow Funds.

9.8(b) Limitation of Seller's Liability for Special Claims. In the case of Special Claims, the limitation of Seller's liability shall be capped at the amount of Cash at Closing plus the Escrowed Funds, and Buyer shall have all remedies available at law or in equity.

9.8(c) Indemnification Deductible for Sellers. No claims for indemnification may be asserted by either Party against the other pursuant to this Section 9 until the aggregate amount of all Damages incurred in connection with the Buyer Claims or the Seller Claims, respectively, exceeds Twenty Five Thousand Dollars (\$25,000) (the "Indemnification Deductible"), at which time Indemnified Party shall be entitled to recover all Damages, including Damages accrued up to the Indemnification Deductible. The Indemnification Deductible shall not apply in the case of Special Claims.

9.9 Claims Procedures.

9.9(a) Exclusive Procedure. All claims for indemnification or offset under this Section 9 shall be asserted and resolved exclusively in accordance with the procedures set forth in this Section 9.9.

9.9(b) Notice Requirements. In the event that any Buyer Indemnitees or Seller Indemnitees (each an "Indemnified Party") has a claim for indemnification or offset against the other Party obligated to provide indemnification (or which is entitled to payment under any Offsettable Obligation) pursuant to this Section 9 (the "Indemnifying Party") which does not involve a claim being asserted against or sought to be collected by a third party, the Indemnified Party shall with reasonable promptness send a notice of the claim to Seller or Buyer, as the case may be. If the Indemnifying Party does not notify the Indemnified Party within thirty (30) days that the Indemnifying Party disputes such claim, the amount of such claim shall be conclusively deemed a liability of the Indemnifying Party hereunder, and, in the case of liabilities of Seller, a Determined Offsettable Amount. In the event an objection is made in writing, the Indemnified Party shall have thirty (30) business days to respond in a written statement to the objection. If, after such thirty (30) business day period, there remains a dispute as to any claim, the Parties shall attempt in good faith for thirty (30) days to agree upon the rights of the respective Parties with respect to each such claim. If the Parties should so agree, a memorandum setting forth such agreement and the agreed upon dollar amount of liability for such claim of the Party against whom the claim is made (such amount, once agreed, a Determined Offsettable Amount) shall be prepared and signed by (or on behalf of) the Parties.

9.9(c) Third Party Claims. The obligations and liabilities of the Parties which arise or result from claims for Damages made by third parties (“Third-Party Claims”) shall be subject to the terms and conditions of this Section 9.9(c). The Indemnified Party will give the Indemnifying Party prompt notice of any such Third-Party Claim, setting forth therein in reasonable detail the basis for such Third-Party Claim, and the Indemnifying Party shall have the right to undertake the defense thereof by representatives chosen by it; provided, that, failure to provide such prompt notice shall not affect the Indemnifying Party’s obligations hereunder, except to the extent that the Indemnifying Party is materially prejudiced by such failure; and provided, further, that the Indemnified Party will reasonably cooperate with the Indemnifying Party in defending such Third Party Claim. If the Indemnifying Party, within a reasonable time after notice of any such Third-Party Claim, fails to defend the Indemnified Party against which such Third-Party Claim has been asserted, the Indemnified Party shall (upon further notice to the Indemnifying Party) have the right to undertake the defense, compromise or settlement of such Third-Party Claim on behalf of and for the account and risk of the Indemnifying Party subject to the right of the Indemnifying Party to assume the defense of such Third-Party Claim at any time prior to settlement, compromise or final determination thereof. Any provision in this Section 9 to the contrary notwithstanding, (i) if there is a reasonable probability that a Third-Party Claim may materially and adversely affect the Indemnified Party other than as a result of money damages or other money payments, the Indemnified Party shall have the right, at its own cost and expense, to defend, compromise or settle such Third-Party Claim; provided, however, that if such Third-Party Claim is settled without the Indemnifying Party’s consent, the Indemnified Party shall be deemed to have waived all rights hereunder against the Indemnifying Party for money damages arising out of such Third-Party Claim, and (ii) the Indemnifying Party shall not, without the written consent of the Indemnified Party, settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the giving by the claimant or the plaintiff to the Indemnified Party a release from all liability in respect to such Third-Party Claim.

9.10 Exclusive Remedies. Except for the remedies with respect to certain Tax matters, liability for Special Claims, and the right of Buyer to compel specific performance with respect to certain affirmative covenants of Seller under this Stock Purchase Agreement, the remedies of Buyer set forth in this Section 9 shall be the sole and exclusive remedies for breaches of representations and warranties, the failure or non-performance of any covenants or agreements, or any other claim in connection with the transactions contemplated by this Stock Purchase Agreement.

SECTION 10. DISPUTE RESOLUTION AND ARBITRATION.

10.1 Dispute Resolution and Arbitration. In the event that any dispute arises after Closing between the Parties regarding this Stock Purchase Agreement or the transactions contemplated herein, including, but not limited to, disputes regarding the indemnification obligations of the Parties set forth in Section 5.5 and Section 9, the Parties, through senior management of Buyer and Seller, shall: (i) first attempt to resolve such dispute within a reasonable time through good faith negotiations; which (ii) if not successful, then attempt thereafter to resolve same through good faith mediation efforts in accordance with Section 10.2 below; which (iii) if not successful, then shall resolve same through binding arbitration, in accordance with Section 10.3 below. In all instances, all disputes shall be resolved as set forth in this Section 10.

10.2 Notice of Dispute. The procedures of this Section 10.2 may be initiated by a written notice (“Dispute Notice”) given by one Party (“Claimant”) to the other, but not before thirty (30) days have passed during which the Parties have been unable to reach a resolution through good faith negotiations, as described above (unless either Party would be materially prejudiced by such delay). The Dispute Notice shall be accompanied by: (i) a statement of the Claimant describing the dispute in reasonable detail; and (ii) documentation, if any, supporting the Claimant’s position on the dispute. Within twenty (20) days after the other Party’s (“Respondent”) receipt of the Dispute Notice and accompanying materials, the Parties shall submit the dispute to mediation in New Castle County, Delaware, U.S.A. under the rules of the American Arbitration Association. All negotiations and mediation procedures pursuant to this Section 10.2 shall be confidential and treated as compromise and settlement negotiations and shall not be admissible in any arbitration or other proceeding.

10.3 Referral to Arbitration. If the dispute is not resolved as provided in Section 10.2 within sixty (60) days after the Respondent’s receipt of the Dispute Notice, the dispute shall be resolved by binding arbitration. Within the sixty-day period referred to in the immediately preceding sentence, the Parties shall agree on a single arbitrator to resolve the dispute. If the Parties fail to agree on the designation of an arbitrator within said sixty-day period, the American Arbitration Association in New Castle County, Delaware, U.S.A. shall be requested to designate the single arbitrator. If the arbitrator becomes disabled, resigns or is otherwise unable to discharge the arbitrator’s duties, the arbitrator’s successor shall be appointed in the same manner as the arbitrator was appointed.

10.4 Applicable Arbitration Rules. Except as otherwise provided in this Section 10, the arbitration shall be conducted in accordance with the Commercial Rules of the American Arbitration Association, which shall be governed by the United States Arbitration Act and applicable provisions of Delaware law relating to Arbitration and Award.

10.5 Effect of Arbitration Determination. Any resolution and/or award arising out of arbitration (i) shall be binding and conclusive upon the Parties; (ii) shall be limited to a holding for or against a Party, and affording such monetary remedy as is deemed equitable, just and within the scope of this Stock Purchase Agreement; (iii) may not include special, incidental, consequential or punitive damages; (iv) may in appropriate circumstances include injunctive relief; and (v) may be entered in Delaware Chancery Court in accordance with the United States Arbitration Act.

10.6 Limits Upon Scope of Arbitration. The arbitrator may not limit, expand or otherwise modify the terms of this Stock Purchase Agreement.

10.7 Applicable Law. The laws of the State of Delaware, without regard to its conflict of law principles, shall apply to any mediation, arbitration, or litigation arising under this Section 10.

10.8 Expenses of Arbitration. Each Party shall bear its own expenses incurred in any mediation, arbitration or litigation under this Section 10, but any expenses related to the compensation and the costs of any mediator or arbitrator shall be borne equally by the Parties to the dispute provided that the arbitrator or mediator may assess costs and expenses in the arbitrator's discretion.

10.9 Temporary Injunction. A request by a Party to a court for interim measures necessary to preserve such Party's rights and remedies for resolution pursuant to this Section 10 shall not be deemed a waiver of the obligation to mediate or of the agreement to arbitrate.

10.10 Confidentiality Obligation. The Parties, their representatives, other participants and the mediator or arbitrator shall hold the existence, content and result of mediation or arbitration in confidence.

SECTION 11. MISCELLANEOUS.

11.1 Further Assurances. From time to time after the Closing Date, at the request of the other Party hereto and at the expense of the Party so requesting, Seller and Buyer shall execute and deliver to such requesting Party such documents and take such other action as such requesting Party may reasonably request in order to consummate or evidence the transactions contemplated hereby, or to take any commercially reasonable action related thereto.

11.2 Notices. All notices and other communications under this Stock Purchase Agreement shall be in writing to the address set forth below for each Party to receive such notice or other communication, or to such other address of which such Party may give notice to the other Party hereto:

If to Buyer, then to:

BCF Solutions, Inc.
14325 Willard Road
Suite 107
Chantilly, Virginia 20151

With a copy in all cases to:

Kevin R. Learned, Esq.
McMahon, Welch and Learned, PLLC
2100 Reston Parkway, Suite 325
Reston, VA 20191
Facsimile: (703) 621-9355

If to Seller, then to:

Ultralife Corporation
2000 Technology Parkway
Newark, NY 14513

With a copy in all cases to:

General Counsel, at the same address

Such notices and other communications shall be addressed in accordance herewith and given by: (i) United States mail first class, postage pre-paid, certified return receipt requested; or (ii) reputable express courier providing written receipt of delivery; or (iii) personal delivery. Notice shall be deemed given when actually delivered or when delivery is refused.

11.3 Attorneys' Fees. Subject to the provisions of Section 9, whether or not the transactions contemplated hereby are consummated pursuant hereto, each of Seller and Buyer shall pay all fees and expenses incurred by themselves or on their own behalf in connection with this Stock Purchase Agreement, and the consummation of the transactions contemplated hereby. Except as otherwise provided in Section 9, in the event of any suit, action, or any other proceeding (whether in law or equity, and whether administrative, trial, appellate or otherwise) arising out of or related to this Stock Purchase Agreement, the non-prevailing or unsuccessful Party shall pay all of the prevailing or successful party's costs and expenses incurred in connection with such proceeding, including (without limitation) court costs and reasonable attorneys' fees, if granted pursuant to a judgment or court order issued by a court of competent jurisdiction or a final arbitration award pursuant to this Agreement. Seller may cause the Company to pay or incur fees and expense obligations to counsel, accountants, and a financial advisor, including, but not limited to the fees and expenses of The McLean Group prior to Closing, however all such fees and expenses shall be treated as expenses of the Company accrued prior to Closing. Counsel fees of Seller incurred in furtherance of this transaction which have not previously been paid shall be due and payable at the time of Closing and allocation of those fees for accounting purposes between the Company and Seller shall be in the discretion of Seller, however all such fees and expenses allocated to the Company shall be treated as expenses of the Company accrued prior to Closing.

11.4 No Assignment; Successors and Assigns. This Stock Purchase Agreement may not be assigned by either Party without the prior written consent of the other, except to a successor of all or substantially all of the assets, stock, or beneficial ownership of the assignor, in which case it shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

11.5 No Third-Party Beneficiaries. No provision of this Stock Purchase Agreement is intended to, and no provision of this Stock Purchase Agreement shall, confer upon any party other than the parties hereto (and their permitted successors and assigns, if any) any rights or remedies under this Stock Purchase Agreement.

11.6 Amendment. This Stock Purchase Agreement may not be amended except in writing signed by all of the parties hereto.

11.7 Waiver. No waiver shall be deemed effective under this Stock Purchase Agreement unless in writing signed by the Party against whom the waiver is to be effective. No failure or delay by any party hereto in exercising any right, power or privilege hereunder, and no course of dealing among or between any of the parties hereto, shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

11.8 Governing Law, Jurisdiction and Venue. This Stock Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to choice of law and conflicts of law rules. Subject to Section 10, the Parties agree that any action at law, suit in equity, or other judicial proceeding for the enforcement of this Stock Purchase Agreement or any provision hereof shall be instituted and prosecuted only in Delaware Chancery Court, which shall be the exclusive venue for any such action, suit or other proceeding. Each party hereby waives any and all rights to change of venue with respect to such actions, suits or proceedings.

11.9 Entire Agreement. This Stock Purchase Agreement, together with the Schedules and Exhibits attached hereto together with the documents executed in connection with this Stock Purchase Agreement, and the closing documents referenced in Section 1.4(b) hereof, constitute the entire agreement, and supersede all prior agreements and understandings (whether oral or written), among the parties hereto with respect to the subject matter hereof.

11.10 Incorporation of Exhibits. All Exhibits and Schedules referred to in this Stock Purchase Agreement are hereby incorporated herein and made a part of this Stock Purchase Agreement, and any and all references herein to this Stock Purchase Agreement shall mean and include the Schedules and Exhibits hereto. In the event of a conflict between a textual provision of the body of this Stock Purchase Agreement and any Exhibit or Schedule, the term of the textual provision of the body of this Stock Purchase Agreement shall govern.

11.11 Headings. The titles and captions of the sections, subdivisions, Exhibits and Schedules of this Stock Purchase Agreement are for convenience of reference only, and shall be given no effect in the construction or interpretation of this Stock Purchase Agreement.

11.12 Severability. If any provision of this Stock Purchase Agreement is held by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction, the remainder of this Stock Purchase Agreement shall remain in full force and effect, and such holding shall not affect this Stock Purchase Agreement or any provision hereof in any other jurisdiction.

11.13 Counterparts. This Stock Purchase Agreement may be executed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument, but all of which together shall constitute one and the same instrument.

11.14 Schedules and Exhibits. This Stock Purchase Agreement is being signed by all of the Parties hereto notwithstanding that at the time of signing all of the Schedules and Exhibits were not available or complete to the mutual satisfaction of the parties. The Parties agree that until and unless all of the Schedules and Exhibits have been prepared, reviewed, approved and accepted in writing by each of the undersigned (each such Schedule or Exhibit, when fully accepted, a “Mutually Accepted Schedule”), this Stock Purchase Agreement shall not constitute a binding agreement and may not be enforced by or against any party against another. At the time that all of the Schedules and Exhibits have been prepared and approved by each of the undersigned, the undersigned agree to sign a certificate to such effect and all of the Mutually Accepted Schedules shall be attached to and incorporated as a part of this Stock Purchase Agreement and this Stock Purchase Agreement shall become legally binding and fully enforceable in accordance with the terms hereof as of the specified Effective Date.

11.15 Certain Defined Terms. As used in this Stock Purchase Agreement, the following terms shall have the following respective meanings:

“Active Government Contract” shall have the meaning ascribed to such term in Section 2.25(a)(i) hereof.

“Affiliate” shall have the meaning set forth in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

“Annual Company Financial Schedules” shall have the meaning ascribed to such term in Section 2.6(a) hereof.

“Applicable Law” shall have the meaning ascribed to such term in Section 2.5 hereof.

“BCF” shall have the meaning ascribed to such term in the Preamble hereof.

“Bid” shall have the meaning ascribed to such term in Section 2.25(a)(ii) hereof.

“Buyer” shall have the meaning ascribed to such term in the Preamble hereof.

“Buyer Claims” shall have the meaning ascribed to such term in Section 9.2 hereof.

“Buyer’s Closing Documents” shall have the meaning ascribed to such term in Section 1.4(c) hereof.

“Buyer Indemnitees” shall have the meaning ascribed to such term in Section 9.2 hereof.

“Buyer’s Accountant” shall mean a reputable accounting firm engaged by Buyer.

“Capital Stock” of any Person means any and all shares, rights to purchase, warrants, or options (whether or not exercisable), participations or other equivalents of or interests in (however designated) the equity (including without limitation common stock, preferred stock and limited liability company, partnering and joint venture interest) of such Person.

“Cash at Closing” shall have the meaning ascribed to such term in Section 1.3(a) hereof.

“Claimant” shall have the meaning ascribed to such term in Section 10.2 hereof.

“Claims Filed Intellectual Property” shall have the meaning ascribed to such term in Section 2.12(a)(ii) hereof.

“Closing” shall have the meaning ascribed to such term in Section 1.1 hereof.

“Closing Date” shall have the meaning ascribed to such term in Section 1.4(a) hereof.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Commercial Off the Shelf Software” shall have the meaning ascribed to such term in Section 2.12(a)(iv) hereof.

“Company” shall have the meaning referred to in the recitals hereof.

“Company Material Adverse Effect” means an event, change or effect which is materially adverse to (a) the business, properties, financial condition or results of operations of the Company taken as a whole or (b) the ability of Seller to consummate the transactions contemplated hereby.

“Company Financial Schedules” shall have the meaning ascribed to such term in Section 2.6(a)(i).

“Company Shares” shall have the meaning ascribed to such term in hereof.

“Completed Government Contract” shall have the meaning ascribed to such term in 2.25(a)(iii) hereof.

“Contracts” shall have the meaning ascribed to such term in Section 2.5 hereof.

“CPAR” shall have the meaning ascribed to such term in Section 2.25(c)(vi) hereof.

“Damages” shall have the meaning ascribed to such term in Section 9.2 hereof.

“Determined Offsetable Amount” shall have the meaning ascribed to such term in Section 9.3 hereof.

“Dispute Notice” shall have the meaning ascribed to such term in Section 10.2 hereof.

“Effective Date” shall have the meaning ascribed to such term in the Preamble hereof.

“Election” shall have the meaning ascribed to such term in Section 5.7 hereof.

“Employee Benefit Plan” shall have the meaning ascribed to such term in Section 2.20(a)(ii) hereof.

“Employment Agreements” shall have the meaning ascribed to such term in Section 7.3(d) hereof.

“Entity” means a general partnership, limited partnership, limited liability partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative, association, foreign trust or foreign business organization.

“Environmental Claim” means any claim, action, investigation or written notice by any person or entity alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resource damages, personal injuries, or penalties) arising out of, based on, or resulting from (A) the presence, or release into the environment, of any Hazardous Substance (as hereinafter defined) at any location, whether or not owned or operated by the Company or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

“Environmental Damages” means indemnification to which Buyer is entitled for damages resulting from Environmental Claims which constitute a breach of Seller’s representations and warranties under Section 2.21 of this Stock Purchase Agreement. To the extent that Environmental Claims are incurred as a result of any violations of Environmental Law or Release(s) that occur both prior to and after Closing, Environmental Damages shall not include that portion of the Environmental Claim that is attributable to the violation or Release occurring after the Closing Date.

“Environmental Laws” means all federal, state, local and foreign laws and regulations, as in effect and as interpreted on the date hereof, relating to pollution or protection of the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata), or worker health and safety, including, without limitation, laws and regulations relating to emissions, discharges, releases or threatened releases of Hazardous Substances, OSHA, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances.

“ERISA” shall have the meaning ascribed to such term in Section 2.20(a)(i) hereof.

“Escrow Agent” shall have the meaning ascribed to such term in Section 1.3(b) hereof.

“Escrow Agreement” shall have the meaning ascribed to such term in Section 1.4(b)(vi) hereof.

“Escrow Funds” shall have the meaning ascribed to such term in Section 1.3(b) hereof.

“Exchange Act” shall have the meaning ascribed to such term in Section 2.5 hereof.

“FAR” shall have the meaning ascribed to such term in Section 2.25(a)(ix) hereof.

“Final Allocation” shall have the meaning ascribed to such term in Section 5.7(e) hereof.

“GAAP” means generally accepted accounting principles applied consistently throughout the periods involved.

“Governmental Approval” shall have the meaning ascribed to such term in Section 2.5 hereof.

“Governmental Authority” shall have the meaning ascribed to such term in Section 2.5 hereof.

“Government-Furnished Property” shall have the meaning ascribed to such term in Section 2.25(g) hereof.

“Government Prime Contract” shall have the meaning referred to in Section 2.25(a)(v) hereof.

“Government Subcontract” shall have the meaning ascribed to such term in Section 2.25(a)(vi) hereof.

“Hazardous Substances” means (A) chemicals, pollutants, contaminants, hazardous wastes, toxic substances, hazardous substance, and oil and petroleum products, the use of which by the Company is regulated under applicable Environmental Laws, and (B) radioactive materials, including source, special nuclear, or by-product materials as defined by the Atomic Energy Act of 1954, as amended.

“Indemnification Deductible” shall have the meaning ascribed to such term in Section 9.8(c) hereof.

“Indemnified Party” shall have the meaning ascribed to such term in Section 9.9(b) hereof.

“Indemnifying Party” shall have the meaning ascribed to such term in Section 9.9(b) hereof.

“Indemnity Claims” shall have the meaning ascribed to such term in Section 9.3 hereof.

“Independent Accountant” shall have the meaning ascribed to such term in Section 5.1 hereof.

“Industrial Funding Fee” shall have the meaning ascribed to such term in Section 2.25(a)(vii) hereof.

“Interim Company Financial Schedules” shall have the meaning ascribed to such term in Section 2.6(a)(ii) hereof.

“IRS” shall mean the Internal Revenue Service.

“Key Employees” shall have the meaning ascribed to such term in Section 7.3(d) hereof.

“Know How IP” shall have the meaning ascribed to such term in Section 2.12(a)(iv) hereof.

“Knowledge” shall mean, unless expressly qualified in the context of a particular representation or warranty as being limited to “actual” knowledge, the knowledge of any officers, directors or employees of the Company or Seller.

“Licensed Intellectual Property” shall have the meaning ascribed to such term in Section 2.12(a)(iii) hereof.

“Liens” shall have the meaning ascribed to such term in Section 2.2 hereof.

“Material Contract” shall have the meaning ascribed to such term in Section 2.14(a) hereof.

“Net Working Capital” shall have the meaning ascribed to such term in Section 1.3(c) hereof.

“Net Working Capital Adjustment” shall have the meaning ascribed to such term in Section 1.3(c) hereof.

“NWC Certificate” shall have the meaning ascribed to such term in Section 1.3(c) hereof.

“Objection Notice” shall have the meaning ascribed to such term in Section 1.3(c) hereof.

“Officer’s Certificate” shall have the meaning ascribed to such term in Section 7.2(c) hereof.

“Order” shall have the meaning ascribed to such term in Section 2.5 hereof.

“Ordinary Course” shall have the meaning ascribed to such term in Section 2.7 hereof.

“Owned Intellectual Property” shall have the meaning ascribed to such term in Section 2.12(a)(i) hereof.

“Pension Plan” shall have the meaning ascribed to such term in Section 2.20(a)(iii) hereof.

“Permitted Liens” means (i) statutory Liens for Taxes not yet due, (ii) Liens of carriers, warehousemen, mechanics and material men incurred in the ordinary course of business for sums not yet due, (iii) Liens incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, (iv) Liens securing rental payments under capital lease arrangements, and (v) such other encumbrances (including without limitation, covenants, conditions, restrictions, rights of way and encroachments) or imperfections in or failure of title which would not, individually or in the aggregate, reasonably be expected to result in a material reduction in the value of the asset affected by such encumbrances.

“Person” shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

“Personal Property” shall have the meaning ascribed to such term in Section 2.10 hereof.

“Personnel” shall have the meaning ascribed to such term in Section 2.18(a) hereof.

“Proposed Allocation” shall have the meaning ascribed to such term in Section 5.7(e) hereof.

“Purchase Price” shall have the meaning ascribed to such term in Section 1.2 hereof.

“Real Property” shall have the meaning ascribed to such term in Section 2.11 hereof.

“Reasonably expected” shall mean the reasonable expectation of a Person who has the pertinent knowledge, competency, skills and expertise to evaluate a given condition or situation after due investigation, diligence and/or analysis.

“Release” means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, dispersal, leaching or migration into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater and surface or substrata) or into or out of any property, including the movement of Hazardous Substances through or in the air, surface water, groundwater, or property.

“Respondent” shall have the meaning ascribed to such term in Section 10.2 hereof.

“Retention Fund” shall have the meaning ascribed to such term in Section 6.2 hereof.

“Seller” shall have the meaning ascribed to such term in the Preamble hereof.

“Seller’s Closing Documents” shall have the meaning ascribed to such term in Section 1.4(b) hereof.

“Seller Related Parties” shall have the meaning ascribed to such term in Section 6.1 hereof.

“Special Claims” shall have the meaning ascribed to such term in Section 9.2 hereof.

“State Government” shall have the meaning ascribed to such term in Section 2.25(a)(viii) hereof.

“Stock Purchase Agreement” shall have the meaning ascribed to such term in the Preamble hereof.

“Target Net Working Capital” shall have the meaning ascribed to such term in Section 1.3(c) hereof.

“Tax Claim” shall have the meaning ascribed to such term in Section 5.5(c) hereof.

“Taxes” and “Tax” shall have the meaning ascribed to such term in Section 2.24(a)(i) hereof.

“Tax Indemnified Party” shall have the meaning ascribed to such term in Section 5.5(c) hereof.

“Tax Indemnifying Party” shall have the meaning ascribed to such term in Section 5.5(c) hereof.

“Tax Return” shall have the meaning ascribed to such term in Section 2.24(a)(ii) hereof.

“Teaming Agreement” shall have the meaning referred to in Section 2.25(a)(ix) hereof.

“Third-Party Claims” shall have the meaning ascribed to such term in Section 9.9(c) hereof.

“Third Party Contractual Requirements Impacted Contracts” shall have the meaning ascribed to such term in Section 2.24(b)(xxii) hereof.

“Transition Services Agreement” shall have the meaning ascribed to such term in Section 1.4(b)(viii) hereof.

“Ultralife Corporation” shall have the meaning ascribed to such term in the Preamble hereof.

“Updated Schedule 2.6(c)” shall have the meaning ascribed to such term in Section 2.6(c) hereof.

“U.S. Government” shall have the meaning referred to in Section 2.25(a)(x) hereof.

“U.S. Government Contract” shall have the meaning ascribed to such term in Section 4.7(a) hereof.

Other terms may be defined elsewhere in this Stock Purchase Agreement and, unless otherwise indicated, shall have such meanings throughout this Stock Purchase Agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed, or caused their duly authorized officer or representative to execute this Stock Purchase Agreement effective as of the Effective Date.

BUYER:

BCF SOLUTIONS, INC., a Delaware corporation

By: _____ (seal)
Chand Gupta, President and COO

SELLER:

ULTRALIFE CORPORATION, a Delaware corporation

By: _____ (seal)
Philip A. Fain, CFO and Treasurer

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this “**Second Amendment**”), dated as of September 28, 2012, by and among **ULTRALIFE CORPORATION**, a Delaware corporation (“**Ultralife**”), **REDBLACK COMMUNICATIONS, INC.**, a Maryland corporation (“**RedBlack Communications**”), and **ULTRALIFE ENERGY SERVICES CORPORATION**, a Florida corporation (“**Ultralife Energy**”, and together with Ultralife and RedBlack Communications, each individually a “**Borrower**” and collectively, the “**Borrowers**”), and **RBS BUSINESS CAPITAL, a division of RBS Asset Finance, Inc.**, a New York corporation (the “**Lender**”).

RECITALS:

The Borrowers and the Lender are parties to a Credit Agreement dated as of February 17, 2010, as amended by that certain letter agreement dated September 8, 2010 and that certain First Amendment to the Credit Agreement dated January 14, 2011 (the “**Credit Agreement**”), pursuant to which the Lender has agreed to provide a revolving credit facility in an aggregate principal amount not to exceed Thirty-Five Million Dollars (\$35,000,000) to the Borrowers subject to the terms and conditions set forth in the Credit Agreement.

Ultralife, with the Lender’s consent, effected the merger of McDowell Research Co., Inc., a wholly-owned subsidiary of Ultralife and a Borrower under the Credit Agreement (“**McDowell Research**”) with and into Ultralife, with Ultralife as the surviving entity, effective December 22, 2011.

The Borrowers have informed the Lender that Ultralife proposes to enter into a stock purchase agreement (the “**SPA**”) with BCF Solutions, Inc. (“**BCF**”), pursuant to which Ultralife would sell one hundred percent (100%) of its shares of RedBlack Communications, a wholly-owned subsidiary of Ultralife, to BCF (the “**RedBlack Stock Sale**”).

Accordingly, the Borrowers have asked that the Lender (i) consent to the RedBlack Stock Sale and (ii) release or terminate all security interests held by Lender in the assets of RedBlack Communications under or in connection with the Credit Agreement.

The Lender has agreed to consent to the RedBlack Stock Sale and release or terminate its security interests in the assets of RedBlack Communications upon the terms and subject to the conditions set forth in this Second Amendment.

NOW THEREFORE, the parties to this Second Amendment, in consideration of their mutual covenants and agreements contained in this Second Amendment and the Credit Agreement, and intending to be legally bound hereby, covenant and agree as follows:

1. Definitions. (a) Article 1 “**Definitions**” of the Credit Agreement is hereby amended to include the following definitions:
-

“Second Amendment” shall mean the Second Amendment to Credit Agreement dated as of September 28, 2012 between the Borrowers and the Lender.

“Second Amendment Closing Date” shall mean on or about September 28, 2012 or, if all the conditions specified in the Second Amendment to Credit Agreement have not been satisfied or waived by such date, such later date as the Lender and the Borrowers shall mutually agree.

(b) Effective as of the Second Amendment Closing Date, the following definitions contained in Article 1 **“Definitions”** of the Credit Agreement are amended and restated in their entirety as follows:

“Borrowers” means, collectively, the following (together with their respective successors and assigns) (a) Ultralife Corporation, a Delaware corporation; (b) Ultralife Energy Services Corporation, a Florida corporation formerly known as Stationary Power Services, Inc.; and (c) any Person that at any time after the date hereof becomes a Borrower. Each of the Borrowers is sometimes referred to in this Agreement individually as a **“Borrower”**.

“Security Agreements” shall mean all of, and **“Security Agreement”** shall mean any one of, as the context may require, (i) the Security Agreement dated on or about the date hereof, executed and delivered to Lender by Ultralife, (ii) the Security Agreement dated on or about the date hereof, executed and delivered to Lender by Ultralife Energy, and (iii) any Security Agreement executed and delivered to the Lender by any Borrower, Guarantor or other Person pursuant to the terms of this Agreement, as each such agreement may be amended, modified or supplemented from time to time.

2. **Consent to RedBlack Stock Sale.** Lender consents to the RedBlack Stock Sale pursuant to the RedBlack Sale Documents (as defined in Section 6(c)), subject to the terms and conditions of this Second Amendment. Effective upon the consummation of the RedBlack Sale, and subject to the prior satisfaction of each of the conditions specified in Section 6 of this Second Amendment, RedBlack Communications is released as a Borrower under the Credit Agreement. The Lender further waives, subject to the terms and conditions of this Second Amendment, (i) Section 7.08 (Disposition of Assets) to the extent that the RedBlack Stock Sale would constitute a default of such provision of the Credit Agreement, and (ii) Section 7.12 (Ownership and Control) to the extent that the RedBlack Stock Sale would constitute a default of such provision of the Credit Agreement.

3. **Release of RedBlack Liens.** On the Second Amendment Closing Date, and subject to the prior satisfaction of each of the conditions specified in Section 6 of this Second Amendment, (a) the Security Agreement, dated February 17, 2010 (the **“Security Agreement”**), by and between RedBlack Communications and Lender, shall be terminated and of no further force and effect, (b) Borrowers will be authorized to file with the Maryland State Department of Assessments and Taxation, at Borrowers’ expense, a UCC Termination Statement terminating the Lender’s security interests in the assets of RedBlack Communications arising under the Security Agreement, and (c) Borrowers will be authorized to file with the United States Patent and Trademark Office, at Borrowers’ expense, a termination of the security interest in that certain trademark relating to RedBlack Communications (REDBLACK Serial No. 77/435,415) granted to Lender pursuant to the Trademark Security Agreement dated February 17, 2010, by and between Ultralife and Lender.

4. Representations and Warranties. The Borrowers represent and warrant to the Lender that:

(a) Each of the Borrowers have and will continue to have corporate power and authority to execute, deliver and perform the provisions of this Second Amendment and the Credit Agreement, as amended hereby, and to execute and deliver the instruments required by any of the provisions of this Second Amendment and the Credit Agreement, as amended hereby, to be executed and delivered by the Borrowers; and all such action has been duly and validly authorized by all necessary corporate proceedings on the part of each of the Borrowers.

(b) The execution, delivery and performance of this Second Amendment, as amended hereby, will not conflict with, constitute a default under or result in the breach of, any provisions of Law or the articles of incorporation or the by-laws of any of the Borrowers or of any material agreement or other instrument to which any of the Borrowers is a party or by which it is bound or to which any of them is subject.

(c) This Second Amendment has been duly and validly executed and delivered by each of the Borrowers, and this Second Amendment and the Credit Agreement, as amended hereby, constitute legal, valid and binding obligations of the Borrowers on and after its date of delivery thereof, enforceable against the Borrowers in accordance with their respective terms, except to the extent that enforceability of any of this Second Amendment and the Credit Agreement, as amended hereby, may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforceability of creditors' rights generally or limiting the right of specific performance.

(d) Except as set forth in Section 5 below, the representations and warranties by the Borrowers contained in Article IV of the Credit Agreement are correct and accurate in all material respects on and as of the date of this Second Amendment with the same effect as though made on and as of the date of this Second Amendment (except representations and warranties which expressly relate to an earlier date or time, which representations and warranties shall be true and correct in all material respects on and as of the specific dates or times referred to therein).

(e) No event has occurred and is continuing which constitutes an Event of Default or Potential Default.

5. Update to Schedules. Pursuant to Section 6.01(s) of the Credit Agreement, the Borrowers hereby submits an update to (i) Schedule 4.01 of the Credit Agreement, attached hereto as Amended Schedule 4.01, (ii) Schedule 4.07 of the Credit Agreement, attached hereto as Amended Schedule 4.07 and (iii) Schedule 4.08 of the Credit Agreement, attached hereto as Amended Schedule 4.08. The Lender hereby accepts the updates reflected on these amended schedules and waives any Event of Default or Potential Default under the Credit Agreement arising from such updates.

6. Conditions to this Second Amendment. The obligation of the Lender to enter into this Second Amendment is subject to the accuracy in all material respects as of the date of this Second Amendment of the representations and warranties contained in this Second Amendment, and to the satisfaction of the following further conditions:

(a) This Second Amendment shall be executed by the Borrowers and delivered to the Lender and shall be in effect and all actions by the Borrowers contemplated hereby shall have been taken.

(b) The Lender shall have received a certificate in form and substance satisfactory to the Lender, dated as of the Second Amendment Closing Date, certifying as to the names, true signatures and incumbency of the officers of the Borrowers to execute this Second Amendment and the other documents and instruments to be executed in connection with this Second Amendment. The Lender may conclusively rely on such certificate unless and until a later certificate revising the prior certificate has been furnished to the Lender.

(c) The transactions contemplated by the SPA and related documents (the "**RedBlack Sale Documents**") shall have been consummated in connection with the closing of this Second Amendment in accordance with the terms and conditions of the RedBlack Sale Documents as heretofore approved by the Lender, without any material amendment or waiver by the Borrowers not consented to by the Lender.

(d) The Lender shall have received true and correct copies of each of the RedBlack Sale Documents together with a certificate of the Borrowers, addressed to the Lender and executed by the Treasurer of Ultralife, certifying that: (i) there have been no material amendments or modifications to the RedBlack Sale Documents and such other agreements, except as may be described in such certificate; (ii) the RedBlack Sale Documents and such other agreements are in full force and effect; (iii) all actions necessary for the consummation of the RedBlack Stock Sale pursuant to the RedBlack Sale Documents have been taken.

(e) The Lender shall have received in the Ultralife cash collateral account the net proceeds from the RedBlack Stock Sale (as referenced on the closing statement approved by the Lender) to be applied to the Revolving Credit Loans outstanding under the Credit Agreement.

(f) No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Second Amendment or the consummation of the transactions contemplated hereby or which, in the Lender's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Second Amendment.

7. No Waiver of Existing Defaults. Except as otherwise provided in this Second Amendment, the Lender has not agreed to waive, and have not waived, any past or present Event of Default or Potential Default under the Credit Agreement, as amended by this Second Amendment, or any of the other Loan Documents. Except as otherwise provided in this Second Amendment, the Lender has not consented to any departure by the Borrowers from their due performance under the Credit Agreement, as amended by this Second Amendment, or under any of the Loan Documents. The rights and remedies of the Lender under the Credit Agreement, as amended by this Second Amendment, and the other Loan Documents shall survive the execution and delivery of this Second Amendment and the Lender may exercise such rights and remedies with respect to any such defaults at any time.

8. Second Amendment Expenses. The Borrowers agree to pay, and save the Lender harmless against liability for the payment, of all reasonable out-of-pocket expenses of the Lender arising in connection with this Second Amendment including, without limitation, the reasonable fees and expenses of counsel for the Lender and the expenses of any lien searches or other investigations conducted for the Lender.

9. Scope of Second Amendment. Except as amended by this Second Amendment, the provisions of the Credit Agreement shall remain in full force and effect. The Loan Documents shall likewise remain in full force and effect. The Credit Agreement and this Second Amendment shall be construed as complementing each other and as augmenting and not restricting the Lender's rights, and, except as specifically amended by this Second Amendment, the Credit Agreement shall remain in full force and effect in accordance with its terms. The Borrowers hereby ratify, confirm and reaffirm, without condition, all Liens and security interests granted to the Lender pursuant to the Credit Agreement and the Loan Documents other than those specifically released or terminated pursuant to this Second Amendment), and such Liens and security interests shall continue to secure the Loan or Loans and the Revolving Credit Loans as defined in each of such agreements.

10. Miscellaneous. This Second Amendment will be deemed to be a contract under the laws of the State of New York and for all purposes will be governed by and construed and enforced in accordance with the laws of said State. The caption headings contained in this Second Amendment are for convenience of reference and shall not be deemed to be a part of this Second Amendment or used in the construction of this Second Amendment.

11. Counterparts. This Second Amendment may be executed in counterparts and by the Lender and the Borrowers on separate counterparts each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Second Amendment as of the day and year first above written.

ATTEST:

Secretary

[CORPORATE SEAL]

ATTEST:

Secretary

[CORPORATE SEAL]

ATTEST:

Secretary

[CORPORATE SEAL]

ULTRALIFE CORPORATION

By: _____
Philip A. Fain, CFO and Treasurer

REDBLACK COMMUNICATIONS, INC.

By: _____
Philip A. Fain, Treasurer

ULTRALIFE ENERGY SERVICES CORPORATION

By: _____
Philip A. Fain, Treasurer

**RBS BUSINESS CAPITAL,
a division of RBS Asset Finance, Inc.**

By: _____
Donald A. Cmar

**AMENDED SCHEDULE 4.01
 JURISDICTIONS OF INCORPORATION
 (Updated to September 28, 2012)**

ENTITY	JURISDICTION OF INCORPORATION	QUALIFIED JURISDICTIONS
Ultralife Corporation	Delaware	New York Virginia
Ultralife Energy Services Corporation	Florida	California Hawaii Oregon Utah Washington
Ultralife Batteries (UK) Ltd.	United Kingdom	
Ultralife Batteries India Private Limited	India	
ABLE New Energy Co., Limited	Hong Kong	
ABLE New Energy Co., Ltd.	Peoples Republic of China	

**AMENDED SCHEDULE 4.07
OWNERSHIP AND CONTROL
(Updated to September 28, 2012)**

1. CAPITALIZATION

ENTITY	AUTHORIZED CAPITALIZATION	SHARES ISSUED AND OUTSTANDING	OWNERS (>20%)
Ultralife Corporation	Common Stock: 40 million shares Preferred Stock: 1 million shares	Common Stock Issued: 18,802,976 shares Common Stock Outstanding*: 17,430,219 shares Preferred Stock: 0 shares	Bradford Whitmore/ Grace Brothers, Ltd.
Ultralife Energy Services Corporation	Common Stock: 1,000 shares	Common Stock: 200 shares	Ultralife Corporation (100%)

* The difference between the common stock shares issued and those outstanding is due to 1,372,757 shares being held as Treasury Stock.

2. OUTSTANDING OPTIONS, RIGHTS AND WARRANTS

The total current unamortized expense for all outstanding stock options is \$1,682,000. There are currently outstanding 2,511,078 stock options, of which 2,087,864 are vested and expected to vest.

Under its 2004 Amended and Restated Long Term Incentive Plan ("LTIP"), Ultralife Corporation is authorized to issue up to 2,900,000 shares of its common stock. Currently, 530,702 shares are available to be issued under the LTIP.

On December 19, 2005, we granted our former President and Chief Executive Officer, John D. Kavazanjian, an option to purchase 48,000 shares of common stock at \$12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The stock option is fully vested and expires on June 8, 2013.

On March 7, 2008, in connection with his becoming employed by us, we granted our Chief Financial Officer and Treasurer, Philip A. Fain, an option to purchase 50,000 shares of common stock at \$12.74 per share outside of any of our equity-based compensation plans. The stock option is fully vested and expires on March 7, 2015.

On December 30, 2010, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, options to purchase shares of common stock under the LTIP as follows: (i) 50,000 shares at \$6.42, vesting in annual increments of 12,500 shares over a four-year period commencing December 30, 2011; (ii) 250,000 shares at \$6.42, vesting in annual increments of 62,500 shares over a four-year period commencing December 30, 2011; (iii) 200,000 shares at \$10.00, with vesting to begin on the date the stock reaches a closing price of \$10.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date; and (iv) 200,000 shares at \$15.00, with vesting to begin on the date the stock reaches a closing price of \$15.00 per share for 15 trading days within a 30-day trading period, with such vesting in annual increments of 50,000 shares over the four anniversary dates of that date. All such options in items (i) and (ii) shall expire on December 30, 2017. All such options in items (iii) and (iv) shall expire as of the later of December 30, 2017 and five years after the initial vesting commences, but in no event later than December 30, 2020. The options set forth in items (ii), (iii) and (iv) were subject to shareholder approval of an amendment to the LTIP, which approval was obtained on June 7, 2011.

On January 3, 2011, pursuant to the terms of his employment agreement, we granted our President and Chief Executive Officer, Michael D. Popielec, an option to purchase 50,000 shares of common stock at \$6.58 under the LTIP. The option vests in annual increments of 12,500 shares over a four-year period commencing December 30, 2011. The option expires on December 30, 2017.

3. INSTRUMENTS REGARDING BENEFICIAL OR RECORD OWNERSHIP OR VOTING RIGHTS
None.

**AMENDED SCHEDULE 4.08
OFFICERS AND DIRECTORS
(Updated to September 28, 2012)**

Ultralife Corporation

Board of Directors

Bradford T. Whitmore, Chair
Steven M. Anderson
Patricia C. Barron
James A. Croce
Michael D. Popielec
Thomas L. Saeli
Robert W. Shaw II
Ranjit C. Singh

Officers

Michael D. Popielec, President & CEO
Peter F. Comerford, VP Administration, General Counsel & Secretary
Philip A. Fain, CFO & Treasurer

Ultralife Batteries (UK) Ltd. (Wholly-Owned Subsidiary)

Directors

Peter F. Comerford
Andrew J. Naukam

ABLE New Energy Co. Limited (Wholly-Owned Subsidiary)

Directors

Xulong Zhang, Chair
David E. Gates
Robert F. Green

ABLE New Energy Co., Ltd (Wholly-Owned by ABLE New Energy Co. Limited)

Directors

Xulong Zhang, Chair
David E. Gates
Robert F. Green

Ultralife Batteries India Private Limited (Fifty-One Percent Owned Subsidiary)

Directors

Andrew J. Naukam, Chair (Ultralife Designee)
Kenneth R. Bird
B.R. Ganesh

Ultralife Energy Services Corporation (Wholly-Owned Subsidiary)

Director

Peter F. Comerford

Officers

Philip A. Fain, Treasurer
Peter F. Comerford, Secretary

I, Michael D. Popielec, certify that:

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

Date: November 8, 2012

/s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer

I, Philip A. Fain, certify that:

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

Date: November 8, 2012

/s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer

Section 1350 Certification

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), Michael D. Popielec and Philip A. Fain, the President and Chief Executive Officer and Chief Financial Officer and Treasurer, respectively, of Ultralife Corporation, certify that (i) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Ultralife Corporation.

A signed original of this written statement required by Section 906 has been provided to Ultralife Corporation and will be retained by Ultralife Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 8, 2012

/s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer

Date: November 8, 2012

/s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer