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

FORM 10-K

(Mark One)

☑ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2007

OR

o **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	16-1387013
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2000 Technology Parkway, Newark, New York	14513
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (315) 332-7100

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	The Nasdaq Stock Market, LLC

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company	Smaller Reporting Company o

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

On June 30, 2007, the aggregate market value of the Common Stock of Ultralife Batteries, Inc. held by non-affiliates of the Registrant was approximately $109,000,000 (in whole dollars) based upon the closing price for such Common Stock as reported on the NASDAQ National Market System on June 29, 2007.

As of March 1, 2008, the Registrant had 17,318,682 shares of Common Stock outstanding, net of 728,690 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Ultralife Batteries, Inc. Proxy Statement — Certain portions of the Registrant's Definitive Proxy Statement relating to the June 5, 2008 Annual Meeting of Shareholders are specifically incorporated by reference in Part III, Items 10-14 herein, except for the equity plan information required by Item 12 as set forth therein.

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PART I

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. military procurement, the successful commercialization of our products, general economic conditions, government and environmental regulation, 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 materials supplies, environmental regulations, 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 as anticipated, believed, estimated or expected or words of similar import. See Risk Factors in Item 1A of this report.

As used in this report, unless otherwise indicated, the terms “we”, “our” and “us” refer to Ultralife Batteries, Inc. and include our wholly-owned subsidiaries, Ultralife Batteries (UK) Ltd., McDowell Research Co., Inc., ABLE New Energy Co., Limited and its wholly-owned subsidiary ABLE New Energy Co., Ltd, RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.), Stationary Power Services, Inc. and Reserve Power Systems, Inc.

Dollar amounts throughout this Form 10-K Annual Report are presented in thousands of dollars, except for per share amounts.

ITEM 1. BUSINESS

General

We offer products and services ranging from portable and standby 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: portable and standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services.

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 enjoy strong name recognition in our markets under our Ultralife® Batteries, McDowell Research®, RedBlack™ Communications, Stationary Power Services™, Reserve Power Systems and ABLE™ brands. We have sales, operations and product development facilities in North America, Europe and Asia.

We report our results in four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems (formerly named Communications Accessories) and Design and Installation Services (formerly named Technology Contracts). The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, including seawater-activated batteries. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges. (See Note 10 in the Notes to Consolidated Financial Statements.)

We continually evaluate various ways to grow, including opportunities to expand through mergers, acquisitions and business partnerships. On May 19, 2006, we acquired 100% of the equity securities of ABLE New Energy Co., Ltd. (“ABLE”), an established manufacturer of lithium batteries located in Shenzhen, China. The total consideration for the acquisition was a combination of cash and equity. The initial cash portion of the purchase price was $1,896 (net of $104 in cash acquired), with an additional $500 cash payment contingent on the achievement of certain performance milestones, payable in separate $250 increments, when cumulative ABLE revenues from the date of acquisition attain $5,000 and $10,000, respectively. In August 2007, the $5,000 cumulative revenues milestone was attained, and as such, we have recorded the first $250 contingent cash payment. The equity portion of the purchase price consisted of 96,247 shares of our common stock valued at $1,000, and 100,000 stock warrants valued at $526, for a total equity consideration of $1,526. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On July 3, 2006, we finalized the acquisition of substantially all the assets of McDowell Research, Ltd. ("McDowell"), a manufacturer of military communications accessories located in Waco, Texas. Under the terms of the acquisition agreement, the purchase price of approximately $25,000 consisted of $5,000 in cash and a $20,000 non-transferable, subordinated convertible promissory note to be held by the sellers. In addition, the purchase price was subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. The final net value of these assets, under our contractual obligation under the acquisition agreement, was $6,389, resulting in a revised purchase price of approximately $28,448. On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell, which resolved various operational issues that arose during the first several months following the acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible note from $20,000 to $14,000, and eliminating a $1,889 liability related to the Purchase Price Adjustment formula. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. In January 2008, the convertible notes were converted in full into 700,000 shares of our common stock. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On September 28, 2007, we finalized the acquisition of all of the issued and outstanding shares of common stock of Innovative Solutions Consulting, Inc. ("ISC"), a provider of a full range of engineering and technical services for communication electronic systems to government agencies and prime contractors located in Hollywood, Maryland. In January 2008, we renamed ISC to RedBlack Communications, Inc. ("RedBlack"). The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration is payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power Services, Inc. ("SPS"), an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries located in Clearwater, Florida. Under the terms of the stock purchase agreement, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note to be held by the seller. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc. ("RPS"), an affiliate of SPS, and a supplier of lead acid batteries primarily for use by SPS in the design and installation of standby power systems. Under the terms of the stock purchase agreement, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the sales in the operating plan, and 10% of sales that exceed the sales in the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to SPS, which historically have comprised substantially all of RPS's sales. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

Our website address is www.ultralifebatteries.com. We make available free of charge via a hyperlink on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). We will provide copies of these reports upon written request to the attention of Peter F. Comerford, Secretary, Ultralife Batteries, Inc., 2000 Technology Parkway, Newark, New York, 14513. Our filings with the SEC are also available through the SEC website at www.sec.gov or at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling 1-800-SEC-0330.

Non-Rechargeable Products

We manufacture and/or market a family of lithium-manganese dioxide (Li-MnO_2) non-rechargeable batteries including 9-volt, HiRateÒ cylindrical, and Thin CellÒ, in addition to magnesium silver-chloride seawater-activated batteries, and other chemistries and form factors. We also manufacture and market a family of lithium-thionyl chloride (Li-$SOCl_2$) non-rechargeable batteries produced by our ABLE operating unit. Applications for our 9-volt batteries include: smoke alarms, wireless security systems and intensive care monitors, among many other devices. Our HiRate and Thin Cell lithium non-rechargeable batteries are sold primarily to the military and to OEMs in industrial markets for use in a variety of applications including radios, automotive telematics, emergency radio beacons, search and rescue transponders, pipeline inspection gauges, portable medical devices and other specialty instruments and applications. Military applications for our non-rechargeable HiRate batteries include: man-pack and survival radios, night vision goggles, targeting devices, chemical agent monitors and thermal imaging equipment. Our lithium-thionyl chloride batteries, sold under our ABLE brand as well as various private label brands, can be used in a wide variety of applications including utility meters, security devices, electronic meters, automotive electronics and geothermal devices. We also manufacture seawater-activated batteries for specialty marine applications. We believe that the chemistry of lithium batteries provides significant advantages over other currently available non-rechargeable battery technologies. These advantages include: lighter weight, longer operating time, longer shelf life, and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power output during discharge. While the price for our lithium batteries is generally higher than alkaline batteries, the increased energy per unit of weight and volume of our lithium batteries allow longer operating times and less frequent battery replacements for our targeted applications.

Revenues for this segment for the year ended December 31, 2007 were $80,262 and segment contribution was $17,747.

Rechargeable Products

We believe that our range of lithium ion and lithium polymer rechargeable batteries and chargers offer substantial benefits, including the ability to design and produce lightweight batteries in a variety of custom sizes, shapes, and thickness. We market lithium ion and lithium polymer rechargeable batteries comprised of cells manufactured by qualified cell manufacturers. Our rechargeable products can be used in a wide variety of applications including communications, medical and other portable electronic devices. The chemistry of lithium ion and lithium polymer batteries provides significant advantages over other currently available rechargeable batteries. These advantages include lighter weight, longer operating time, longer time between charges and a wider operating temperature range. Conventional rechargeable batteries, nickel metal hydride and nickel cadmium, are heavier, have lower energy and require more frequent charging. Additionally, we offer lead-acid batteries and uninterruptable power supplies for the standby power market. Products include standby batteries and uninterruptable power supplies for use in telecommunications, banking, aerospace and information services industries.

Revenues for this segment for the year ended December 31, 2007 were $16,756 and segment contribution was $3,578.

Communications Systems

In 2006, as a result of the acquisition of McDowell, we formed a new segment, Communications Accessories, which was renamed Communications Systems in 2007. We design and manufacture a line of power solutions and accessories to support military communications systems including power supplies, power cables, connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication systems. Products include field deployable systems, which operate from wide-ranging AC and DC sources using a basic building block approach, allowing for a quick response to specialized applications. All systems are packaged to meet specific customer needs in rugged enclosures to allow their use in severe environments. We market these products to all branches of the U.S. military, approved foreign defense organizations, and U.S. and international prime defense contractors.

Revenues for this segment in the year ended December 31, 2007 were $37,140 and segment contribution was $6,693.

Design and Installation Services

In the fourth quarter of 2007, as a result of the acquisitions of RedBlack and SPS, we renamed our Technology Contracts segment to Design and Installation Services. These services include the design, installation, integration and maintenance of both communications electronics and standby power systems. We also seek to fund part of our efforts to identify and develop new applications for our products and to advance our technologies through contracts with both government agencies and third parties. We have been successful in obtaining awards for such programs for both rechargeable and non-rechargeable battery technologies.

Revenues for this segment in the year ended December 31, 2007 were $3,438 and segment contribution was $756. We continue to obtain contracts that are in parallel with our efforts to ultimately commercialize products that we develop. Revenues in this segment may vary widely each year, depending upon the quantity and size of contracts obtained.

Corporate

We allocate revenues and cost of sales across the above business segments. The balance of income and expense, including but not limited to research and development expenses, and selling, general and administrative expenses, are reported as Corporate expenses.

There were no revenues for this category in the year ended December 31, 2007 and corporate contribution was a loss of $28,973.

See Management's Discussion and Analysis of Financial Condition and Results of Operations and the 2007 Consolidated Financial Statements and Notes thereto for additional information. For information relating to total assets by segment and revenues for the last three years by segment, see Note 10 in the Notes to Consolidated Financial Statements.

History

We were formed as a Delaware corporation in December 1990. In March 1991, we acquired certain technology and assets from Eastman Kodak Company ("Kodak") relating to its 9-volt lithium-manganese dioxide non-rechargeable battery. In December 1992, we completed our initial public offering and became listed on NASDAQ. In June 1994, we formed a subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), which acquired certain assets of the Dowty Group PLC ("Dowty") and provided us with a presence in Europe. In May 2006, we acquired ABLE, an established manufacturer of lithium batteries located in Shenzhen, China, which broadened our product offering and provided additional exposure to new markets. In July 2006, we finalized the acquisition of substantially all the assets of McDowell, a manufacturer of military communications accessories formerly located in Waco, Texas, which enhanced our channels into the military communications area and strengthened our presence in global military markets. In September 2007, we acquired ISC, located in Hollywood, Maryland, which we renamed RedBlack in January 2008, an engineering and technical services firm specializing in the design, integration, and fielding of mobile, modular, and fixed-site communication and electronic systems. The acquisition provided a natural extension to our communications systems business and opened another channel of distribution for our broad portfolio of communications systems, accessories and portable power products. In November 2007, we acquired SPS and RPS, affiliated companies both located in Clearwater, Florida. SPS is an infrastructure power management services firm specializing in the engineering, installation and preventive maintenance of standby power systems, uninterrupted power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. RPS supplies lead acid batteries for use in the design and installation of standby power systems. The SPS acquisition furthered our transformation to a value-added power solutions, accessories and engineering services company serving a broad spectrum of government, defense and commercial markets.

Products, Services and Technology

Non-Rechargeable Products

A non-rechargeable battery is used until discharged and then discarded. The principal competing non-rechargeable battery technologies are carbon-zinc, alkaline and lithium. We manufacture a range of non-rechargeable battery products based on lithium-manganese dioxide, lithium-thionyl chloride and magnesium-silver chloride technologies.

Our non-rechargeable battery products are based predominantly on lithium-manganese dioxide and lithium-thionyl chloride technologies. Our only non-lithium-based non-rechargeable product is our magnesium-silver chloride battery, also known as a seawater-activated battery. We believe that the chemistry of lithium batteries provides significant advantages over currently available non-rechargeable battery technologies, which include: lighter weight, longer operating time, longer shelf life, and a wider operating temperature range. Our non-rechargeable batteries also have relatively flat voltage profiles, which provide stable power. Conventional non-rechargeable batteries, such as alkaline batteries, have sloping voltage profiles that result in decreasing power outage during discharge. While the prices for our lithium batteries are generally higher than commercially available alkaline batteries produced by others, we believe that the increased energy per unit of weight and volume of our batteries will allow longer operating time and less frequent battery replacements for our targeted applications. As a result, we believe that our non-rechargeable batteries are price competitive with other battery technologies on a price per watt-hour basis.

Our non-rechargeable products include the following product configurations:

9-Volt Lithium Battery. Our 9-volt lithium battery delivers a unique combination of high energy and stable voltage, which results in a longer operating life for the battery and, accordingly, fewer battery replacements. While our 9-volt battery price is generally higher than conventional 9-volt carbon-zinc and alkaline batteries, we believe the enhanced operating performance and decreased costs associated with battery replacement make our 9-volt battery more cost effective than conventional batteries on a cost per watt-hour basis when used in a variety of applications.

We market our 9-volt lithium batteries to OEM, distributor and retail markets including industrial electronics, safety and security, medical and music/audio. Significant applications include: smoke alarms, wireless alarm systems, bone growth stimulators, telemetry devices, blood analyzers, ambulatory infusion pumps, parking meters, wireless audio devices and guitar pickups. A significant portion of the sales of our 9-volt battery is to major U.S. and international smoke alarm OEMs for use in their long-life smoke alarms. We also manufacture our 9-volt lithium battery under private label for a variety of U.S. and international companies. Additionally, we sell our 9-volt battery to the broader consumer market through national and regional retail chains and Internet retailers.

We believe that we manufacture the only standard size 9-volt battery warranted to last 10 years when used in ionization-type smoke alarms. Although designs exist using other battery configurations, such as three 2/3 A or 1/2 AA-type battery cells, we believe that our 9-volt solution is superior to these alternatives. Our current 9-volt battery manufacturing capacity is adequate to meet forecasted customer demand.

Cylindrical Batteries. Featuring high energy, wide temperature range, long shelf life and operating life, our cylindrical cells and batteries, based on both lithium-manganese dioxide and lithium-thionyl chloride technologies, represent some of the most advanced lithium power sources currently available. We market a wide range of cylindrical non-rechargeable lithium cells and batteries in various sizes under both the HiRate and ABLE brands, which include: D, C, 5/4 C, 1/2 AA, 2/3 A and other sizes, which are sold individually as well as packaged into multi-cell battery packs, including our leading BA-5390 military battery, which is an alternative to the Li-SO_2 BA-5590 battery, which is the most widely used battery in the U.S. armed forces for portable applications and is manufactured and sold by our competitors. Our BA-5390 battery provides 50% to 100% more energy (mission time) than the BA-5590, and it is used in approximately 60 military applications.

We market our line of lithium cells and batteries to the OEM market for commercial, military, medical, automotive, asset tracking and search and rescue applications, among others. Significant commercial applications include pipeline inspection equipment, autoreclosers and oceanographic devices. Asset tracking applications include RFID (Radio Frequency Identification) systems. Among the military uses are manpack radios, night vision goggles, chemical agent monitors, and thermal imaging equipment. Medical applications include: AED’s (Automated External Defibrillators), infusion pumps and telemetry systems. Automotive applications include: telematics, tire-pressure monitoring and engine electronics systems. Search and rescue applications include: ELT’s (Emergency Locator Transmitters) for aircraft and EPIRB’s (Emergency Position Indicating Radio Beacons) for ships.

Thin Cell Batteries. We manufacture a range of thin lithium-manganese dioxide batteries under the Thin Cell brand. Thin Cell batteries are flat, lightweight batteries providing a unique combination of high energy, long shelf life, wide operating temperature range and light weight. With their thin prismatic form and a high ratio of active materials to packaging, Thin Cell batteries can efficiently fill most battery cavities. We are currently marketing these batteries to OEMs for applications such as wearable medical devices, theft detection systems, and RFID devices.

Seawater-Activated Batteries. We produce a variety of seawater-activated batteries based on magnesium-silver chloride technology. Seawater-activated batteries are custom designed and manufactured to end user specifications. The batteries, which can be stored almost indefinitely, are activated when placed in salt water, which acts as the electrolyte allowing current to flow. We market seawater-activated batteries to naval and specialty OEMs for applications including sonobuoys, underwater defense systems, air-sea rescue equipment, airborne surveillance drones and meteorological radiosondes.

Rechargeable Products

In contrast to non-rechargeable batteries, after a rechargeable battery is discharged, it can be recharged and reused many times. Generally, discharge and recharge cycles can be repeated hundreds of times in rechargeable batteries, but the achievable number of cycles (cycle life) varies among technologies and is an important competitive factor. All rechargeable batteries experience a small, but measurable, loss in energy with each cycle. The industry commonly reports cycle life in the number of cycles a battery can achieve until 80% of the battery's initial energy capacity remains. In the rechargeable battery market, the principal competing technologies are nickel-cadmium, nickel-metal hydride, lithium-ion and lithium-polymer-based batteries. Rechargeable batteries can be used in many applications, such as military radios, laptop computers, mobile telephones, portable medical devices, wearable devices and many other commercial, military and consumer products.

Three important parameters for describing the performance characteristics of a rechargeable battery suited for today's portable electronic devices are design flexibility, energy density and cycle life. Design flexibility refers to the ability of rechargeable batteries to be designed to fit a variety of shapes and sizes of battery compartments. Thin profile batteries with prismatic geometry provide the design flexibility to fit the battery compartments of today's electronic devices. Energy density refers to the total electrical energy per unit volume stored in a battery. High energy density batteries generally are longer lasting power sources providing longer operating time and necessitating fewer battery recharges. Lithium batteries, by the nature of their electrochemical properties, are capable of providing higher energy density than comparably sized batteries that utilize other chemistries and, therefore, tend to consume less volume and weight for a given energy content. Long cycle life is a preferred feature of a rechargeable battery because it allows the user to charge and recharge many times before noticing a difference in performance.

Energy density refers to the total amount of electrical energy stored in a battery divided by the battery's weight and volume as measured in watt-hours per kilogram and watt-hours per liter, respectively. High energy density and long achievable cycle life are important characteristics for comparing rechargeable battery technologies. Greater energy density will permit the use of batteries of a given weight or volume for a longer time period. Accordingly, greater energy density will enable the use of smaller and lighter batteries with energy comparable to those currently marketed. Long achievable cycle life, particularly in combination with high energy density, is suitable for applications requiring frequent battery recharges, such as cellular telephones and portable computers.

Lithium Ion and Lithium Polymer Cells and Batteries. We offer a variety of lithium ion and lithium polymer cells and batteries. Additionally, we offer battery packs made from single and multiple lithium ion and lithium polymer cells. These products can be used in a wide variety of applications including communications, medical and other portable electronic devices.

Lead-Acid Batteries. We offer a variety of lead-acid batteries primarily for use in the design and installation of standby power systems. These products include standby batteries and uninterruptable power supplies for use in telecommunications, banking, aerospace and information services industries.

Battery Charging Systems and Accessories. To provide our customers with complete power system solutions, we offer a wide range of rugged military and commercial battery charging systems and accessories including smart chargers, multi-bay charging systems and a variety of cables.

Communications Systems

Our McDowell unit designs and manufactures power solutions and accessories to support military communications systems including power supplies, RF amplifiers, battery chargers, amplified speakers, equipment mounts, case equipment and integrated communication systems. We specialize in field deployable power systems, which operate from wide-ranging AC and DC sources using a basic building block approach, allowing for a quick response to specialized applications. We package all systems to meet specific customer needs in rugged enclosures to allow their use in severe environments.

We offer a wide range of military communications accessories designed to enhance and extend the operation of communications equipment such as vehicle-mounted, manpack and handheld transceivers. Our communications accessories include the following product configurations:

Integrated Systems. Our integrated systems include: SATCOM on the Move (SOTM); ruggedized deployable case systems; multiband transceiver kits and HF transceiver kits; briefcase power systems; dual transceiver cases; enroute communications cases; four radio cases; and tactical repeater systems. These systems give communications operators everything that is needed to provide reliable links to support C4I (Command, Control, Communications, Computers and Information systems).

Power Systems. Our power systems include: universal AC/DC power supplies with battery backup for tactical manpack and handheld transceivers; Rover III power supplies; interoperable power adapters and chargers; portable power systems; tactical combat and AC to DC power supplies for encryption units, among many others. We can provide power supplies for virtually all tactical communications devices.

RF Amplifiers. Our RF amplifiers include: 20 and 100-watt multiband (30 — 512 MHz) and 50 watt VHF RF (30 — 90 MHz) amplifiers. These amplifiers are used to extend the range of manpack and handheld tactical transceivers and can be used on mobile or fixed site applications.

Design and Installation Services

Our design and installation services focus on standby power system design, installation and maintenance, integrating communications equipment and power systems for maximum mobility and optimum customer utility. These include equipment installations in commercial, military and law enforcement application, including vehicles for satellite communications, engineering services, upgrading current fleet vehicles and integrated logistics and project management support.

Communications and Electronics. Our communications and electronics services include the design, integration, fielding and life cycle management of portable, mobile and fixed-site communications systems. Capabilities include engineering, rapid prototyping, systems integration and logistics support.

Standby Power. Our standby power services provide mission critical solutions to a broad range of applications in the telecommunications, aerospace, banking and information services industries involving the installation and preventive maintenance of standby power systems, uninterrupted power supply systems, DC power systems and switchgear/control systems.

Technology Contracts. Our technology contract activities involve the development of new products or the advancement of existing products through contracts with both government agencies and third parties.

Sales and Marketing

We employ a staff of sales and marketing personnel in North America, Europe and Asia. We sell our current products and services directly to commercial customers, including OEMs, as well as government and defense agencies in the U.S. and abroad and have contractual arrangements with sales agents who market our products on a commission basis in particular areas. While OEM agreements and contracts contain volume-based pricing based on expected volumes, industry practices dictate that pricing is rarely adjusted retroactively when contract volumes are not achieved. Every effort is made to adjust future prices accordingly, but the ability to adjust prices is generally based on market conditions.

We also distribute our products through domestic and international distributors and retailers. Our sales are generated primarily from customer purchase orders. We have several long-term contracts with the U.S. government and companies within the automotive industry. These contracts do not commit the customers to specific purchase volumes, nor to specific timing of purchase order releases, and they include fixed price agreements over various periods of time. We do not believe our sales are seasonal.

In 2007, sales to U.S. and non-U.S. customers were approximately $79,300 and $58,300, respectively. (See Note 10 in the Notes to Consolidated Financial Statements.)

Non-Rechargeable Products

We have targeted sales of our non-rechargeable products to manufacturers of security and safety equipment, automotive telematics, medical devices, search and rescue equipment, specialty instruments, point of sale equipment and metering applications, as well as users of military equipment. Our strategy is to develop sales and marketing alliances with OEMs and governmental agencies that utilize our batteries in their products, commit to cooperative research and development or marketing programs, and recommend our products for design-in or replacement use in their products. We are addressing these markets through direct contact by our sales and technical personnel, use of sales agents and stocking distributors, manufacturing under private label and promotional activities.

We seek to capture a significant market share for our products within our targeted OEM markets, which we believe, if successful, will result in increased product awareness and sales at the end-user or consumer level. We are also selling our 9-volt battery to the consumer market through retail distribution. Most military procurements are done directly by the specific government organizations requiring products, based on a competitive bidding process. For those military procurements that are not bid, the procurements are typically subject to an audit of the product's underlying cost structure and associated profitability. Additionally, we are typically required to successfully meet contractual specifications and to pass various qualification testing for the products under contract by the military. An inability by us to pass these tests in a timely fashion could have a material adverse effect on our business, financial condition and results of operations. When a government contract is awarded, there is a government procedure that allows for unsuccessful companies to formally protest the award if they believe they were unjustly treated in the government's bid evaluation process. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest could have a material adverse effect on our business, financial condition and results of operations.

During 2007, we had three major customers for our military products, the U.S. Department of Defense, the U.K. Ministry of Defence and Raytheon Company. Direct sales to the U.S. Department of Defense comprised approximately 14% of our revenue in 2007, 20% in 2006, and 25% in 2005. Direct sales to the U.K. Ministry of Defence comprised approximately 12% of our revenue in 2007, 7% in 2006, and 6% in 2005. Direct sales to Raytheon Company comprised approximately 13% of our revenue in 2007, 3% in 2006, and 1% in 2005. We believe that the loss of these customers could have a material adverse effect on us. We believe that we have a good relationship with these customers.

We have been successfully marketing our products to military organizations in the U.S. and other countries. These efforts have resulted in us winning significant contracts. For example, in December 2004, we were awarded 100% of the Next Gen II Phase IV battery production contracts by the U.S. Defense Department to provide five types of non-rechargeable lithium-manganese dioxide batteries to the U.S. Army. Combined, these batteries comprise what is called the Rectangular Lithium Manganese Dioxide Battery Group. The government awarded 60 percent to our U.S. operation and 40 percent to our U.K operation. The contract provides for order releases over a five-year period with a maximum potential value of up to $286,000. In January 2005, a competitor of ours filed a protest with the U.S. government of our award of the Next Gen II Phase IV contract with the U.S. military, and in April 2005 the protest was denied by the government, allowing us to proceed with the qualification process for the batteries under this contract. In January 2006, our BA-5390A battery with State of Charge Indicator, one of the five battery types under this contract, passed the qualification process, allowing for future orders of this approved battery. Ultimate orders under this contract are dependent upon the demand for these batteries by end users and inventory stocking strategies, among other things. Through December 31, 2007, we have received orders for deliveries under this contract totaling $15,900. In February 2005, we were awarded a five-year production contract by the U.S. Defense Department, with a maximum total potential of $15,000, to provide our BA-5347/U non-rechargeable lithium-manganese dioxide batteries to the U.S. military. The contract value represented 60 percent of a small business set-aside award. In March 2005, a competitor contested this award and in August 2005, the competitor's protest was denied. Production deliveries began in the first quarter of 2006.

At December 31, 2007 and 2006, our backlog of non-rechargeable products was approximately $15,300 and $15,700, respectively. The majority of the 2007 backlog was related to orders that are expected to ship throughout 2008.

Rechargeable Products

We have targeted sales of our rechargeable batteries and charging systems through OEM customers, as well as distributors and resellers focused on our target markets. We seek design wins with OEMs, and believe that our design capabilities, product characteristics and solution integration will drive OEMs to incorporate our batteries into their product offerings, resulting in revenue growth opportunities for us.

We continue to expand our marketing activities as part of our strategic plan to increase sales of our rechargeable products for commercial, military and communications applications, as well as hand-held devices, wearable devices and other electronic portable equipment. A key part of this expansion includes increasing our design and assembly capabilities as well as building our network of distributors and value added distributors throughout the world.

At December 31, 2007 and 2006, our backlog related to rechargeable products was approximately $7,500 and $5,900, respectively. The majority of the 2007 backlog was related to orders that are expected to ship throughout 2008.

Communications Systems

We have targeted sales of our communications systems, which include power solutions and accessories to support military communications systems such as battery chargers, power supplies, power cables, connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication systems, to military OEMs and military organizations including the U.S. Department of Defense. We sell our products directly and through authorized distributors to OEMs and to military organizations in the U.S. and internationally.

We have been successfully marketing our products to military organizations and OEMs in the U.S. and internationally. These efforts have recently resulted in a number of significant contracts for us. For example, in September 2007, we were awarded a $24,000 contract from Raytheon Company to produce and supply SATCOM-On-The-Move (SOTM) satellite communications systems for installation on Mine Resistant Ambush Protected (MRAP) armored vehicles. In December 2007, we received orders valued at $62,000 and $40,000, respectively, from a U.S. defense contractor to supply advanced communications systems.

At December 31, 2007 and 2006, our backlog related to communications systems orders was approximately $115,500 and $12,800, respectively. The majority of the 2007 backlog was related to orders that are expected to ship throughout 2008.

Design and Installation Services

We continue to expand our sales and marketing activities to increase sales of our design and installation services for communications electronics systems and standby power applications. We provide our services directly to military organizations, government agencies and commercial customers.

At December 31, 2007 and 2006, our backlog related to design and installation services was approximately $3,600 and $-0-, respectively. The majority of the 2007 backlog was related to services that are expected to be performed throughout 2008.

Patents, Trade Secrets and Trademarks

We rely on licenses of technology as well as our patented and unpatented proprietary information, know-how and trade secrets to maintain and develop our commercial position. Although we seek to protect our proprietary information, there can be no assurance that others will not either develop the same or similar information independently or obtain access to our proprietary information, despite our efforts to protect such proprietary information. In addition, there can be no assurance that we would prevail if we asserted our intellectual property rights against third parties, or that third parties will not successfully assert infringement claims against us in the future. We believe, however, that our success is more dependent on the knowledge, ability, experience and technological expertise of our employees, as opposed to the legal protection that our patents and other proprietary rights may or will afford.

We hold twelve patents in the U.S. and foreign countries. Our patents protect technology that makes automated production more cost-effective and protect important competitive features of our products. However, we do not consider our business to be dependent on patent protection.

In 2003, we entered into an agreement with Saft Groupe S.A. to license certain tooling for certain BA-5390 battery cases. The licensing fee associated with this agreement is essentially one dollar per battery case sold. The total royalty expense reflected in 2007 was $13. This agreement expires in the year 2017.

All of our employees in the U.S. and all our key employees involved with our technology in England and China are required to enter into agreements providing for confidentiality and the assignment of rights to inventions made by them while employed by us. These agreements also contain certain noncompetition and nonsolicitation provisions effective during the employment term and for varying periods thereafter depending on position and location. There can be no assurance that we will be able to enforce these agreements.

The following are registered trademarks or trademarks of ours: Ultralifeâ, Ultralife Thin Cellâ, Ultralife HiRateâ, Ultralife Polymerâ, The New Power GenerationÒ, LithiumPowerÒ, SmartCircuitÒ, PowerBugÒ, We Are PowerÒ, ABLEÔ, RedBlack™, Reserve Power Systems™, Stationary Power Systems™, McDowell Research®, Max Juice For More Gigs®, and Litron™.

Manufacturing and Raw Materials

We manufacture our products from raw materials and component parts that we purchase. We have ISO 9001:2000 certification for our manufacturing facilities in Newark, New York, Abingdon, England, and Shenzhen, China. In addition, our manufacturing facilities in Newark, New York and Shenzhen, China are ISO 14001 certified.

We expect that in the future, raw material purchases will fluctuate based on the timing of customer orders, the related need to build inventory in anticipation of orders and actual shipment dates.

Non-Rechargeable Products

Our Newark, New York facility has the capacity to produce in excess of nine million 9-volt batteries per year, approximately fourteen million cylindrical cells per year and approximately 500,000 thin cells per year. Our manufacturing facility in Abingdon, England is capable of producing more than two million cylindrical cells per year. This facility also manufactures seawater-activated batteries and assembles customized multi-cell battery packs. Capacity, however, is also related to individual operations and product mix changes can produce bottlenecks in an individual operation, constraining overall capacity. Our ABLE operating unit in Shenzhen, China is capable of producing more than three million cylindrical cells per year. We have acquired new machinery and equipment in areas where production bottlenecks have resulted in the past and believe that we have sufficient capacity in these areas. We continually evaluate our requirements for additional capital equipment, and we believe that the planned increases in our current manufacturing capacity will be adequate to meet foreseeable customer demand. However, with unanticipated growth in demand for our products, demand could exceed capacity, which would require us to install additional capital equipment to meet these incremental needs, which in turn may require us to lease or contract additional space to accommodate needs.

We utilize lithium foil as well as other metals and chemicals to manufacture our batteries. Although we know of only three major suppliers that extrude lithium into foil and provide such foil in the form required by us, we do not anticipate any shortage of lithium foil or any difficulty in obtaining the quantities we require. Certain materials used in our products are available only from a single source or a limited number of sources. Additionally, we may elect to develop relationships with a single or limited number of sources for materials that are otherwise generally available. Although we believe that alternative sources are available to supply materials that could replace materials we use and that, if necessary, we would be able to redesign our products to make use of an alternative product, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers. Although we have experienced interruptions of product deliveries by sole source suppliers, none of such interruptions has had a material adverse effect on us. All other raw materials utilized by us are readily available from many sources.

We use various utilities to provide heat, light and power to our facilities. As energy costs rise, we continue to seek ways to reduce these costs and will initiate energy-saving projects at times to assist in this effort. It is possible, however, that rising energy costs may have an adverse effect on our financial results.

The total carrying value of our non-rechargeable products inventory, including raw materials, work in process and finished goods, amounted to approximately $14,800 as of December 31, 2007.

Rechargeable Products

We believe that the raw materials and components utilized for our rechargeable batteries are readily available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Newark, New York facility has the capacity to produce significant volumes of rechargeable batteries, as this segment generally assembles battery packs and chargers and is limited only by physical space and is not constrained by manufacturing equipment capacity. In addition, our facility in Abingdon, England has the capacity to produce significant volumes of rechargeable batteries and chargers.

The total carrying value of our rechargeable products inventory, including raw materials, work in process and finished goods, amounted to approximately $11,500 as of December 31, 2007.

Communications Systems

In general, we believe that the raw materials and components utilized by us for our communications accessories and systems, including RF amplifiers, power supplies and integration kits, are available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

Our Newark, New York facility has the capacity to produce significant volumes of communication accessories, as this segment generally assembles products and is limited only by physical space and is not constrained by manufacturing equipment capacity.

Our Woodinville, Washington facility has the capacity to produce significant volumes of RF amplifiers, as this operation generally assembles products and is limited only by physical space and is not constrained by manufacturing equipment capacity.

The total carrying value of our communications systems inventory, including raw materials, work in process and finished goods, amounted to approximately $7,500 as of December 31, 2007.

Design and Installation Services

We believe that the raw materials and components utilized for our standby power installations are readily available from many sources. Although we believe that alternative sources are available to supply materials that could replace materials we use, any interruption in our supply from any supplier that serves currently as our sole source could delay product shipments and adversely affect our financial performance and relationships with our customers.

The total carrying value of our design and installation services inventory, including raw materials, work in process and finished goods, amounted to approximately $1,300 as of December 31, 2007.

Research and Development

We concentrate significant resources on research and development activities to improve upon our technological capabilities and to design new products for customers' applications. We conduct our research and development in Newark, New York, Shenzhen, China and Woodinville, Washington. During 2007, 2006 and 2005 we expended approximately $7,000, $5,100 and $3,800, respectively, on research and development. We expect that research and development expenditures in the future will be modestly higher than those in 2007, as new product development initiatives will drive our growth. As in the past, we will continue to make funding decisions for our research and development efforts based upon strategic demand for customer applications.

Non-Rechargeable Products

We continue to develop non-rechargeable cells that broaden our product offering to our customers.

Rechargeable Products

The rechargeable product portfolio continues to grow as our customers' needs continue to grow for portable power. We support these needs through designing rechargeable batteries and charging solutions.

Communications Systems

In 2006, we acquired McDowell, which provides a variety of communications accessories to the military market. We have redesigned a number of McDowell's products to meet the ever-changing customer demands. There has been a significant emphasis to add a line of amplifiers to support the customers' requirements.

Design and Installation Services

The U.S. government sponsors research and development programs designed to improve the performance and safety of existing battery systems and to develop new battery systems. In 2003, we were awarded the initial phase of a government-sponsored contract for battery charging systems. We successfully completed the contract during 2003. In

December 2003, we were awarded a Small Business Innovative Research (SBIR) contract for the development of a polymer battery. The development phase of this contract was completed in mid-2004.

In addition, we work to receive contracts with military contractors and commercial customers. For example, in February 2004, we announced that we received a development contract from General Dynamics valued at approximately $2,700. The contract was for lithium non-rechargeable and lithium ion rechargeable batteries, as well as vehicle and soldier-based chargers for the Land Warrior-Stryker Interoperable (LW-SI) program. In 2005, we received an added scope award of this project, increasing the total project to approximately $4,000. Additionally, purchase orders have been received for the products developed under this contract as the batteries have become commercialized. In 2005, we were awarded various development contracts, including the development of a rechargeable battery for a portable radio. In 2006, we completed the General Dynamics contract work and were awarded several small development contracts for rechargeable product development and new generation high-powered cells.

In January 2008, we entered into a technology partnership with Mississippi State University (“MSU”) to develop fuel cell-battery portable power systems enabling lightweight, long endurance military missions. The development of this power system is to be performed under a $1,600 program that was awarded by a U.S. Defense Department agency to MSU as the prime contractor. MSU has awarded us a $475 contract to participate in this program as a subcontractor. Under the contract, we will oversee the development, testing, approval and manufacturing of prototypes of a new compact military battery to be used with handheld tactical radios, building on its ongoing development work under the Land Warrior System Stryker Interoperable Program. In addition, we are establishing a development and assembly operation in a 14,000 square-foot facility located in West Point, Mississippi to manufacture products coming out of the technology partnership and other of our products. We plan to commence operations in the first half of 2008.

Safety; Regulatory Matters; Environmental Considerations

Certain of the materials utilized in our batteries may pose safety problems if improperly used. We have designed our batteries to minimize safety hazards both in manufacturing and use.

The transportation of non-rechargeable and rechargeable lithium batteries is regulated by the International Civil Aviation Organization (“ICAO”) and corresponding International Air Transport Association (“IATA”) Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (“IMDG”), and in the U.S. by the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (“PHMSA”). These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to ICAO, IATA and PHMSA hazardous goods regulations. New regulations that pertain to all lithium battery manufacturers went into effect in January 2008, and additional regulations will go into effect in 2009 and 2010. The regulations require companies to meet certain testing, packaging, labeling and shipping specifications for safety reasons. We have not incurred, and do not expect to incur, any significant costs in order to comply with these regulations. We comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we are unable to comply with the new regulations, however, or if regulations are introduced that limit our ability to transport our products to customers in a cost-effective manner, this could have a material adverse effect on our business, financial condition and results of operations. Our RPS lead acid products have been tested and have been deemed to meet all requirements as specified in 49CFR 173.159 (d) for exception as hazardous material classification. Our RPS lead acid batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of “Non-Spillable” and are not subject to the provision of 49CFR 173.159 (d).

The European Union’s Restriction of Hazardous Substances (“RoHS”) Directive places restrictions on the use of certain hazardous substances in electrical and electronic equipment. All applicable products sold in the European Union market after July 1, 2006 must pass RoHS compliance. While this directive does not apply to batteries and does not currently affect our military products, should any changes occur in the directive that would affect our products, we intend and expect to comply with any new regulations that are imposed. Our commercial chargers are in compliance with this directive. Additional European Union Directives, entitled the Waste Electrical and Electronic Equipment (“WEEE”) Directive and the Directive on Batteries and Accumulators and Waste Batteries and Accumulators, impose regulations affecting our non-military products. These directives require that producers or importers of particular classes of electrical goods are financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. These directives assign levels of responsibility to companies doing business in European Union markets based on their relative market share. These directives call on each European Union member state to enact enabling legislation to implement the directive. As additional European Union member states pass enabling legislation our compliance system should be sufficient to meet such requirements. Our current estimated costs associated with our compliance with these directives based on our current market share are not significant. However, we continue to evaluate the impact of these directives as European Union member states implement guidance, and actual costs could differ from our current estimates.

China's "Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation" ("China RoHS") provides a two-step, broad regulatory framework including similar hazardous substance restrictions as are imposed by the European Union's RoHS Directive, and apply to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products ("EIP") in China affecting a broad range of electronic products and parts, with an implementation date of March 1, 2007. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 ("Marking Standard"), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEM's for use in other EIP. Our sales in China are limited to sales to OEM's and to distributors who supply to OEM's. Should our sales strategy change to include direct sales to end-users, our compliance system is sufficient to meet our requirements under China RoHS. Our current estimated costs associated with our compliance with this regulation based on our current market share are not significant. However, we continue to evaluate the impact of this regulation, and actual costs could differ from our current estimates.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. Although we believe that our operations are in substantial compliance with current environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed or how these regulations will affect us or our customers, that could have a material adverse effect on our business, financial condition and results of operations. In 2007, we spent approximately $327 on environmental controls, including costs to properly dispose of potentially hazardous waste.

Since non-rechargeable and rechargeable lithium battery chemistries react adversely with water and water vapor, certain of our manufacturing processes must be performed in a controlled environment with low relative humidity. Our Newark, New York and UK facilities contain dry rooms as well as specialized air-drying equipment.

Non-Rechargeable Products

Our non-rechargeable battery products incorporate lithium metal, which reacts with water and may cause fires if not handled properly. In the past, we have experienced fires that have temporarily interrupted certain manufacturing operations. We believe that we have adequate fire insurance, including business interruption insurance, to protect against fire losses in our facilities.

Our 9-volt battery, among other sizes, is designed to conform to the dimensional and electrical standards of the American National Standards Institute, and the 9-volt battery and a range of 3-volt cells are recognized under the Underwriters Laboratories, Inc. Component Recognition Program.

Rechargeable Products

We are not currently aware of any regulatory requirements regarding the disposal of lithium polymer or lithium ion rechargeable cells and batteries.

Our lead acid batteries are recovered from our customers and delivered to a permitted lead smelter for reclamation following applicable federal, state and local regulations.

Communications Systems

We are not currently aware of any other regulatory requirements regarding the disposal of communications accessories.

Design and Installation Services

Our RPS lead acid products have been tested and have been deemed to meet all requirements as specified in 49CFR 173.159 (d) for exception as hazardous material classification. Our RPS batteries have been tested and have been deemed to meet all requirements as specified in the special provision 238 for determination of "Non-Spillable" and are not subject to the provision of 49CFR 173.159 (d).

Corporate

Please refer to the description of the environmental remediation for our Newark, New York facility set forth in Item 3, Legal Proceedings of this report.

Competition

Competition in the battery and communications systems markets is, and is expected to remain, intense. The competition ranges from development stage companies to major domestic and international companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. We compete against companies producing batteries as well as those offering standby power installation services, and companies producing communications systems, design and installation services. We compete on the basis of design flexibility, performance and reliability. There can be no assurance that our technology and products will not be rendered obsolete by developments in competing technologies that are currently under development or that may be developed in the future or that our competitors will not market competing products that obtain market acceptance more rapidly than ours.

Historically, although other entities may attempt to take advantage of the growth of the battery market, the lithium battery industry has certain technological and economic barriers to entry. The development of technology, equipment and manufacturing techniques and the operation of a facility for the automated production of lithium batteries require large capital expenditures, which may deter new entrants from commencing production. Through our experience in battery manufacturing, we have also developed expertise, which we believe would be difficult to reproduce without substantial time and expense in the non-rechargeable battery market.

Competition in the standby power market is concentrated among a number of suppliers and installers ranging from small distributors who purchase, resell and install products manufactured by others to major battery and power supply manufacturers, which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of ours. We compete on the basis of product and installation design, functionality, flexibility, performance and reliability. There can be no assurance that our technology and products will not be rendered obsolete by developments in competing technologies that are currently under development or that may be developed in the future or that our competitors will not market competing products that obtain market acceptance more rapidly than ours.

Employees

As of February 2, 2008, we employed a total of 1,092 permanent and temporary employees: 76 in research and development, 909 in production and 107 in sales and administration. Of the total, 745 are employed in the U.S., 53 in Europe and 294 in Asia. None of our employees is represented by a labor union. We consider our employee relations to be satisfactory.

ITEM 1A. RISK FACTORS

A decline in demand for products or services using our batteries or communications systems could reduce demand for our products or services.

A substantial portion of our business depends on the continued demand for products or services using our batteries and communications systems sold by our customers, including OEM's. Our success depends significantly upon the success of those customers' products or services in the marketplace. We are subject to many risks beyond our control that influence the success or failure of a particular product or service offered by a customer, including:

- competition faced by the customer in its particular industry,
- market acceptance of the customer's product or service,
- the engineering, sales, marketing and management capabilities of the customer,
- technical challenges unrelated to our technology or products faced by the customer in developing its products or services, and
- the financial and other resources of the customer.

For instance, in the years ended December 31, 2005, 2006, 2007, 32%, 27% and 17% of our revenues, respectively, were comprised of sales of our 9-volt batteries, and of this, approximately 21%, 47% and 41%, respectively, pertained to sales to smoke alarm OEMs. If the retail demand for long-life smoke alarms decreases significantly, this could have a material adverse effect on our business, financial condition and results of operations.

Our customers may not meet the volume requirements in our supply agreements.

We sell most of our products and services through supply agreements and contracts. While supply agreements and contracts contain volume-based pricing based on expected volumes, industry practices dictate that pricing is rarely adjusted retroactively when contract volumes are not achieved. Every effort is made to adjust future prices accordingly, but the ability to adjust prices is generally based on market conditions.

Our growth and expansion strategy could strain or overwhelm our resources.

Rapid growth of our business could significantly strain management, operations and technical resources. If we are successful in obtaining rapid market growth of our products and services, we will be required to deliver large volumes of quality products and increased levels of services to customers on a timely basis at a reasonable cost to those customers. For example, the large contracts received from the U.S. military for our batteries using cylindrical cells could strain the current capacity capabilities of our manufacturing facilities and require additional equipment and time to build a sufficient support infrastructure. This demand could also create working capital issues for us, as we may need increased liquidity to fund purchases of raw materials and supplies. We cannot assure, however, that business will grow rapidly or that our efforts to expand manufacturing and quality control activities will be successful or that we will be able to satisfy commercial scale production requirements on a timely and cost-effective basis.

We have a strategy to grow our business through the acquisition of complementary businesses or through business partnerships, for example joint ventures, in addition to organic growth. Our inability to acquire such businesses, or increased competition for such businesses which could increase our acquisition costs, could adversely affect our growth strategy and results of operations. In addition, our inability to improve the operating margins of businesses we acquire or operate such acquired businesses profitably or to effectively integrate the operations of those acquired businesses could also adversely affect our business, financial condition and results of operations.

In 2006 we acquired McDowell and ABLE, and in 2007 we acquired ISC, SPS and RPS, which added new facilities and operations to our overall business. We experienced some initial operational challenges at McDowell that required a greater amount of management's time to resolve than we expected. The integration of recent, and future, acquisitions could place an increased burden on our management team which could adversely impact our ability to effectively manage these businesses.

We also will be required to continue to improve our operations, management and financial systems and controls in order to remain competitive. The failure to manage growth and expansion effectively could have an adverse effect on our business, financial condition, and results of operations.

Our acquisitions and business partnerships may not result in the revenue growth and profitability that we expect. In addition, we may not be able to successfully integrate our acquisitions.

We are integrating our acquisitions into our business and assimilating their operations, services, products and personnel with our management policies, procedures and strategies. We cannot be sure that we will achieve the benefits of revenue growth and profitability that we expect from these acquisitions or that we will not incur unforeseen additional costs or expenses in connection with the integration of these acquisitions. To effectively manage our expected growth, we must continue to successfully manage our integration of these companies and continue to improve our operational and information technology systems, internal procedures, accounts receivable and management, financial and operational controls to accommodate these acquisitions. If we fail in any of these areas, our business could be adversely affected.

The U.S. and foreign governments can audit our contracts with their respective military and government agencies and, under certain circumstances, can adjust the economic terms of those contracts.

A significant portion of our business comes from sales of products and services to the U.S. and foreign governments through various contracts. These contracts are subject to procurement laws and regulations that lay out policies and procedures for acquiring goods and services. The regulations also contain guidelines for managing contracts after they are awarded, including conditions under which contracts may be terminated, in whole or in part, at the government's convenience or for default. Failure to comply with the procurement laws or regulations can result in civil, criminal or administrative proceedings involving fines, penalties, suspension of payments, or suspension or disbarment from government contracting or subcontracting for a period of time.

We have had certain "exigent", non-bid contracts with the U.S. government that have been subject to an audit and final price adjustment and have resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2007, 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. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. 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 are cooperating with the DoD IG inquiry and have furnished the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DoD IG inquiry, could have an adverse effect on our business, financial condition and results of operation.

We are subject to the contract rules and procedures of the U.S. and foreign governments. These rules and procedures create significant risks and uncertainties for us that are not usually present in contracts with private parties.

We will continue to develop battery products, communications systems and services to meet the needs of the U.S. and foreign governments. We compete in solicitations for awards of contracts. The receipt of an award, however, does not usually result in the immediate release of an order and does not guarantee in any way any given volume of orders. Any delay of solicitations or anticipated purchase orders by, or future failure of, the U.S. or foreign governments to purchase products manufactured by us could have a material adverse effect on our business, financial condition and results of operations. Additionally, in these scenarios we are typically required to successfully meet contractual specifications and to pass various qualification-testing for the products under contract. Our inability to pass these tests in a timely fashion, as well as meet delivery schedules for orders released under contract, could have a material adverse effect on our business, financial condition and results of operations.

When a government contract is awarded, there is a government procedure that permits unsuccessful companies to formally protest such award if they believe they were unjustly treated in the evaluation process. As a result of these protests, the government is precluded from proceeding under these contracts until the protests are resolved. A prolonged delay in the resolution of a protest, or a reversal of an award resulting from such a protest could have a material adverse effect on our business, financial condition and results of operations.

A significant portion of our revenues is derived from certain key customers.

A significant portion of our revenues is derived from contracts with the U.S. and foreign militaries or OEMs that supply the U.S. and foreign militaries. In the years ended December 31, 2005, 2006 and 2007, approximately 45%, 47%, and 67% respectively, of our revenues were comprised of sales made directly or indirectly to the U.S. and foreign militaries. We have three major customers: the U.S. Department of Defense, that comprised 25%, 20%, and 14% of our revenue in the years ended December 31, 2005, 2006 and 2007, respectively; the U.K. Ministry of Defence, that comprised 6%, 7%, and 12% of our revenue in the years ended December 31, 2005, 2006 and 2007, respectively; and Raytheon Company, that comprised 1%, 3%, and 13% of our revenue in the years ended December 31, 2005, 2006 and 2007, respectively. There were no other customers that comprised greater than 10% of our total revenues in those years. While sales to these customers were substantial during 2007, we do not consider these customers to be significant credit risks. Government decisions regarding military deployment and budget allocations to fund military operations may have an impact on the demand for our products and services. If the demand for products and services from the U.S. or foreign militaries were to decrease significantly, this could have a material adverse effect on our business, financial condition and results of operations.

We generally do not distribute our products to a concentrated geographical area nor is there a significant concentration of credit risks arising from individuals or groups of customers engaged in similar activities, or who have similar economic characteristics. Two customers comprised 42% of our trade accounts receivables as of December 31, 2007. There were no other customers that comprised greater than 10% of our total trade accounts receivables as of December 31, 2007. One customer comprised 22% of our total trade accounts receivables as of December 31, 2006. There were no other customers that comprised greater than 10% of our total trade accounts receivables as of December 31, 2006. We do not normally obtain collateral on trade accounts receivable.

Our efforts to develop new commercial applications for our products could fail.

Although we are involved with developing certain products for new commercial applications, we cannot assure that volume acceptance of our products will occur due to the highly competitive nature of the business. There are many new product and technology entrants into the marketplace, and we must continually reassess the market segments in which our products can be successful and seek to engage customers in these segments that will adopt our products for use in their products. In addition, these companies must be successful with their products in their markets for us to gain increased business. Increased competition, failure to gain customer acceptance of products, the introduction of competitive technologies or failure of our customers in their markets could have a further adverse effect on our business.

We may incur significant costs because of the warranties we supply with our products.

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 systems products, we typically offer up to a four-year warranty. We also offer a 10-year warranty on our 9-volt batteries that are used in ionization-type smoke alarms. 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 will be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

We are subject to certain safety risks, including the risk of fire, inherent in the manufacture and use of lithium batteries.

Due to the high energy inherent in lithium batteries, our lithium batteries can pose certain safety risks, including the risk of fire. We incorporate procedures in research, development, product design, manufacturing processes and the transportation of lithium batteries that are intended to minimize safety risks, but we cannot assure that accidents will not occur or that our products will not be subject to recall for safety concerns. Although we currently carry insurance policies which cover loss of the plant and machinery, leasehold improvements, inventory and business interruption, any accident, whether at the manufacturing facilities or from the use of the products, may result in significant production delays or claims for damages resulting from injuries. While we maintain what we believe to be sufficient casualty liability coverage to protect against such occurrences, these types of losses could have a material adverse effect on our business, financial condition and results of operation.

We may incur significant costs because of known and unknown environmental matters.

National, state and local laws impose various environmental controls on the manufacture, transportation, storage, use and disposal of batteries and of certain chemicals used in the manufacture of batteries. Although we believe that our operations are in substantial compliance with current environmental regulations and that, except as noted below, there are no environmental conditions that will require material expenditures for clean-up at our present or former facilities or at facilities to which we have sent waste for disposal, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. There can be no assurance that additional or modified regulations relating to the manufacture, transportation, storage, use and disposal of materials used to manufacture our batteries or restricting disposal of batteries will not be imposed or how these regulations will affect us or our customers, that could have a material adverse effect on our business, financial condition and results of operations.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provides us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We have submitted various work plans to the New York State Department of Environmental Conservation (“NYSDEC”) regarding further environmental testing and sampling in order to determine the scope of any additional remediation. We subsequently met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigative work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007, and a meeting with the NYSDEC and the New York State Department of Health (“NYSDOH”) took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007 and we are awaiting the results of the work from our environmental consulting firm. The results of the additional investigation requested by the NYSDEC may increase the estimated remediation costs modestly. At December 31, 2007, we have reserved $85 for this matter. The ultimate resolution of this matter may result in us incurring costs in excess of what we have reserved.

The future regulatory direction of the European Union’s Restriction of Hazardous Substances (“RoHS”) and Waste Electrical and Electronic Equipment (“WEEE”) Directives, as they pertain to our products, is uncertain. Their potential impact to our business would become material if battery packs were to be included in new guidelines and we were unable to procure materials in a timely manner. Other associated risks related to these directives include excess inventory risk due to a write off of non- compliant inventory. We continue to monitor the regulatory activity of the European Union to ascertain such risks.

China’s “Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation” (“China RoHS”) provides a two-step, broad regulatory framework, including similar hazardous substance restrictions as are imposed by the European Union’s RoHS Directive, and apply to methods for the control and reduction of pollution and other public hazards to the environment caused during the production, sale, and import of electronic information products (“EIP”) in China affecting a broad range of electronic products and parts, with an implementation date of March 1, 2007. Currently, only the first step of the regulatory framework of China RoHS, which details marking and labeling requirements under Standard SJT11364-2006 (“Marking Standard”), is in effect. However, the methods under China RoHS only apply to EIP placed in the marketplace in China. Additionally, the Marking Standard does not apply to components sold to OEMs for use in other EIP. Our sales in China are limited to sales to OEMs and to distributors who supply to OEMs. Should our sales strategy change to include direct sales to end-users, our compliance system is sufficient to meet our requirements under China RoHS. Our current estimated costs associated with our compliance with this regulation based on our current market share and strategy are not significant. However, we continue to evaluate the impact of China RoHS, and actual costs could differ from our current estimates.

Any inability to comply with changes to the regulations for the shipment of our products could limit our ability to transport our products to customers in a cost-effective manner.

The transportation of non-rechargeable and rechargeable lithium batteries is regulated by the International Civil Aviation Organization (“ICAO”) and corresponding International Air Transport Association (“IATA”) Dangerous Goods Regulations and the International Maritime Dangerous Goods Code (“IMDG”) and in the U.S. by the Department of Transportation’s Pipeline and Hazardous Materials Safety Administration (“PHMSA”). These regulations are based on the United Nations Recommendations on the Transport of Dangerous Goods Model Regulations and the United Nations Manual of Tests and Criteria. We currently ship our products pursuant to ICAO, IATA and PHMSA hazardous goods regulations. New regulations that pertain to all lithium battery manufacturers went into effect in January 2008, and additional regulations will go into effect in 2009 and 2010. The regulations require companies to meet certain testing, packaging, labeling and shipping specifications for safety reasons. We comply with all current U.S. and international regulations for the shipment of our products, and we intend and expect to comply with any new regulations that are imposed. We have established our own testing facilities to ensure that we comply with these regulations. If we are unable to comply with the new regulations, however, or if regulations are introduced that limit our ability to transport our products to customers in a cost-effective manner, this could have a material adverse effect on our business, financial condition and results of operations.

Our supply of raw materials and components could be disrupted.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Due to our involvement with supplying military products to the government, we could receive a government preference to continue to obtain critical supplies to meet military production needs. However, if the government did not provide us with a government preference in such circumstances, the difficulty in obtaining supplies could have a material adverse effect on our business, financial condition and results of operations. Although we believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past, and we cannot guarantee that we will not experience a material interruption of product deliveries from sole source suppliers in the future. Additionally, we could face increasing pricing pressure from our suppliers dependent upon volume, due to rising costs by these suppliers that could be passed on to us in higher prices for our raw materials, which could have a material effect on our business, financial condition and results of operations.

Any inability to protect our proprietary and intellectual property could allow our competitors and others to produce competing products based on our proprietary and intellectual property.

Our success depends more on the knowledge, ability, experience and technological expertise of our employees than on the legal protection of patents and other proprietary rights. We claim proprietary rights in various unpatented technologies, know-how, trade secrets and trademarks relating to products and manufacturing processes. We cannot guarantee the degree of protection these various claims may or will afford, or that competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. We protect our proprietary rights in our products and operations through contractual obligations, including nondisclosure agreements with certain employees, customers, consultants and strategic partners. There can be no assurance as to the degree of protection these contractual measures may or will afford. We have had patents issued and have patent applications pending in the U.S. and elsewhere. We cannot assure (1) that patents will be issued from any pending applications, or that the claims allowed under any patents will be sufficiently broad to protect our technology, (2) that any patents issued to us will not be challenged, invalidated or circumvented, or (3) as to the degree or adequacy of protection any patents or patent applications may or will afford. If we are found to be infringing third party patents, there can be no assurance that we will be able to obtain licenses with respect to such patents on acceptable terms, if at all. The failure to obtain necessary licenses could delay product shipment or the introduction of new products, and costly attempts to design around such patents could foreclose the development, manufacture or sale of products.

The loss of key personnel could significantly harm our business, and the ability and technical competence of persons we hire will be critical to the success of our business.

Because of the specialized, technical nature of our business, we are highly dependent on certain members of our management, marketing, engineering and technical staff. The loss of these employees could have a material adverse effect on our business, financial condition and results of operations. In addition to developing manufacturing capacity to produce high volumes of batteries, we must attract, recruit and retain a sizeable workforce of technically competent employees. Our ability to pursue effectively our business strategy will depend upon, among other factors, the successful recruitment and retention of additional highly skilled and experienced managerial, marketing, engineering and technical personnel, and the integration of such personnel obtained through business acquisitions. We cannot assure that we will be able to retain or recruit this type of personnel. An inability to hire sufficient numbers of people or to find people with the desired skills could result in greater demands being placed on limited management resources which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to competition from other manufacturers and suppliers of portable and standby batteries, communications systems and services.

We compete with other manufacturers and suppliers of non-rechargeable and rechargeable portable and standby batteries, communications systems and services. We cannot assure that we will successfully compete with these manufacturers and suppliers, many of which have substantially greater financial, technical, manufacturing, distribution, marketing, sales and other resources.

Our products could become obsolete.

The market for our products is characterized by changing technology and evolving industry standards, often resulting in product obsolescence or short product lifecycles. Although we believe that our products are comprised of state-of-the-art technology, there can be no assurance that competitors will not develop technologies or products that would render our technologies and products obsolete or less marketable.

Many of the companies with which we compete have substantially greater resources than us, and some have the capacity and volume of business to be able to produce their products more efficiently than we can at the present time. In addition, these companies are developing or have developed products using a variety of technologies that are expected to compete with our technologies. If these companies successfully market their products in a manner that renders our technologies obsolete, there will be a material adverse effect on our business, financial condition and results of operations.

We are subject to foreign currency fluctuations.

We maintain manufacturing operations in the North America, Europe and Asia, and we export products to various countries. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. In addition, our foreign subsidiaries maintain their books in local currency, and the translation of those subsidiary financial statements into U.S. dollars for our consolidated financial statements could have an adverse effect on our consolidated financial results, due to changes in local currency relative to the U.S. dollar. Accordingly, currency fluctuations could have a material adverse effect on our business, financial condition and results of operations.

Our ability to use our Net Operating Loss Carryforwards in the future may be limited, which could have an adverse impact on our tax liabilities.

At December 31, 2007, we had approximately $83,700 of net operating loss carryforwards, or NOLs, available to offset future taxable income. We continually assess the carrying value of this asset based on the relevant accounting standards. As of December 31, 2007, we reflected a full valuation allowance against our net deferred tax asset and have reflected a net deferred tax asset of $0 in the United States and in the United Kingdom due to our current assessment that it is more likely than not to not be realized. As we continue to assess the realizability of our deferred tax assets, the amount of the valuation allowance could be reduced. 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. Achieving our business plan targets, particularly those relating to revenue and profitability, is integral to our assessment regarding the recoverability of our net deferred tax asset.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, has occurred. As such, the domestic net operating loss carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000. This limitation did not have an impact on income taxes determined for 2007. Such a limitation could result in the possibility of a cash outlay for income taxes in a future year when earnings exceed the amount of net operating loss carryforwards that can be used by us.

Our quarterly and annual results and the price of our common stock could fluctuate significantly.

Our future operating results may vary significantly from quarter to quarter and from year to year depending on factors such as the timing and shipment of significant orders, new product introductions, delays in customer releases of purchase orders, delays in receiving raw materials from vendors, the mix of distribution channels through which we sell our products and services and general economic conditions. Frequently, a substantial portion of our revenue in each quarter is generated from orders booked and fulfilled during that quarter. As a result, revenue levels are difficult to predict for each quarter. If revenue results are below expectations, operating results will be adversely affected as we have a sizeable base of fixed overhead costs that do not fluctuate much with the changes in revenue. Due to such variances in operating results, we have sometimes failed to meet, and in the future may not meet, market expectations or even our own guidance regarding our future operating results.

In addition to the uncertainties of quarterly and annual operating results, future announcements concerning us or our competitors, including technological innovations or commercial products, litigation or public concerns as to the safety or commercial value of one or more of our products may cause the market price of our common stock to fluctuate substantially for reasons which may be unrelated to our operating results. These fluctuations, as well as general economic, political and market conditions, may have a material adverse effect on the market price of our common stock.

We may be unable to obtain financing to fund ongoing operations and future growth.

While we believe that our revenue growth projections and our ongoing cost controls will allow us to generate cash and achieve profitability in the foreseeable future, there is no assurance as to when or if we will be able to achieve our projections. Our future cash flows from operations, combined with our accessibility to cash and credit, may not be sufficient to allow us to finance ongoing operations or to make required investments for future growth. In addition, recent significant orders have required us to ramp up our supply chain quickly, and this will result in a need for additional working capital. We may need to seek additional credit or access capital markets for additional funds. There is no assurance that we would be successful in this regard.

We have certain debt covenants that must be maintained in accordance with the provisions of our credit facility. There is no assurance that we will be able to continue to meet these debt covenants in the future. If we default on any of our debt covenants and we are unable to renegotiate credit terms in order to comply with such covenants, this could have a material adverse effect on our business, financial condition and results of operations.

While we believe relations with our lenders are good and have received waivers as necessary in the past, there can be no assurance that such waivers will always be obtained when needed. In such case, we believe we have, in the aggregate, sufficient cash, cash generation capabilities from operations, working capital and financing alternatives at our disposal, including but not limited to alternative borrowing arrangements and other available lenders, to fund operations in the normal course for the foreseeable future. If we are unable to achieve our plans or unforeseen events occur, we may need to implement alternative plans to provide us with sufficient levels of liquidity and working capital. While we believe we could complete our original plans or alternative plans, if necessary, there can be no assurance that such alternatives would be available on acceptable terms and conditions or that we would be successful in our implementation of such plans.

The re-payment of the debt outstanding under our credit facility and the vesting of options under certain of our equity compensation plans may both be accelerated if any single shareholder owns more than 30% of our stock. Currently, our largest shareholder owns in excess of 25% of our stock.

Our largest single shareholder is Grace Brothers, Ltd., which, as of its most recent Schedule 13D/A filing, beneficially owned 26.3% of our issued and outstanding shares of common stock. On June 6, 2007, Mr. Bradford T. Whitmore, general partner of Grace Brothers, Ltd., became a member of our Board of Directors. If Grace Brothers, Ltd. were to increase its ownership to more than 30%, it would be deemed a “change in control” for purposes of our credit facility administered by JP Morgan Chase and for purposes of options granted under our 2004 Amended and Restated Long Term Incentive Plan, or LTIP. If a “change in control” were to occur, our commercial lenders would be able to demand payment of all amounts outstanding under our existing credit facility and the vesting of all outstanding options granted under our LTIP would be accelerated resulting in a significant expense being charged against our income for the period during which the “change in control” occurred, all of which would have a material, adverse effect on our business, financial condition and results of operations.

Our operations in China are subject to unique risks and uncertainties.

Our operating facility in China presents risks including, but not limited to, political changes, civil unrest, labor disputes, currency restrictions and changes in currency exchange rates, taxes, duties, import and export laws and boycotts and other civil disturbances that are outside of our control. Any such disruptions could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to adequately maintain and monitor our internal controls over financial reporting.

We maintain and monitor various internal control processes over our financial reporting. Whenever we acquire a new business or operations, we need to integrate those operations with our existing control processes, which can prove to be a challenge if the acquired business had not been required to have such controls in effect. We are in the process of integrating our recently acquired companies into our business and assimilating their operations, services, products and personnel with our management policies, procedures and strategies. While we work to ensure a stringent control environment, it is possible that we may fail to adequately maintain and monitor our various internal control processes over our financial reporting. Any such failure could result in internal control deficiencies that might be considered to be material weaknesses. Such material weaknesses in internal controls would be indicative of potential factors that affect the reliability of our financial statements and other reported financial information and impact the financial results we report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2007, we own two buildings in Newark, New York comprising approximately 250,000 square feet. In February 1998, we entered into a lease/purchase agreement with the local county authority with respect to our 110,000 square foot manufacturing building in Newark, New York, the adjacent building of approximately 140,000 square feet and approximately 65 acres of contiguous land. Pursuant to the lease, we delivered a down payment in the amount of $440 and paid the local governmental authority annual installments in the amount of $50 through December 2001 decreasing to approximately $30 annually for the periods commencing December 2001 and ending December 2007. Upon expiration of the lease in December 2007, we took ownership of the facility. In addition, we lease approximately 35,000 square feet in a facility based in Abingdon, England. We lease approximately 19,900 square feet in a facility located in Waco, Texas. We lease approximately 130,000 square feet in four buildings in Shenzhen, China. We lease approximately 14,000 square feet in a facility located in West Point, Mississippi. We lease approximately 7,200 square feet in a facility located in Woodinville, Washington. We lease 12,614 square feet in a facility located in Clearwater, Florida. We lease approximately 2,650 square feet in a facility located in Alpharetta, Georgia. We lease approximately 15,000 square feet in Hollywood, Maryland. All locations, with the exception of the Alpharetta, Georgia location, consist of administrative offices, manufacturing and production facilities and an engineering department. The Alpharetta location consists of a warehouse and administrative offices. The Shenzhen location includes dormitory facilities. Our research and development efforts for our battery products are conducted at our Newark, New York and Shenzhen, China facilities, while our research and development efforts for our communications accessories are conducted at our Newark facility and our research and development efforts for our amplifier products are conducted at our Woodinville facility. Our corporate headquarters are located in the Newark facility. We believe that our facilities are adequate and suitable for our current needs. However, we may require additional manufacturing space if demand for our products continues to grow.

We lease a facility in Abingdon, England. The term of the lease was extended and continues until March 24, 2013. It currently has an annual rent of GBP163 (approximately $325 as of December 31, 2007) and is subject to review every five years based on current real estate market conditions. The next five-year review is scheduled for March 2009.

We currently lease one building in Waco, Texas, from a former related party. The lease term is month to month and has a base monthly rent of $10.

We lease four buildings in an industrial park in Shenzhen, China. The lease term expires on January 31, 2009. The lease has a base monthly rent of RMB132 (approximately $18 as of December 31, 2007). Under the terms of the lease, we have a right of first refusal to purchase the premises described in the lease from the landlord.

We lease a facility in West Point, Mississippi. The lease term commences on the completion of the renovation work, which is currently expected to occur in the second quarter of 2008 and shall continue for a period of three years. The lease has a base annual rent of approximately $57. Under the terms of the lease, we have the right to extend the lease for three additional one-year terms at our discretion.

We lease a facility in Woodinville, Washington. The lease term commenced on December 1, 2007 and expires on November 30, 2010. The lease has a base monthly rent of approximately $6 for months 1-12, approximately $7 for months 13-24 and approximately $7 for months 25-36. In addition to the base monthly rent, we are obligated to pay monthly operating expenses, which are currently estimated to be approximately $2.

We currently lease a facility in Clearwater, Florida, from a related party. The lease term expires on November 15, 2010. The lease has a base monthly rent of approximately $12. In addition to the base monthly rate, we are obligated to pay the real estate and personal property taxes associated with the facility. Under the terms of the lease, we have the right to extend the lease for one additional three-year term. The base monthly rent applicable for such an extended term is approximately $12.

We currently lease a facility in Alpharetta, Georgia. The lease term commenced on October 1, 2007 and expires on October 31, 2010. The lease has a base monthly rent of approximately $1. The base rent is increased by 4% on each anniversary of the commencement date of October 1, 2007. In addition to the base monthly rent, we are obligated to pay monthly operating expenses at the greater of less than $1 per month or our 3.2% pro-rata share of the total operating expenses.

We currently lease a facility in Hollywood, Maryland. The lease term expires on June 30, 2008. The lease has a base monthly rent of $12, plus monthly common area charges and real estate taxes.

On occasion, we rent additional warehouse space to store inventory and non-operational equipment.

ITEM 3. LEGAL PROCEEDINGS

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 the financial position or results of our operations.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provides us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We retained an engineering firm, which estimated that the cost of remediation should be in the range of $230. In February 1998, we entered into an agreement with a third party which provides that we and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse us for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. We have fully reserved for our portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (“NYSDEC”) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. We responded by submitting a work plan to NYSDEC, which was approved in April 2002. We sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health (“NYSDOH”). The NYSDEC, with input from the NYSDOH, requested that we perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and approved. In November 2005, additional soil, sediment and surface water samples were taken from the area outlined in the work plan, as well as groundwater samples from the monitoring wells. We received the laboratory analysis and met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and NYSDOH took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007 and we are awaiting the results from our environmental consulting firm. The results of the additional investigation requested by the NYSDEC may increase the estimated remediation costs modestly. Through December 31, 2007, total costs incurred have amounted to approximately $195, none of which has been capitalized. At December 31, 2007 and December 31, 2006, we had $85 and $35, respectively, reserved for this matter.

A retail end-user of a product manufactured by one of our customers (the “Customer”), made a claim against the Customer wherein it asserted that the Customer’s product, which is powered by one of our batteries, does not operate according to the Customer’s product specification. No claim has been filed against us. However, in the interest of fostering good customer relations, in September 2002, we agreed to lend technical support to the Customer in defense of its claim. Additionally, we assured the Customer that we would honor our warranty by replacing any batteries that may be determined to be defective. Subsequently, we learned that the end-user and the Customer settled the matter. In February 2005, we entered into a settlement agreement with the Customer. Under the terms of the agreement, we have agreed to provide replacement batteries for product determined to be defective, to warrant each replacement battery under our standard warranty terms and conditions, and to provide the Customer product at a discounted price for shipments made prior to December 31, 2008 in recognition of the Customer's administrative costs in responding to the claim of the retail end-user. In consideration of the above, the Customer released us from any and all liability with respect to this matter. Consequently, we do not anticipate any further expenses with regard to this matter other than our obligation under the settlement agreement. As of December 31, 2007, we no longer have an accrual in the warranty reserve related to anticipated replacements under this agreement, due to the lack of actual claims for replacements during the past few years. Further, we do not expect the ongoing terms of the settlement agreement to have a material impact on our operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Common Stock is included for quotation on the Global Market System of the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) under the symbol “ULBI.”

The following table sets forth the quarterly high and low closing sales prices of our Common Stock during 2006 and 2007:

	Closing Sales Prices	
	High	Low
2006:		
Quarter ended April 1, 2006	$13.67	$10.41
Quarter ended July 1, 2006	12.49	8.31
Quarter ended September 30, 2006	10.41	8.79
Quarter ended December 31, 2006	13.72	10.15
2007:		
Quarter ended March 31, 2007	$11.74	$ 8.04
Quarter ended June 30, 2007	10.57	9.00
Quarter ended September 29, 2007	12.86	10.57
Quarter ended December 31, 2007	20.75	12.19

Holders

As of January 14, 2008, there were 414 registered holders of record of our Common Stock. Based upon information from our stock transfer agent, management estimates that there are approximately 7,000 beneficial holders of our Common Stock.

Recent Sales of Unregistered Securities

None.

Dividends

We have never declared or paid any cash dividend on our capital stock. We intend to retain earnings, if any, to finance future operations and expansion and, therefore, do not anticipate paying any cash dividends in the foreseeable future. Any future payment of dividends will depend upon our financial condition, capital requirements and earnings, as well as upon other factors that the Board of Directors may deem relevant. Pursuant to our current credit facility, we are precluded from paying any dividends.

ITEM 6. SELECTED FINANCIAL DATA

The financial results presented in this table include results from the last five calendar years ended December 31, 2007, 2006, 2005, 2004 and 2003.

SELECTED FINANCIAL DATA
(In Thousands, Except Per Share Amounts)

	Year Ended December 31, 2007	2006	2005	2004	2003
Statement of Operations Data:					
Revenues	$137,596	$ 93,546	$70,501	$ 98,182	$79,450
Cost of products sold	108,822	76,103	58,243	77,880	62,354
Gross margin	28,774	17,443	12,258	20,302	17,096
Research and development expenses	7,000	5,097	3,751	2,633	2,505
Selling, general and administrative expenses	21,973	15,303	11,409	10,771	8,610
Impairment of long lived assets	—	—	—	1,803	—
Total operating and other expenses	28,973	20,400	15,160	15,207	11,115
Operating income (loss)	(199)	(2,957)	(2,902)	5,095	5,981
Interest (expense)/income, net	(2,184)	(1,298)	(636)	(482)	(520)
Gain on insurance settlement	—	191	—	214	—
Gain on McDowell settlement	7,550	—	—	—	—
Write-off of UTI investment and note receivable	—	—	—	(3,951)	—
Gain from forgiveness of debt/grant	—	—	—	—	781
Other income (expense), net	493	311	(318)	352	311
Income/(loss) before income taxes	5,660	(3,753)	(3,856)	1,228	6,553
Income tax provision-current	—	—	3	32	106
Income tax provision/(benefit)-deferred	77	23,735	486	(21,136)	—
Total income taxes	77	23,735	489	(21,104)	106
Net income (loss)	$ 5,583	$(27,488)	$ (4,345)	$ 22,332	$ 6,447
Net income (loss) per share-basic	$ 0.36	$ (1.84)	$ (0.30)	$ 1.59	$ 0.49
Net income (loss) per share-diluted	$ 0.36	$ (1.84)	$ (0.30)	$ 1.48	$ 0.46
Weighted average shares outstanding-basic	15,316	14,906	14,551	14,087	13,132
Weighted average shares outstanding-diluted	15,557	14,906	14,551	15,074	13,917

	December 31, 2007	2006	2005	2004	2003
Balance Sheet Data:					
Cash and available-for-sale securities	$ 2,245	$ 720	$ 3,214	$11,529	$ 882
Working capital	$ 26,461	$18,070	$20,979	$30,645	$14,702
Total assets	$122,048	$97,758	$80,757	$81,134	$52,352
Total long-term debt and capital lease obligations	$ 16,224	$20,043	$ 25	$ 7,215	$ 68
Stockholders' equity	$ 63,007	$39,589	$62,107	$63,625	$34,430

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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. military procurement, the successful commercialization of our products, general economic conditions, government and environmental regulation, 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 materials supplies, environmental regulations, 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 described herein as anticipated, believed, estimated or expected. See Risk Factors in Item 1A of this report.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report.

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 per share amounts.

General

We offer products and services ranging from portable and standby power solutions to communications and electronics systems. Through our engineering and collaborative approaches to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including: portable and standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. 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 four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems and Design and Installation Services. The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, including seawater-activated batteries. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. In 2006, as a result of the acquisition of McDowell, we formed a new segment, Communications Accessories, which was renamed Communications Systems in 2007. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. In the fourth quarter of 2007, as a result of the acquisitions of RedBlack and SPS, we renamed our Technology Contracts segment to Design and Installation Services. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges. (See Note 10 in the Notes to Consolidated Financial Statements.)

We continually evaluate ways to grow, including opportunities to expand through mergers, acquisitions and business partnerships. On May 19, 2006, we acquired 100% of the equity securities of ABLE New Energy Co., Ltd. ("ABLE"), an established manufacturer of lithium batteries located in Shenzhen, China. The total consideration given was a combination of cash and equity. The initial cash portion of the purchase price was $1,896 (net of $104 in cash acquired), with an additional $500 cash payment contingent on the achievement of certain performance milestones, payable in separate $250 increments, when cumulative ABLE revenues from the date of acquisition attain $5,000 and $10,000, respectively. In August 2007, the $5,000 cumulative revenues milestone was attained, and as such, we have recorded the first $250 contingent cash payment. The equity portion of the purchase price consisted of 96,247 shares of our common stock, valued at $1,000, and 100,000 stock warrants valued at $526, for a total equity consideration of $1,526. (See Note 2 in Notes to Consolidated Financial Statements for additional information.)

On July 3, 2006, we finalized the acquisition of substantially all of the assets of McDowell Research, Ltd. ("McDowell"), a manufacturer of military communications accessories located in Waco, Texas. Under the terms of the acquisition agreement, the purchase price of approximately $25,000 consisted of $5,000 in cash and a $20,000 non-transferable, subordinated convertible promissory note to be held by the sellers. In addition, the purchase price was subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. The final net value of these assets, under our contractual obligation under the acquisition agreement, was $6,389, resulting in a revised purchase price of approximately $28,448. On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell, which resolved various operational issues that arose during the first several months following the acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible note from $20,000 to $14,000, and eliminating a $1,889 liability related to the Purchase Price Adjustment formula. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. In January 2008, the convertible notes were converted in full into 700,000 shares of our common stock. (See Note 2 in Notes to Consolidated Financial Statements for additional information.)

On September 28, 2007, we finalized the acquisition of all the issued and outstanding shares of common stock of Innovative Solutions Consulting, Inc. (“ISC”), a provider of a full range of engineering and technical services for communication electronic systems to government agencies and prime contractors located in Hollywood, Maryland. In January 2008, we renamed ISC to RedBlack Communications, Inc. (“RedBlack”). The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration is payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. (See Note 2 to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power Services, Inc. (“SPS”), an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries located in Clearwater, Florida. Under the terms of the stock purchase agreement, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note to be held by the seller. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc. (“RPS”), an affiliate of SPS, and a supplier of lead acid batteries primarily for use by SPS in the design and installation of standby power systems. Under the terms of the stock purchase agreement, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the sales in the operating plan, and 10% of sales that exceed the sales in the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to SPS, which historically have comprised substantially all of RPS’s sales. (See Note 2 in the Notes to Consolidated Financial Statements for additional information.)

Subsequent to our fourth quarter 2007 earnings release dated February 28, 2008, we reclassified certain short-term liabilities related to the term loan component of our credit facility to long-term liabilities as of December 31, 2007. As a result, our Consolidated Balance Sheet as of December 31, 2007 has been adjusted accordingly, resulting in a decrease of $1,167 in current liabilities and a corresponding increase in long-term liabilities. The Consolidated Statement of Operations was not impacted by this adjustment.

Currently, we do not experience significant seasonal sales trends in any of our operating segments, although sales to the U.S. Defense Department and other international defense organizations can be sporadic based on the needs of those particular customers.

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Results of Operations

Twelve Months Ended December 31, 2007 Compared With the Twelve Months Ended December 31, 2006

	12 Months Ended 12/31/2007	12 Months Ended 12/31/2006	Increase / (Decrease)
Revenues	$ 137,596	$ 93,546	$ 44,050
Cost of products sold	108,822	76,103	32,719
Gross margin	28,774	17,443	11,331
Operating and other expenses	28,973	20,400	8,573
Operating income	(199)	(2,957)	2,758
Other (expense) income, net	5,859	(796)	6,655
Income before taxes	5,660	(3,753)	9,413
Income tax provision/(benefit)	77	23,735	(23,658)
Net (loss)/income	$ 5,583	$ (27,488)	$ 33,071
Net (loss)/income per share — basic	$ 0.36	$ (1.84)	$ 2.20
Net (loss)/income per share — diluted	$ 0.36	$ (1.84)	$ 2.20
Weighted average shares outstanding-basic	15,316,000	14,906,000	410,000
Weighted average shares outstanding-diluted	15,557,000	14,906,000	651,000

Revenues. Total revenues for the twelve months ended December 31, 2007 amounted to $137,596, an increase of $44,050, or 47% from the $93,546 reported for the twelve months ended December 31, 2006.

Non-Rechargeable product sales increased $12,483, or 18%, from $67,779 last year to $80,262 this year. The increase in revenues was mainly attributable to an increase in sales of batteries to international defense organizations, an increase in demand from automotive telematics customers, and a full year contribution from ABLE which was acquired in mid-2006, offset in part by lower 9-volt battery revenues.

Rechargeable product revenues decreased $989, or 6%, from $17,745 last year to $16,756 this year. The decrease in revenues was attributable to a strong prior year in which we shipped a large order of batteries and chargers for an IED jammer application.

Sales of communications systems increased $29,707, or 400%, from $7,433 last year to $37,140 this year. This increase in revenues was mainly attributable to a growing demand for advanced communications systems and kits sold to government/defense customers, including systems such as SATCOM-On-The-Move and other systems that provide a person with the ability to significantly extend the range of a communications radio. In addition, since McDowell was acquired in July 2006, only a partial year's results were included in 2006.

Design and Installation Services revenues increased $2,849, or 484%, from $589 last year to $3,438 this year. This increase in revenues was mainly attributable to the added contributions from the acquisitions of RedBlack in September 2007 and SPS in November 2007.

Cost of Products Sold. Cost of products sold increased $32,719, or 43%, from $76,103 for the year ended December 31, 2006 to $108,822 for the year ended December 31, 2007, primarily as a result of the increase in revenues. Consolidated cost of products sold as a percentage of total revenue decreased from 81% for the twelve months ended December 31, 2006 to 79% for the year ended December 31, 2007. Correspondingly, consolidated gross margins were 21% for the year ended December 31, 2007, compared with 19% for the year ended December 31, 2006, generally attributable to higher sales and production volumes and a more favorable sales mix of higher margin products.

In the Non-Rechargeable products segment, the cost of products sold increased $6,594, from $55,921 in the year ended December 31, 2006 to $62,515 in 2007, mainly related to higher sales and production volumes. Non-Rechargeable gross margins for 2007 were $17,747, or 22%, an increase of $5,889 from 2006's gross margin of $11,858, or 17%. This increase in gross margin was mainly attributable to shipments of higher margin products to international customers.

In the Rechargeable products segment, the cost of products sold decreased $745, from $13,923 in 2006 to $13,178 in 2007. Rechargeable gross margins for 2007 were $3,578, or 21%, a decrease of $244 from 2006's gross margin of $3,822, or 22%. This decrease in gross margin was the result of the decline in sales volumes and a modest change in sales mix.

In the Communications Systems segment, the cost of products sold increased $24,785, from $5,662 in 2006 to $30,447 in 2007, reflective of the increase in revenues. Communications Systems gross margins for 2007 were $6,693, or 18%, a decrease from 2006's gross margin of $1,771, or 24%. The decrease in gross margin percentages was mainly related to operational issues incurred at our Waco, Texas operation shortly after the acquisition of McDowell in July 2006 that resulted in the procurement of premium cost inventory, increasing our Cost of goods sold during 2007 as this inventory was sold to customers. As a result of manufacturing inefficiencies at that facility, we relocated the Waco operations to our Newark, New York facility during the third and fourth quarters of 2007, to instill better processes and manufacturing disciplines. The actual costs associated with this relocation were relatively modest, amounting to approximately $156. In addition, we encountered certain inefficiencies in our manufacturing process during the fourth quarter as we ramped up our production operation to begin to fulfill certain large orders we received during the latter portion of 2007 for advanced communications systems, as we increased our workforce and trained new people on processes, procedures and systems.

Design and Installation Services cost of sales increased $2,085, from $597 for the year ended December 31, 2006, to $2,682 in 2007. Design and Installation Services gross margins for 2007 were $756, or 22%, an increase from 2006's gross margin of ($8), or (1)%. This increase was mainly due to varying margins realized under different technology contracts, in addition to the contribution from RedBlack and SPS.

Operating and Other Expenses. Total operating expenses increased $8,573, from $20,400 for the year ended December 31, 2006 to $28,973 for the year ended December 31, 2007. Overall, operating expenses as a percentage of sales decreased to 21% in 2007 from 22% reported the prior year. Research and development costs were $7,000 in 2007, an increase of $1,903, or 37%, over the $5,097 reported in 2006. This increase was mainly due to greater investments in the development of various new products, including products resulting from our acquisitions and support for a broader base of products. In addition to the research and development line shown in Operating Expenses, we also consider our efforts associated with technology contracts for which we are paid (revenues and related costs are included in the Design and Installation Services segment), to be related to key product development efforts. Selling, general, and administrative expenses increased $6,670, or 44%, to $21,973, mainly related to costs associated with acquired companies and costs associated with providing a significantly higher level of support to enhance the growth prospects of these acquisitions, including increased personnel-related costs, and higher professional fees incurred and corporate costs required to support a broader, more diverse business. Included in research and development and selling, general and administrative expenses is $2,317 for 2007 in amortization expense associated with intangible assets related to our acquisitions ($1,290 in selling, general and administrative expenses and $1,027 in research and development costs), an increase of $1,118 from the prior year amount of $1,199, driven by the timing of the acquisitions.

Other Income (Expense). Interest expense (net) increased $886, from $1,298 for the year ended December 31, 2006 to $2,184 for the year ended December 31, 2007. This change was mainly related to higher interest on convertible debt and higher borrowings under our revolving credit facility. We recorded a gain on the McDowell settlement of $7,550 as a result of a negotiated reduction in the purchase price that was finalized in November 2007 (see Note 2 for additional information). Miscellaneous income/expense amounted to income of $493 for 2007 compared with income of $311 for 2006. This income was primarily due to foreign currency exchange gains, and the increase related mainly to the strengthening of the U.K. pound sterling compared with the U. S. dollar.

Income Taxes. We reflected a tax provision of $77 for the twelve-month period ended December 31, 2007 compared with $23,735 in the same period of 2006. At the end of 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination that it was more likely than not that we would not be able to utilize these benefits in the future. At December 31, 2007, we continue to recognize a full valuation allowance on our net deferred tax asset, as we believe that it is more likely than not that we will not be able to utilize these benefits in the future. (See Notes 1 and 8 for additional information.) We continually monitor the assumptions and performance results to assess the realizability of the tax benefits of the U.S. and U.K. net operating losses and other deferred tax assets.

Net Income. Net income was $5,583, or $0.36 per basic and diluted common share, for the year ended December 31, 2007 compared with a net loss of $27,488, or $1.84 per basic and diluted common share, for the year ended December 31, 2006, primarily as a result of an improvement in the operating loss due to improved profit margins on revenues and overall increase in sales volumes, the recognition of a non-operating gain on the McDowell settlement, and the recognition of a full valuation allowance against our deferred tax asset in 2006 that did not reoccur in 2007. Average common shares outstanding used to compute diluted earnings per share increased from 14,906,000 in 2006 to 15,557,000 in 2007, mainly due to stock option exercises, the dilutive impact from unexercised options and warrants, and the partial-year impact of the limited public offering completed in November 2007 where an additional 1,000,000 shares were issued.

Twelve Months Ended December 31, 2006 Compared With the Twelve Months Ended December 31, 2005

	12 Months Ended		Increase /
	12/31/2006	12/31/2005	(Decrease)
Revenues	$ 93,546	$ 70,501	$ 23,045
Cost of products sold	76,103	58,243	17,860
Gross margin	17,443	12,258	5,185
Operating and other expenses	20,400	15,160	5,240
Operating income	(2,957)	(2,902)	(55)
Other (expense) income, net	(796)	(954)	158
Income before taxes	(3,753)	(3,856)	103
Income tax provision/(benefit)	23,735	489	23,246
Net (loss)/income	$ (27,488)	$ (4,345)	$ (23,143)
Net (loss)/income per share — basic	$ (1.84)	$ (0.30)	$ (1.54)
Net (loss)/income per share — diluted	$ (1.84)	$ (0.30)	$ (1.54)
Weighted average shares outstanding-basic	14,906,000	14,551,000	355,000
Weighted average shares outstanding-diluted	14,906,000	14,551,000	355,000

Revenues. Total revenues for the twelve months ended December 31, 2006 amounted to $93,546, an increase of $23,045, or 33% from the $70,501 reported for the twelve months ended December 31, 2005.

Non-Rechargeable product sales increased $9,270, or 16%, year-over-year, driven mainly by an increase in sales of automotive telematics backup batteries and higher sales of 9-volt batteries, as well as $2,694 attributable to the addition of ABLE in May of 2006.

Rechargeable product revenues rose $7,678, or 76%, from $10,067 to $17,745, mainly due to higher shipments of multi-cell lithium ion rechargeable battery packs and charger systems, sold primarily to government customers.

Sales of communications systems amounted to $7,433 in 2006 reflecting sales of various products related to McDowell, which was acquired in July 2006. We had no comparable sales in 2005.

Design and installation services revenues, consisting of technology contracts, decreased $1,336 to $589 for the year ended December 31, 2006, mainly due to the completion of work on our development contract with General Dynamics.

Cost of Products Sold. Cost of products sold increased $17,860 from $58,243 for the year ended December 31, 2005 to $76,103 for the year ended December 31, 2006, primarily as a result of the increase in revenues. Consolidated cost of products sold as a percentage of total revenue decreased from 83% for the twelve months ended December 31, 2005 to 81% for the year ended December 31, 2006. Correspondingly, consolidated gross margins were 19% for the year ended December 31, 2006, compared with 17% for the year ended December 31, 2005, mainly attributable to margin improvements in Rechargeable product sales in addition to margins generated in communications systems.

In the Non-Rechargeable products segment, the cost of products sold increased $8,295, from $47,626 in the year ended December 31, 2005 to $55,921 in 2006, mainly related to higher production volumes and shipments. As a percent of total non-rechargeable battery sales, the cost of non-rechargeable products sold for the year ended December 31, 2006 was 83%, an increase over the 81% reported for the year ended December 31, 2005. The corresponding non-rechargeable gross margins were 17% in 2006 and 19% in 2005. Gross margins in 2006 were adversely impacted as costs in the second half of the year were higher than expected due to certain operating inefficiencies in our 9-volt operations that have subsequently been resolved, in addition to a shift in sales mix.

In the Rechargeable products segment, the cost of products sold increased $5,172, from $8,751 in 2005 to $13,923 in 2006. Rechargeable gross margins for 2006 were $3,822, or 22%, an increase of $2,506 over 2005's gross margin of $1,316, or 13%. This improvement in gross margin was attributable to higher sales volumes and a more favorable sales mix.

Cost of products sold in Communications Systems amounted to $5,662 in 2006, reflecting a gross margin of 24%.

Design and installation services cost of sales, consisting of technology contracts, decreased $1,269, from $1,866 for the year ended December 31, 2005, to $597 in 2006. This decline in costs was related to a decrease in revenue in the segment.

Design and installation services cost of sales as a percentage of revenue was 101% for the year ended December 31, 2006, compared with 97% for the year ended December 31, 2005. Correspondingly, gross margins were a 1% loss in 2006 compared with a 3% profit in 2005. This margin decline was mainly due to adjustments in the estimated costs to complete our contracts with General Dynamics and Harris RF Communications as these projects transition from development to production.

Operating and Other Expenses. Total operating expenses increased $5,240, from $15,160 for the year ended December 31, 2005 to $20,400 for the year ended December 31, 2006. Excluding the impact of expensing stock options of $1,286 ($1,193 in selling, general, and administrative expenses and $93 in research and development charges) related to the adoption of FAS 123R in 2006, operating expenses increased $3,954. Amortization expense associated with the recognition of intangible assets related to the acquisitions of ABLE and McDowell created $1,199 ($580 in selling, general, and administrative expenses and $619 in research and development charges) in additional operating expenses, and ongoing operating expenses from the newly acquired companies added approximately $3,100 of operating expenses in 2006. Research and development charges increased $1,346 to $5,097 in 2006 due to added development costs associated with the addition of McDowell's R&D expenses and the amortization of intangible assets in 2006. In addition to the R&D line shown in Operating Expenses, we also consider our efforts for technology contracts included in our Design and Installation Services segment to be related to key product development efforts. Selling, general, and administrative expenses increased $3,894 to $15,303. Excluding the impact of expensing stock options, selling, general, and administrative expenses increased $2,701 primarily related to additional operating costs associated with the newly acquired entities, in addition to integration costs and the amortization of intangible assets in 2006. Overall, operating and other expenses as a percentage of sales were 22% in 2006, consistent with 2005.

Other Income (Expense). Interest expense (net) increased $662, from $636 for the year ended December 31, 2005 to $1,298 for the year ended December 31, 2006. This change was mainly related to interest on the $20,000 convertible note issued to partially finance the McDowell acquisition in July 2006, lower interest income on lower invested cash, and higher interest rates associated with our outstanding bank debt. During 2006, we recorded a $191 gain from an insurance settlement related to the finalization of an insurance claim for our U.K. operation. (See Note 13 for additional information.) Miscellaneous income/expense amounted to income of $311 in 2006 compared with an expense of $318 for 2005. This change resulted mainly from changes in foreign currency exchange rates, related primarily to the translation impact of our U.S. dollar-denominated loan with our UK subsidiary.

Income Taxes. We reflected a tax provision of $23,735 for the twelve-month period ended December 31, 2006 compared with $489 in the same period of 2005. At the end of 2004, based on our assessment, a deferred tax asset was recorded to the expected future tax benefit to be received relating to our U.S. operations. This was due to our profitable track record and expected continued profitability; the asset was recorded since it was determined to be more likely than not to be realized. We continually assess the carrying value of this asset based on relevant accounting standards. In the fourth quarter of 2006, our assessment concluded that we needed to reestablish a full valuation allowance against this deferred tax asset. The reestablishment of this valuation allowance generated a $24,116 non-cash charge to income taxes in the fourth quarter of 2006. As we reestablish a pattern of profitability, we will continue to reassess the need for a valuation allowance.

Included in the 2005 provision is a $1,456 impact from a change in the New York State income tax law in the second quarter of 2005, which caused a reduction to the associated deferred tax asset. In April 2005, legislation was enacted in New York State that changed the apportionment methodology for corporate income from a "three factor formula" comprised of payroll, property and sales, to one which uses only sales. This change is to be phased in beginning in 2006, and the change is fully effective for the tax year 2008 and thereafter. It is expected that this legislative change, when fully implemented, will result in a reduction in our New York State effective tax rate from approximately 2.46% to 0.03%. Excluding the New York State tax provision, the 2005 benefit related mainly from the year-to-date loss before income taxes for U.S. operations. (See Notes 1 and 8 for additional information.)

Net Loss. Net loss was $27,488, or $1.84 per basic and diluted common share, for the year ended December 31, 2006 compared with a net loss of $4,345, or $0.30 per basic and diluted common share, for the year ended December 31, 2005, primarily as a result of the non-cash charge to income taxes in 2006. Average common shares outstanding used to compute basic earnings per share increased from 14,551,000 in 2005 to 14,906,000 in 2006, mainly due to stock option and warrant exercises in 2006.

Adjusted EBITDA

In evaluating our business, we consider and use Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA as net income (loss) 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 operations. We use Adjusted EBITDA 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 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-cash, non-operating expenses or income. We also present Adjusted EBITDA 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 to net income (loss), the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

We use Adjusted EBITDA 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 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 provide information relating to our Adjusted EBITDA 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 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 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 has limitations as an analytical tool, and when assessing our operating performance, Adjusted EBITDA should not be considered in isolation, or as a substitute for net income (loss) 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 (1) does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) does not reflect changes in, or cash requirements for, our working capital needs; (3) does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) does not reflect income taxes or the cash requirements for any tax payments; and (5) does not reflect 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 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; and

- other companies may calculate Adjusted EBITDA 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 only supplementally. Adjusted EBITDA is calculated as follows for the periods presented:

	Years ended December 31,		
	2007	2006	2005
Net income (loss)	$ 5,583	$ (27,488)	$ (4,345)
Add: interest expense, net	2,184	1,298	636
Add: income tax provision (benefit)	77	23,735	489
Add: depreciation expense	3,861	3,667	3,181
Add: amortization expense	2,317	1,199	—
Add: stock-based compensation expense	2,149	1,480	—
Less: gain on McDowell settlement	(7,550)	—	—
Adjusted EBITDA	$ 8,621	$ 3,891	$ (39)

Liquidity and Capital Resources

Cash Flows and General Business Matters

As of December 31, 2007, cash and cash equivalents totaled $2,245. During the twelve months ended December 31, 2007, we generated $1,569 of cash from operating activities as compared to generating $151 of cash for the twelve months ended December 31, 2006. The cash from operating activities generated during 2007 was mainly attributable to our pre-tax income of $5,583, plus an addback for non-cash expenses of depreciation, amortization and stock-based compensation of $8,327, offset by a deduction of $7,550 for the non-cash gain from the McDowell settlement agreement. Approximately $6,114 of cash was used for working capital due mainly to an increase in inventories that resulted from sizeable orders for communications systems in the latter part of 2007. The cash generated from operating activities of $151 during 2006 was mainly attributable to a pre-tax loss of $3,753, offset by an addback for non-cash expenses of depreciation, amortization and stock-based compensation of $6,346. As discussed previously, we recorded a $23,735 charge in the fourth quarter of 2006 related to a full reserve for our deferred tax asset, which had no impact on cash. Changes in working capital in 2006 were modest, as increases in receivables and inventories were offset by increases in payables and other liabilities, net of the impact from acquisitions. The increase in receivables in 2006 was related to the timing of shipments toward the end of 2006, and the increase in payables was related to higher inventory levels needed to meet production requirements and timing of payments to suppliers.

In 2007, we used $10,751 of cash in investing activities, $2,073 of which was used to purchase fixed assets, and $8,678 of which was used in connection with the acquisitions of RedBlack and SPS, as well as a contingent purchase price payout related to the ABLE acquisition. During 2007, we generated $10,427 in net funds from financing activities. The financing activities included inflows of $13,936 from the issuance of stock and stock option exercises, including $12,622 that resulted from a limited public offering in November 2007 where we issued one million new shares of common stock, and $3,308 from revolver loan borrowings, offset by principal payments on our term loan, capital leases, and debt we assumed from acquisitions of $6,817.

Although we booked a full reserve for our deferred tax asset during the fourth quarter of 2006 and continue to carry this reserve as of December 31, 2007, we continue to have significant U.S. NOLs available to us to utilize as an offset to taxable income. As of December 31, 2007, none of our U.S. NOLs have expired. Over the next five years, the scheduled expirations of our U.S. NOLs are as follows: 2008 — $2,428, 2009 — $3,303, 2010 — $2,034, 2011 — $6,158, and 2012 — $10,429. (See Note 8 in the Notes to the Consolidated Financial Statements for additional information.)

Inventory turnover for the year ended December 31, 2007 averaged 3.0 turns compared to 3.2 turns for 2006. The decline in this metric is mainly due to the timing of production and shipments, including maintaining a supply of raw materials for surge production for the U.S. military, and the impact from procuring premium priced inventory at our Waco operation in the latter part of 2006. In addition, our inventory turnover was impacted by delayed deliveries to our customers in the fourth quarter of 2007 due to a supply chain issue at our sole supplier for a key component of our advanced communications systems we had coordinated as we ramped-up of production at the end of 2007 to meet shipping schedules on certain large orders received during the fourth quarter. We expect this metric to improve during 2008 as our supply chain issues are resolved and we can ship products to our customer in a more timely fashion. Our Days Sales Outstanding

(DSOs) was an average of 55 days for 2007, an increase from the 2006 average of 50 days, as our customer base continues to expand and the credit terms for non-U.S. customers are generally more lenient than for U.S. customers.

Our order backlog at December 31, 2007 was approximately $141,850, of which approximately $115,506 related to recent orders for SATCOM-On-The-Move and other advanced communications systems. The majority of the backlog was related to orders that are expected to ship throughout 2008.

As of December 31, 2007, we had made commitments to purchase approximately $326 of production machinery and equipment, which we expect to fund through operating cash flows.

In October 2005, we received a contract valued at approximately $3,000 from the U.S. Defense Department to purchase equipment and enhance processes to reduce lead time and increase manufacturing efficiency to boost production surge capability of our BA-5390 battery during contingency operations. Under the contract, we have also purchased and pre-positioned critical long lead-time materials and subassemblies. During 2006 and 2007, we received approximately $2,852 for completing the first four milestones under the contract, primarily related to reimbursement for raw material inventory and the procurement of certain equipment.

We have had certain “exigent” non-bid contracts with the U.S. government that have been subject to an audit and final price adjustment, which have resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2007, 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. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. 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 are cooperating with the DoD IG inquiry and have furnished the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DoD IG inquiry, could have an adverse effect on our business, financial condition and results of operation.

From August 2002 through August 2006, we participated in a self-insured trust to manage our workers’ compensation activity for our employees in New York State. All members of this trust have, by design, joint and several liability during the time they participate in the trust. In August 2006, we left the self-insured trust and have obtained alternative coverage of our workers’ compensation program through a third-party insurer. In the third quarter of 2006, we confirmed that the trust was in an underfunded position (i.e. the assets of the trust were insufficient to cover the actuarially projected liabilities associated with the members in the trust). In the third quarter of 2006, we recorded a liability and an associated expense of $350 as an estimate of our potential future cost related to the trust’s underfunded status. As of December 31, 2007, we have determined that our reserve for this potential liability continues to be reasonable. It is likely, however, that the final amount may be more or less, depending upon the ultimate settlement of claims that remain in the trust for the period of time we were a member. It is likely to take several years before the final resolution of outstanding workers’ compensation claims. We will continue to review this liability periodically and make adjustments accordingly as new information is collected.

In connection with our acquisition of ABLE on May 19, 2006, there was an additional $500 cash payment to be made to the sellers of ABLE upon the achievement of certain performance milestones, payable in separate $250 payments, when cumulative ABLE revenues from the date of acquisition attain $5,000 and $10,000, respectively. The contingent payments will be recorded as an addition to the purchase price when the performance milestones are attained. The first milestone payment was made during the fourth quarter of 2007.

In connection with our acquisition of McDowell, the purchase price of approximately $25,000 (consisting of $5,000 in cash and a $20,000 non-transferable convertible note to be held by the sellers) was subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. The final net value of these assets, under our contractual obligation under the acquisition agreement, was $6,389, resulting in a revised purchase price of approximately $28,448. In January 2007, we made a $1,500 payment to the sellers of McDowell as partial payment for the remaining obligation and we had accrued $1,889 for the remaining final post-closing adjustment of $3,389. On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell, which resolved various operational issues that arose during the first several months following the acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible note from $20,000 to $14,000, and eliminating a $1,889 liability related to the Purchase Price Adjustment formula. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes.

In connection with our acquisition of RedBlack on September 28, 2007, there is an additional cash payment of up to $2,000 to be made contingent upon the achievement of certain annual sales milestones through September 30, 2010. The additional cash consideration is payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement.

In connection with our acquisition of Stationary Power Services on November 16, 2007, the purchase agreement specified an adjustment mechanism based upon SPS's closing date net worth balance relative to a previously-agreed amount of $500. This adjustment is still under review. In addition, there is a contingent payout of 100,000 shares of our common stock to be earned upon the achievement of certain post-acquisition sales milestones.

In connection with our acquisition of Reserve Power Systems on November 16, 2007, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the sales in the operating plan, and 10% of sales that exceed the sales in the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to SPS, which historically have comprised substantially all of RPS's sales.

Debt and Lease Commitments

At December 31, 2007, we had outstanding capital lease obligations of $514.

Our primary credit facility, which was initiated in June 2004, consists of both a term loan component and a revolver component, and the facility is collateralized by essentially all of our assets, including those owned by our subsidiaries. The lenders of the credit facility are JP Morgan Chase Bank and Manufacturers and Traders Trust Company, with JP Morgan Chase Bank acting as the administrative agent. The current revolver loan commitment is $15,000. Availability under the revolving credit component is subject to meeting certain financial covenants. We are required to meet certain financial covenants under the facility, as amended, including a debt to earnings ratio, a fixed charge coverage ratio, and a current assets to total liabilities ratio. In addition, we are required to meet certain non-financial covenants. The rate of interest, in general, is based upon either a LIBOR rate or Prime, plus a Eurodollar spread (dependent upon a debt to earnings ratio within a predetermined grid).

On June 30, 2004, we drew down the full $10,000 term loan that was made available to us. The term loan is being repaid in equal monthly installments of $167 over five years. On July 1, 2004, we entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. We received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by us is equal to the swap rate of 3.98% plus the Eurodollar spread stipulated in the predetermined grid associated with the term loan. On January 1, 2006, the adjusted rate was 6.98%. On February 14, 2007, the adjusted rate increased to 7.23%, on August 15, 2007, the adjusted rate decreased to 6.98%, and on November 7, 2007, the adjusted rate decreased to 5.98%. Derivative instruments are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of this arrangement at December 31, 2007 resulted in an asset of $4, all of which was reflected as a short-term asset.

There have been several amendments to the credit facility during the past few years, including amendments to authorize acquisitions and modify financial covenants. Effective February 14, 2007, we entered into Forbearance and Amendment Number Six to the Credit Agreement ("Forbearance and Amendment") with the banks. The Forbearance and Amendment provided that the banks would forbear from exercising their rights under the credit facility arising from our failure to comply with certain financial covenants in the credit facility with respect to the fiscal quarter ended December 31, 2006. Specifically, we were not in compliance with the terms of the credit facility because we failed to maintain the required debt-to-earnings and EBIT-to-interest ratios provided for in the credit facility at that time. The banks agreed to forbear from exercising their respective rights and remedies under the credit facility until March 23, 2007 ("Forbearance Period"), unless we breached the Forbearance and Amendment or unless another event or condition occurred that constituted a default under the credit facility. Each bank agreed to continue to make revolving loans available to us during the Forbearance Period. Pursuant to the Forbearance and Amendment, the aggregate amount of the banks' revolving loan commitment was reduced from $20,000 to $15,000. During the Forbearance Period, the applicable revolving interest rate and the applicable term interest rate, in each case as set forth in the credit agreement, both were increased by 25 basis points. In addition to a number of technical and conforming amendments, the Forbearance and Amendment revised the definition of "Change in Control" in the credit facility to provide that the acquisition of equity interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of us shall constitute a "Change in Control" for purposes of the credit facility. Previously, the equity interest threshold had been set at 20%.

Effective March 23, 2007, we entered into Extension of Forbearance and Amendment Number Seven to Credit Agreement ("Extension and Amendment") with the banks. The Extension and Amendment provided that the banks agreed to extend the Forbearance Period until May 18, 2007. The Extension and Amendment also acknowledged that we continued not to be in compliance with the financial covenants identified above for the fiscal quarter ended December 31, 2006 and did not contemplate being in compliance for the fiscal quarter ending March 31, 2007.

Effective May 18, 2007, we entered into Extension of Forbearance and Amendment Number Eight to Credit Agreement ("Second Extension and Amendment") with the banks. The Second Extension and Amendment provided that the banks agreed to extend the Forbearance Period until August 15, 2007. The Second Extension and Amendment also acknowledged that we continued not to be in compliance with the financial covenants identified above for the fiscal quarter ended March 31, 2007 and did not contemplate being in compliance for the fiscal quarter ending June 30, 2007.

Effective August 15, 2007, we entered into Amendment Number Nine to Credit Agreement ("Amendment Nine") with the banks. Amendment Nine effectively ended the Forbearance Period and extended the term of the revolving credit component of the facility to January 31, 2009 and the term of the term loan component of the facility to July 1, 2009. Amendment Nine also added several definitions and modified or replaced certain covenants. As of December 31, 2007, we were in compliance with all of the credit facility covenants, as amended.

As of December 31, 2007, we had $3,167 outstanding under the term loan component of our credit facility with our primary lending bank and $11,200 was outstanding under the revolver component. At December 31, 2007, the interest rate on the revolver component was 7.25%. The revolver arrangement currently provides for up to $15,000 of borrowing capacity, including outstanding letters of credit. At December 31, 2007, we had no outstanding letters of credit related to this facility, as amended August 15, 2007, leaving $3,800 of additional borrowing capacity.

Our wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), has an agreement for a revolving credit facility with a commercial bank in the U.K. This credit facility provides our U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility are collateralized with Ultralife UK's outstanding accounts receivable balances. The maximum credit available to that subsidiary under the facility is approximately $899 as of December 31, 2007. The rate of interest is based upon prime plus 2.25% (7.75% at December 31, 2007). At December 31, 2007, there was nothing outstanding under this facility.

In connection with our acquisition of RedBlack, we assumed approximately $900 in debt, of which we immediately paid off approximately $875 after closing. In connection with our acquisition of SPS and RPS, we assumed approximately $1,400 in debt, of which we immediately paid off approximately $1,200 after closing.

We are continually in discussion with our primary lending banks to enhance the flexibility of our credit facility structure. While we believe relations with our lenders are good and we have received waivers as necessary in the past, there can be no assurance that such waivers can always be obtained. In such case, we believe we have, in the aggregate, sufficient cash, cash generation capabilities from operations, working capital, and financing alternatives at our disposal, including but not limited to alternative borrowing arrangements and other available lenders, to fund operations in the normal course and repay the debt outstanding under our credit facility that is subject to Amendment Nine.

We have been able to obtain certain grants/loans from government agencies to assist with various funding needs. In November 2001, we received approval for a $300 grant/loan from New York State. The grant/loan was to fund capital expansion plans that we expected would lead to job creation. In this case, we were to be reimbursed after the full completion of the particular project. This grant/loan also required us to meet and maintain certain levels of employment. During 2002, since we did not meet the initial employment threshold, it appeared unlikely at that time that we would be able to gain access to these funds. However, during 2006, our employment levels had increased to a level that exceeded the minimum threshold, and we received these funds in April 2007. As this grant/loan requires us to not only meet, but maintain our employment levels for a pre-determined time period, we currently reflect the funds that we received as a current liability, in the Other Current Liabilities line on our Consolidated Balance Sheet. Our employment levels met the specified levels as of December 31, 2007. In the event our employment levels are not maintained at the specified levels at December 31, 2008, we may be required to pay back these funds.

Equity Transactions

During 2007, 2006 and 2005, we issued 204,000, 200,000, and 452,000 shares of common stock, respectively, as a result of exercises of stock options and warrants. We received approximately $1,314 in 2007, $1,231 in 2006 and $2,488 in 2005 in cash proceeds as a result of these transactions.

During 2007 and 2006, we issued restricted stock awards of 51,548 and 85,668 shares of our common stock, respectively, to certain officers and directors, with various vesting schedules related to time and performance. At December 31, 2007, 45,313 shares had vested.

In November 2007, we completed a limited public offering, whereby 1,000,000 shares of our common stock were issued. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the SPS cash payment, $3,500 was used as a prepayment on the subordinated convertible notes that were issued as partial consideration for the McDowell acquisition, and $1,000 was used as a repayment of borrowings outstanding under our credit facility used to fund the RedBlack acquisition. The remainder of the proceeds was used for general working capital purposes.

In connection with our May 2006 stock purchase of ABLE New Energy Co., Ltd., we issued a combination of shares and warrants exercisable for shares of our common stock to the previous owners of ABLE New Energy Co., Ltd. as part of the purchase price. The equity portion of the purchase price consisted of 96,247 shares of our common stock valued at $1,000, based on the closing price of the stock on the closing date of the acquisition, and 100,000 stock warrants with a five-year term valued at $526, for a total equity consideration of $1,526. In January 2008, 82,000 warrants were exercised.

In connection with our July 2006 acquisition of substantially all of the assets of McDowell Research, Ltd., we issued to McDowell Research, Ltd. a non-transferable, subordinated convertible promissory note in the principal amount of $20,000 as part of the purchase price. The $20,000 convertible note carried a five-year term, an annual interest rate of 4% and was convertible at $15 per share into 1.33 million shares of our common stock, with a forced conversion feature, at our option, at any time after the 30-day average closing price of our common stock exceeds $17.50 per share. The conversion price was subject to adjustment as defined in the subordinated convertible promissory note. Interest was payable quarterly in arrears, with all unpaid accrued interest and outstanding principal due in full on July 3, 2011. In April 2007, in connection with its dissolution, McDowell Research, Ltd. distributed the convertible note to its members in proportion to their membership interests, resulting in six separate convertible notes aggregating to $20,000. On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell Research, Ltd., which resolved various operational issues that arose during the first several months following the acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible notes from $20,000 to $14,000, and eliminating the $1,889 liability related to the purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. In January 2008, the convertible notes were converted in full into 700,000 shares of our common stock.

In connection with our November 2007 acquisition of all of the issued and outstanding shares of common stock of Stationary Power Services, Inc., we issued, to the seller, a subordinated convertible promissory note in the principal amount of $4,000 as part of the purchase price. The $4,000 convertible note carries a three-year term, an annual interest rate of 5% and is convertible at $15 per share into 266,667 shares of our common stock, with a forced conversion feature at $17.00 per share. The conversion price is subject to adjustment as defined in the subordinated convertible promissory note. Interest is payable quarterly in arrears, with all unpaid accrued interest and outstanding principal due in full on November 16, 2010. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock.

In connection with our November 2007 acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc., we issued 100,000 shares of our common stock valued at $1,383.

We utilized securities as consideration in these transactions in part to reduce the need to draw on the liquidity provided by our cash and cash equivalents and revolving credit facility.

Other Matters

We continue to be optimistic about our future prospects and growth potential. We continually 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.

Our plan to achieve operational profitability and reduce our negative cash flows from operations includes successfully resolving our supply chain issue for a key component that caused a delay in shipping certain advanced communications systems to fulfill certain large orders, implementing measures in our operations to reduce scrap and improve manufacturing efficiencies, and reducing our inventory levels by balancing our production activity and sales orders more effectively. Additionally, we believe we have adequate third party financing available to fund our operations or we could obtain other financing, if needed.

If we are unable to achieve our plans or unforeseen events occur, we may need to implement alternative plans. While we believe we can complete our original plans or alternative plans, if necessary, there can be no assurance that such alternatives would be available on acceptable terms and conditions or that we would be successful in our implementation of such plans.

As described in Part I, Item 3, “Legal Proceedings” of this report, we are involved in certain environmental matters with respect to our facility in Newark, New York. Although we have reserved for expenses related to this potential exposure, there can be no assurance that such reserve will be adequate. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved.

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. We offer a four-year warranty on certain communications accessories products. We also offer a 10-year warranty on our 9-volt batteries that are used in ionization-type smoke detector applications. We provide for a reserve for this potential warranty expense, 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. Any such insufficiency could have a material adverse effect on our business, financial condition and results of operations.

Contractual Obligations

		Payments due by period			
Contractual Obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt Obligations	$ 29,133	$ 13,313	$ 5,277	$ 10,543	$ —
Expected Interest Payments	3,126	1,352	1,498	276	—
Capital Lease Obligations	514	110	226	178	—
Operating Lease Obligations	3,068	944	1,303	665	156
Purchase Obligations	100,794	100,794	—	—	—
Total	$ 136,635	$ 116,513	$ 8,304	$ 11,662	$ 156

Expected interest payments are calculated assuming a 5.98% annual rate on outstanding debt principal, 7.25% annual rate on the outstanding revolver balance, plus associated fees related to the our credit facility; the applicable annual interest rates ranging from 0.00% to 7.13% for various notes payable for equipment and vehicles; and a 5.00% annual rate on the outstanding principal related to the subordinated convertible notes payable. Purchase obligations consist of commitments for property, plant and equipment, open purchase orders for materials and supplies, and other general commitments for various service contracts.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Outlook

For 2008, we are projecting full year revenues of at least $238,000, which includes revenues from shipments on the $24,000 SATCOM-On-The-Move contract that were delayed in the fourth quarter of 2007. The achievement of our forecast is highly dependent on the receipt of key components to complete orders for advanced communications systems.

Critical Accounting Policies and Estimates

The above discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect amounts reported therein. The estimates and assumptions that require management’s most difficult, subjective or complex judgments are described below.

Revenue recognition:

Product Sales — In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer’s location, revenues are recognized on date of delivery. A provision is made at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped.

Service Contracts — Revenue from fixed price engineering contracts and the sale of installation services is recognized on a proportional method, measured by the percentage of actual costs incurred to total estimated costs to complete the contract. Revenue from time and material engineering contracts is recognized as work progresses through monthly billings of time and materials as they are applied to the work pursuant to the terms in the respective contract. Revenue from customer maintenance agreements is recognized using the straight-line method over the term of the related agreements, which range from six months to three years.

Technology Contracts — We recognize revenue using the proportional method, measured by the percentage of actual costs incurred to date to the total estimated costs to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

Valuation of Inventory:

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Our inventory includes raw materials, work in process and finished goods. We record provisions for excess, obsolete or slow moving inventory based on changes in customer demand, technology developments or other economic factors. The factors that contribute to inventory valuation risks are our purchasing practices, material and product obsolescence, accuracy of sales and production forecasts, introduction of new products, product lifecycles, product support and foreign regulations governing hazardous materials (see Item 1A — Risk Factors for further information on foreign regulations). We manage our exposure to inventory valuation risks by maintaining safety stocks, minimum purchase lots, managing product end-of-life issues brought on by aging components or new product introductions, and by utilizing certain inventory minimization strategies such as vendor-managed inventories. We believe that the accounting estimate related to valuation of inventories is a “critical accounting estimate” because it is susceptible to changes from period-to-period due to the requirement for management to make estimates relative to each of the underlying factors ranging from purchasing, to sales, to production, to after-sale support. If actual demand, market conditions or product lifecycles are adversely different from those estimated by management, inventory adjustments to lower market values would result in a reduction to the carrying value of inventory, an increase in inventory write-offs and a decrease to gross margins.

Warranties:

We maintain provisions related to normal warranty claims by customers. We evaluate these reserves quarterly based on actual experience with warranty claims to date and our assessment of additional claims in the future.

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.

Impairment of Long-Lived Assets:

We regularly assess all of our long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through the assistance of an independent valuation or as the present value of expected discounted future cash flows. The discount rate used by us in our evaluation approximates our weighted average cost of capital. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized.

Environmental Issues:

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 96-1, "Environmental Remediation Liabilities". Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

Goodwill and Other Intangible Assets:

In accordance with SFAS No. 141, "Business Combinations," the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value. In accordance with SFAS No. 142, "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.

Stock-Based Compensation:

Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") requiring 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). We adopted SFAS 123R using the modified prospective method and, accordingly, did not restate prior periods presented in this report to reflect the fair value method of recognizing compensation cost. Under the modified prospective approach, SFAS 123R applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. 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. Prior to 2006, the computation of expected volatility was based solely on historical volatility. The change to a blended volatility measure was based on a thorough review of assumptions underlying the valuation of our stock options, in conjunction with additional information and guidance that became more widely available as we prepared to implement SFAS 123R in 2006. A blended volatility factor was deemed to be more appropriate as we believe that implied volatility, a forward-looking measure, provides a more market-driven valuation related to investors' expectations of the volatility of our business, and provides a balance against focusing only on a historical measure. 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.

Prior to January 1, 2006, we applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations which require compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. We had adopted the disclosure-only provision of SFAS No. 148, "Accounting for Stock-Based Compensation". As all options granted to employees under such plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant, and given the fixed nature of the equity instruments, no stock-based employee compensation cost relating to stock options was reflected in net income (loss).

Income Taxes:

We apply SFAS No. 109, "Accounting for Income Taxes", 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 may be in effect when the differences are expected to reverse.

We recorded a deferred tax asset in December 2004 arising from our conclusion that it was more likely than not that we would be able to utilize our U.S. net operating loss carryforwards ("NOLs") that had accumulated over time. The recognition of a deferred tax asset resulted from our evaluation of all available evidence, both positive and negative, including: a) recent historical net income, and income on a cumulative three-year basis, as well as anticipated future profitability based in part on recent military contracts; b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios; and c) the award of a significant contract with the U.S. Defense Department in December 2004 for various battery types that could reach a maximum value of $286,000 in revenues over the next five years. The amount of the net deferred tax assets was considered realizable. As of December 31, 2005, we continued to recognize a deferred tax asset arising from our conclusion that it was more likely than not that we would be able to utilize our U.S. NOLs that had accumulated over time. In December 2006, we placed a full valuation allowance on our deferred tax assets arising from our conclusion that it was more likely than not that we would not be able to utilize our U.S. NOLs that had accumulated over time. The recognition of the full valuation allowance on our deferred tax asset resulted from our evaluation of all available evidence, both positive and negative, including: a) recent historical net income/losses, and income/losses on a cumulative three-year basis; and b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios. As of December 31, 2007, we continue to recognize a full valuation allowance on our deferred tax assets, based on a consistent evaluation methodology that was used for 2006 and arising from our conclusion that it is more likely than not that we would not be able to utilize our U.S. NOLs that have accumulated over time. We have significant NOLs related to past years' cumulative losses, and as a result can be subject to U.S. alternative minimum tax where NOLs can offset only 90% of alternative minimum taxable income. Because evidence such as our operating results during the most recent historical periods is afforded more weight than forecasted results for future periods, our cumulative loss during our most recent three-year period represents sufficient negative evidence regarding the need for a full valuation allowance under SFAS No. 109. Achieving business plan targets, particularly those relating to revenue and profitability, is integral to our assessment regarding the recoverability of our net deferred tax asset. (See Note 8 in the Notes to the Consolidated Financial Statements for additional information.)

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), which replaces SFAS 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. The impact of adopting SFAS No. 141R will be dependent on the future business combinations that we may pursue after its effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51", which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The impact of adopting SFAS No. 160 will be dependent on the structure of future business combinations or partnerships that we may pursue after its effective date.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for an entity's first fiscal year beginning after November 15, 2007. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In December 2006, FASB issued FASB Staff Position ("FSP") EITF 00-19-2 which addresses an issuer's accounting for registration payment arrangements for financial instruments such as equity shares, warrants or debt instruments. This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB SFAS No. 5, "Accounting for Contingencies" and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." The financial instrument(s) subject to the registration payment arrangement shall be recognized and measured in accordance with other applicable Generally Acceptable Accounting Principles, ("GAAP") without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. An entity should recognize and measure a registration payment arrangement as a separate unit of account from the financial instrument(s) subject to that arrangement. Adoption of this FSP may require additional disclosures relating to the nature of the registration payment, settlement alternatives, current carrying amount of the liability representing the issuer's obligations and the maximum potential amount of consideration, undiscounted that the issuer could be required to transfer. This FSP shall be effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of this FSP. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of this FSP, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006. The adoption of this pronouncement had no impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances and is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, FASB issued FSP FASB No 157-2, which delays the effective date of FASB No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, with early adoption encouraged. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109" ("FIN 48"). This statement clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were effective for fiscal years beginning after December 15, 2006. The adoption of this pronouncement had no significant impact on our financial statements. See Note 8 for additional information related to the effect of the adoption of FIN 48.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 156"). SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 was effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this pronouncement had no impact on our financial statements.

In January 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"). SFAS No. 155 amended SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 also resolved issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 eliminated the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for in the same manner regardless of the form of the instruments. SFAS No. 155 allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis. SFAS No. 155 was effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that began after September 15, 2006. The fair value election provided for in paragraph 4(c) of SFAS No. 155 may also be applied upon adoption of SFAS No. 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of this Statement. Earlier adoption was permitted as of the beginning of an entity's fiscal year, provided the entity had not yet issued financial statements, including financial statements for any interim period for that fiscal year. Provisions of SFAS No. 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The adoption of this pronouncement had no significant impact on our financial statements.

In June 2005, the FASB issued FASB Staff Position No. FAS 143-1 (“FSP FAS 143-1”), Accounting for Electronic Equipment Waste Obligations. FSP FAS 143-1 addresses the accounting for obligations associated with the Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). FSP FAS 143-1 was effective the latter of the first reporting period that ended after June 8, 2005 or the date that the EU-member country adopts the law. Effective January 2, 2007, the United Kingdom, the only EU-member country in which we have significant operations, adopted the law. The adoption of this law had no significant impact on our financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(Dollars in thousands)

We are exposed to various market risks in the normal course of business, primarily interest rate risk and foreign currency risk. Our primary interest rate risk is derived from our outstanding variable-rate debt obligation. In July 2004, we hedged this risk by entering into an interest rate swap arrangement in connection with the term loan component of our credit facility. Under the swap arrangement, effective August 2, 2004, we received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years and is adjusted accordingly for a Eurodollar spread incorporated in the agreement. As of December 31, 2007, a one basis point change in the Eurodollar spread would have a less than $1 value change.

We are subject to foreign currency risk, due to fluctuations in currencies relative to the U.S. dollar. In the year ended December 31, 2007, approximately 81% of our sales were denominated in U.S. dollars. The remainder of our sales was denominated in U.K. pounds sterling, euros, Australian dollars, Canadian dollars and Chinese yuan renminbi. A 10% change in the value of the pound sterling, the euro, Australian dollar, Canadian dollar or the yuan renminbi to the U.S. dollar would have impacted our revenues in that period by less than 2%. We monitor the relationship between the U.S. dollar and other currencies on a continuous basis and adjust sales prices for products and services sold in these foreign currencies as appropriate to safeguard against the fluctuations in the currency effects relative to the U.S. dollar.

We maintain manufacturing operations in North America, Europe and Asia, and export products internationally. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. In addition, our foreign subsidiaries maintain their books in local currency, which is translated into U.S. dollars for our consolidated financial statements. A 10% change in local currency relative to the U.S. dollar would have impacted our consolidated income before taxes by approximately $315, or approximately 6%.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in Item 15(a)(1) and (2) are included in this Report beginning on page 47.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Ultralife Batteries, Inc.
Newark, New York

We have audited the accompanying consolidated balance sheets of Ultralife Batteries, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive income (loss), and cash flows for the years ended December 31, 2007 and 2006. We have also audited the schedule listed in the accompanying index for the years ended December 31, 2007 and 2006. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ultralife Batteries, Inc. at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006**,** in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the schedule, when considered in relation to the basic consolidated financial statements taken as a whole, for the years ended December 31, 2007 and 2006 presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 7 to the consolidated financial statements, the Company changed its method of accounting for share-based compensation on January 1, 2006 by adopting Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment.*"

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ultralife Batteries, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 19, 2008, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Troy, Michigan
March 19, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Ultralife Batteries, Inc.:

In our opinion, the consolidated statements of operations, shareholders' equity and accumulated other comprehensive income (loss) and cash flows for the year ended December 31, 2005 present fairly, in all material respects, the results of operations and cash flows for Ultralife Batteries, Inc. and its subsidiaries for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended December 31, 2005 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Rochester, New York
March 22, 2006

ULTRALIFE BATTERIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Amounts)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,245	$ 720
Trade accounts receivable, net of allowance for doubtful accounts of $485 and $447, respectively	26,540	24,197
Inventories	35,098	27,360
Due from insurance company	152	780
Deferred tax asset — current	309	75
Prepaid expenses and other current assets	3,949	2,748
Total current assets	68,293	55,880
Property, plant and equipment, net	19,365	19,396
Other assets:		
Goodwill	21,180	13,344
Intangible assets, net	13,113	9,072
Security deposits	97	66
	34,390	22,482
Total Assets	$ 122,048	$ 97,758
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 13,423	$ 12,246
Accounts payable	18,326	15,925
Accrued compensation	974	547
Accrued vacation	928	755
Other current liabilities	8,181	8,337
Total current liabilities	41,832	37,810
Long-term liabilities:		
Debt and capital lease obligations	16,224	20,043
Other long-term liabilities	985	316
Total long-term liabilities	17,209	20,359
Commitments and contingencies (Note 6)		
Shareholders' 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 - 17,208,862 and 15,853,306, respectively	1,712	1,578
Capital in excess of par value	152,070	134,736
Accumulated other comprehensive income (loss)	69	(321)
Accumulated deficit	(88,443)	(94,026)
	65,408	41,967
Less —Treasury stock, at cost - 728,690 and 727,250 shares outstanding, respectively	2,401	2,378
Total shareholders' equity	63,007	39,589
Total Liabilities and Shareholders' Equity	$ 122,048	$ 97,758

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

ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Year Ended December 31, 2007	2006	2005
Revenues	$ 137,596	$ 93,546	$ 70,501
Cost of products sold	108,822	76,103	58,243
Gross margin	28,774	17,443	12,258
Operating expenses:			
Research and development (including $1,027, $619 and $0 of amortization of intangible assets, respectively)	7,000	5,097	3,751
Selling, general, and administrative (including $1,290, $580 and $0 of amortization of intangible assets, respectively)	21,973	15,303	11,409
Total operating expenses	28,973	20,400	15,160
Operating income (loss)	(199)	(2,957)	(2,902)
Other income (expense):			
Interest income	50	126	185
Interest expense	(2,234)	(1,424)	(821)
Gain on insurance settlement	—	191	—
Gain on McDowell settlement	7,550	—	—
Miscellaneous income (expense)	493	311	(318)
Income (loss) before income taxes	5,660	(3,753)	(3,856)
Income tax provision — current	—	—	3
Income tax provision — deferred	77	23,735	486
Total income taxes provision	77	23,735	489
Net income (loss)	$ 5,583	$ (27,488)	$ (4,345)
Earnings (loss) per share — basic	$ 0.36	$ (1.84)	$ (0.30)
Earnings (loss) per share — diluted	$ 0.36	$ (1.84)	$ (0.30)
Weighted average shares outstanding — basic	15,316	14,906	14,551
Weighted average shares outstanding — diluted	15,557	14,906	14,551

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

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ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
(Dollars in Thousands, Except Per Share Amounts)

	Common Stock			Accumulated Other Comprehensive Income (Loss)				
	Number of Shares	Amount	Capital in excess of Par Value	Foreign Currency Translation Adjustment	Other Unrealized Net Gain (Loss)	Accumulated Deficit	Treasury Stock	Total
Balance as of December 31, 2004	15,019,262	$ 1,502	$ 127,299	$ (505)	$ (100)	$ (62,193)	$ (2,378)	$ 63,625
Comprehensive loss:								
Net loss						(4,345)		(4,345)
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments				(609)				(609)
Unrealized gain on interest rate swap arrangements					160			160
Other comprehensive loss								(449)
Comprehensive loss								(4,794)
Tax benefits applicable to exercise of stock options			788					788
Shares issued under employee stock grant	42	—	1					1
Shares issued under stock option and warrant exercises	452,142	45	2,442					2,487
Balance as of December 31, 2005	15,471,446	$ 1,547	$ 130,530	$ (1,114)	$ 60	$ (66,538)	$ (2,378)	$ 62,107
Comprehensive loss:								
Net loss						(27,488)		(27,488)
Other comprehensive income (loss), net of tax:								
Foreign currency translation adjustments				743				743
Unrealized loss on interest rate swap arrangements					(10)			(10)
Other comprehensive income								733
Comprehensive loss								(26,755)
Stock-based compensation related to stock options			1,320					1,320
Shares issued and compensation under restricted stock grants	85,668	1	159					160
Shares and stock warrants issued in connection with ABLE acquisition	96,247	10	1,516					1,526
Shares issued under stock option and warrant exercises	199,945	20	1,211					1,231
Balance as of December 31, 2006	15,853,306	$ 1,578	$ 134,736	$ (371)	$ 50	$ (94,026)	$ (2,378)	$ 39,589
Comprehensive income:								
Net income						5,583		5,583
Other comprehensive income (loss), net of								

tax:								
Foreign currency translation adjustments				437				437
Unrealized loss on interest rate swap arrangements					(47)			(47)
Other comprehensive income								390
Comprehensive income:								5,973
Stock-based compensation related to stock options			1,648					1,648
Shares issued and compensation under restricted stock grants	51,548	4	497				(23)	478
Shares issued in connection with RPS acquisition	100,000	10	1,373					1,383
Shares issued in connection with limited public offering, net of expenses	1,000,000	100	12,522					12,622
Shares issued under stock option exercises	204,008	20	1,294					1,314
Balance as of December 31, 2007	17,208,862	$ 1,712	$ 152,070	$ 66	$ 3	$ (88,443)	$ (2,401)	$ 63,007

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

ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended December 31, 2007	2006	2005
OPERATING ACTIVITIES			
Net income (loss)	$ 5,583	$ (27,488)	$ (4,345)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization of financing fees	3,861	3,667	3,181
Amortization of intangible assets	2,317	1,199	—
Loss on asset disposal	37	152	22
Gain on insurance settlement	—	(191)	—
Foreign exchange (gain) loss	(425)	(285)	330
Gain on McDowell settlement	(7,550)	—	—
Non-cash stock-based compensation	2,149	1,480	—
Changes in deferred income taxes	77	23,735	489
Provision for loss on accounts receivable	101	74	208
Provision for inventory obsolescence	1,323	90	221
Provision for warranty charges	210	131	205
Provision for workers' compenstion obligation	—	350	—
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	83	(8,866)	(2,734)
Inventories	(7,348)	(2,366)	(6,115)
Prepaid expenses and other current assets	(1,157)	143	(793)
Insurance receivable relating to fires	682	602	659
Income taxes payable	—	19	—
Accounts payable and other liabilities	1,626	7,705	3,085
Net cash provided by (used in) operating activities	1,569	151	(5,587)
INVESTING ACTIVITIES			
Purchase of property and equipment	(2,073)	(1,455)	(3,309)
Proceeds from asset disposal	—	—	25
Proceeds from sales of securities	—	—	1,000
Payment for acquired companies, net of cash acquired	(8,678)	(7,013)	—
Net cash used in investing activities	(10,751)	(8,468)	(2,284)
FINANCING ACTIVITIES			
Net change in revolving credit facilities	3,308	6,475	195
Proceeds from issuance of common stock	13,936	1,231	2,488
Principal payments on debt and capital lease obligations	(6,817)	(2,046)	(2,020)
Net cash provided by in financing activities	10,427	5,660	663
Effect of exchange rate changes on cash	280	163	(107)
Change in cash and cash equivalents	1,525	(2,494)	(7,315)
Cash and cash equivalents at beginning of period	720	3,214	10,529
Cash and cash equivalents at end of period	$ 2,245	$ 720	$ 3,214
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 2,175	$ 992	$ 545
Cash paid for income taxes	$ —	$ 5	$ 22
Noncash investing and financing activities:			
Issuance of common stock and stock warrants for acquired companies	$ 1,383	$ 1,526	$ —
Issuance of convertible notes payable for acquired companies	$ 4,000	$ 20,000	$ —
Purchase of property and equipment via capital lease payable	$ 545	$ —	$ —

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

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Amounts)

Note 1 — Summary of Operations and Significant Accounting Policies

a. *Description of Business*

We offer products and services ranging from portable and standby 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: portable and standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. 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.

b. *Principles of Consolidation*

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and include the accounts of Ultralife Batteries, Inc. and our wholly owned subsidiaries, Ultralife Batteries (UK) Ltd., ABLE New Energy Co., Limited, and its wholly-owned subsidiary ABLE New Energy Co., Ltd., McDowell Research Co., Inc., RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.), Stationary Power Services, Inc. and Reserve Power Systems, Inc. Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities in which we do not have a controlling interest are accounted for using the equity method, if our interest is greater than 20%. Investments in entities in which we have less than a 20% ownership interest are accounted for using the cost method.

c. *Management's Use of Judgment and Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Key areas affected by estimates include: (a) reserves for deferred tax assets, excess and obsolete inventory, warranties, and bad debts; (b) profitability on development contracts; (c) various expense accruals; (d) stock-based compensation; and, (e) carrying value of goodwill and intangible assets. Actual results could differ from those estimates.

d. *Reclassifications*

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

e. *Cash and Cash Equivalents*

For purposes of the Consolidated Statements of Cash Flows, we consider all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents. For purposes of the Consolidated Balance Sheet, the carrying value approximates fair value because of the short maturity of these instruments.

f. *Accounts Receivable and Allowance for Doubtful Accounts*

We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. We evaluate the adequacy of our allowance for doubtful accounts quarterly. Accounts outstanding longer than contractual payment terms are considered past due and are reviewed individually for collectability. We maintain reserves for potential credit losses based upon our loss history and specific receivables aging analysis. Receivable balances are written off when collection is deemed unlikely. Such losses have been within management's expectations.

Changes in our allowance for doubtful accounts during the years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Balance at beginning of year	$447	$458	$284
Amounts charged (credited) to expense	101	74	208
Amounts charged to other accounts	6	—	—
Uncollectible accounts written-off, net of recovery	(69)	(85)	(34)
Balance at end of year	$485	$447	$458

g. *Inventories*

Inventories are stated at the lower of cost or market with cost determined under the first-in, first-out (FIFO) method. We record provisions for excess, obsolete or slow-moving inventory based on changes in customer demand, technology developments or other economic factors.

h. *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Estimated useful lives are as follows:

Buildings	10 – 20 years
Machinery and Equipment	5 – 10 years
Furniture and Fixtures	3 – 10 years
Computer Hardware and Software	3 – 5 years
Leasehold Improvements	Lesser of useful life or lease term

Depreciation and amortization are computed using the straight-line method. Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other repairs and maintenance costs are expensed when incurred. When disposed, the cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in operating income (expense).

i. *Long-Lived Assets, Goodwill and Intangibles*

We regularly assess all of our long-lived assets for impairment when events or circumstances indicate that their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the assets with the respective carrying amount as of the date of assessment. Should aggregate future cash flows be less than the carrying value, a write-down would be required, measured as the difference between the carrying value and the fair value of the asset. Fair value is estimated either through the assistance of an independent valuation or as the present value of expected discounted future cash flows. The discount rate used by us in our evaluation approximates our weighted average cost of capital. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, no impairment is recognized. We did not record any impairment of long-lived assets in the calendar years ended December 31, 2007, 2006 or 2005.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "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.

Based on the current preliminary valuations for amortizable intangible assets acquired in the RedBlack and SPS acquisitions during 2007, and the final valuations for amortizable intangible assets acquired in the ABLE and McDowell acquisitions during 2006, we project our amortization expense will be approximately $2,085, $1,393, $1,011, $818 and $649 for the fiscal years ending December 31, 2008 through 2012, respectively.

j. *Translation of Foreign Currency*

The financial statements of our foreign affiliates are translated into U.S. dollar equivalents in accordance with SFAS No. 52, “Foreign Currency Translation”. Exchange gains (losses) included in net income (loss) for the years ended December 31, 2007, 2006 and 2005 were $425, $285, and $(330), respectively.

k. *Revenue Recognition*

Product Sales – In general, revenues from the sale of products are recognized when products are shipped. When products are shipped with terms that require transfer of title upon delivery at a customer’s location, revenues are recognized on date of delivery. A provision is made at the time the revenue is recognized for warranty costs expected to be incurred. Customers, including distributors, do not have a general right of return on products shipped.

Services – Revenue from fixed price engineering contracts and the sale of installation services is recognized on a proportional method, measured by the percentage of actual costs incurred to total estimated costs to complete the contract. Revenue from time and material engineering contracts is recognized as work progresses through monthly billings of time and materials as they are applied to the work pursuant to the terms in the respective contract. Revenue from customer maintenance agreements is recognized using the straight-line method over the term of the related agreements, which range from six months to three years.

Technology Contracts – We recognize revenue using the proportional effort method based on the relationship of costs incurred to date to the total estimated cost to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. We allocate costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred.

l. *Warranty Reserves*

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves, included in other current liabilities and other long-term liabilities as applicable on our Consolidated Balance Sheets, are based on historical experience of warranty claims. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded.

m. *Shipping and Handling Costs*

Costs incurred by us related to shipping and handling are included in cost of products sold. Amounts charged to customers pertaining to these costs are reflected as revenue.

n. *Advertising Expenses*

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations. Such expenses amounted to $443, $320, and $248 for the years ended December 31, 2007, 2006 and 2005, respectively.

o. *Research and Development*

Research and development expenditures are charged to operations as incurred. The majority of research and development expenses pertain to salaries and benefits, developmental supplies, depreciation and other contracted services.

p. *Environmental Costs*

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) 96-1, “Environmental Remediation Liabilities”. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

q. *Income Taxes*

The asset and liability method, prescribed by SFAS No. 109, “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 year ended December 31, 2007, we continued to recognize a full valuation allowance on our net deferred tax asset, based on a consistent evaluation methodology that was used for 2006 and due to the determination that it was more likely than not that we would not be able to utilize these benefits in the future. A valuation allowance is required when it is more likely than not that the recorded value of a deferred tax asset will not be realized. Because evidence, such as our operating results during the most recent historical periods excluding the gain on the McDowell settlement, is afforded more weight than forecasted results for future periods, our cumulative loss during our most recent three-year period represents sufficient negative evidence regarding the need for a full valuation allowance under SFAS No. 109. For the year ended December 31, 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination that it was more likely than not that we would not be able to utilize these benefits in the future. For the year ended December 31, 2005, our balance sheet reflected a balance of $23,729 associated with our net deferred tax asset, arising from our conclusion that it was more likely than not that we would be able to utilize our U.S. NOLs that had accumulated over time. A valuation allowance was required for the years ended December 31, 2007, 2006 and 2005 related to our U.K. subsidiary and the history of losses at that facility.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109” (“FIN 48”). This statement clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were effective for fiscal years beginning after December 15, 2006. The adoption of this pronouncement on January 1, 2007 had no significant impact on our financial statements.

r. *Concentration Related to Customers and Suppliers*

We have three major customers, the U.S. Department of Defense, that comprised 14%, 20%, and 25% of our revenue in the years ended December 31, 2007, 2006 and 2005, respectively, the U.K. Ministry of Defence, that comprised 12%, 7%, and 6% of our revenue in the years ended December 31, 2007, 2006 and 2005, respectively, and Raytheon Company, that comprised 13%, 3%, and 1% of our revenue in the years ended December 31, 2007, 2006 and 2005, respectively. There were no other customers that comprised greater than 10% of our total revenues in those years.

We have two customers that comprised 42% of our trade accounts receivables as of December 31, 2007. There were no other customers that comprised greater than 10% of our total trade accounts receivables as of December 31, 2007. We have one customer that comprised 22% of our trade accounts receivable as of December 31, 2006. There were no other customers that comprised greater than 10% of our total trade accounts receivable as of December 31, 2006.

Currently, we do not experience significant seasonal trends in non-rechargeable product revenues. However, a downturn in the U.S. economy, which affects retail sales and which could result in fewer sales of smoke detectors to consumers, could potentially result in lower sales for us to this market segment. The smoke detector OEM market segment comprised approximately 12% of total non-rechargeable revenues in 2007. Additionally, a lower demand from the U.S., U.K. and other foreign governments could result in lower sales to military and government users.

We generally do not distribute our products to a concentrated geographical area nor is there a significant concentration of credit risks arising from individuals or groups of customers engaged in similar activities, or who have similar economic characteristics. While sales to the U.S. Department of Defense have been substantial during 2007, 2006 and 2005, we do not consider this customer to be a significant credit risk. We do not normally obtain collateral on trade accounts receivable.

Certain materials and components used in our products are available only from a single or a limited number of suppliers. As such, some materials and components could become in short supply resulting in limited availability and/or increased costs. Additionally, we may elect to develop relationships with a single or limited number of suppliers for materials and components that are otherwise generally available. Although we believe that alternative suppliers are available to supply materials and components that could replace materials and components currently used and that, if necessary, we would be able to redesign our products to make use of such alternatives, any interruption in the supply from any supplier that serves as a sole source could delay product shipments and have a material adverse effect on our business, financial condition and results of operations. We have experienced interruptions of product deliveries by sole source suppliers in the past. For example, in the fourth quarter of 2007, we ramped up production levels in our Communications Systems business to meet increased order volumes. A sole-source supplier of a key component was unable to meet an agreed-upon delivery schedule which caused a delay in shipments of our products to our customers.

s. *Fair Value of Financial Instruments*

SFAS No. 107, “Disclosure About 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 SFAS No. 107 approximated their carrying values at December 31, 2007 and 2006. Fair values have been determined through information obtained from market sources.

t. *Derivative Financial Instruments*

Derivative instruments are accounted for in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of our interest rate swap at December 31, 2007 and 2006 resulted in an asset of $4 and $76, respectively, all of which was reflected as short term.

u. *Earnings (Loss) Per Share*

We account for earnings (loss) per common share in accordance with the provisions of SFAS No. 128, “Earnings Per Share”. SFAS No. 128 requires the reporting of basic and diluted earnings per share (“EPS”). Basic EPS is computed by dividing reported earnings available to common shareholders by weighted average shares outstanding for the period. Diluted EPS includes the dilutive effect of securities, if any, calculated using the treasury stock method. There were 1,573,325 outstanding stock options, warrants and restricted stock awards as of December 31, 2007 that were not included in EPS as the effect would be anti-dilutive. We also had 966,667 shares of common stock at December 31, 2007 reserved under convertible notes payable, which were not included in EPS as the effect would be anti-dilutive. The dilutive effect of 392,041 outstanding stock options, warrants and restricted stock awards was included in the dilution computation for the year ended December 31, 2007. There were 1,915,471 and 1,516,906 outstanding stock options, warrants and restricted stock awards as of December 31, 2006 and 2005, respectively, that were not included in EPS as the effect would be anti-dilutive. We also had 1,333,333 and -0- shares of common stock at December 31, 2006 and 2005, respectively reserved under convertible notes payable, which were not included in EPS as the effect would be anti-dilutive. For these periods, diluted earnings (loss) per share were the equivalent of basic earnings (loss) per share due to the net loss. (See Note 7)

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

	Year Ended December 31,		
	2007	2006	2005
Net Income (Loss) (a)	$ 5,583	$(27,488)	$ (4,345)
Effect of Dilutive Securities:			
Stock Options / Warrants	—	—	—
Restricted Stock Awards	—	—	—
Net Income (Loss) – Adjusted (b)	$ 5,583	$(27,488)	$ (4,345)
Average Shares Outstanding – Basic (c)	15,316	14,906	14,511
Effect of Dilutive Securities:			
Stock Options / Warrants	222	—	—
Restricted Stock Awards	19	—	—
Average Shares Outstanding – Diluted (d)	15,557	14,906	14,551
EPS – Basic (a/c)	$ 0.36	$ (1.84)	$ (0.30)
EPS – Diluted (b/d)	$ 0.36	$ (1.84)	$ (0.30)

v. *Stock-Based Compensation*

We have various stock-based employee compensation plans, which are described more fully in Note 7. Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) requiring 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). We adopted SFAS 123R using the modified prospective method and, accordingly, did not restate prior periods presented in this Form 10-K to reflect the fair value method of recognizing compensation cost. Under the modified prospective approach, SFAS 123R applies to new awards, awards that were unvested as of January 1, 2006 and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled.

Prior to January 1, 2006, we applied Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations which required compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. As all options granted to employees under such plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant, and given the fixed nature of the equity instruments, no stock-based employee compensation cost relating to stock options was reflected in net income (loss).

The effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of SFAS No. 123”, to stock -based employee compensation for the year ended December 31, 2005, would have been as follows:

	2005
Net loss, as reported	$ (4,345)
Add: Stock option-based employee compensation expense included in reported net loss, net of related tax effects	—
Deduct: Total stock option-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,236)
Pro forma net loss	$ (7,581)
Loss per share:	
Basic – as reported	$ (0.30)
Diluted – as reported	$ (0.30)
Basic – pro forma	$ (0.52)
Diluted – pro forma	$ (0.52)

In December 2005, our Board of Directors approved the acceleration of vesting of certain “underwater” unvested stock options held by certain current employees, including some of our executive officers. Options held by our President and Chief Executive Officer were not included in the acceleration. Options held by non-employee directors also were not included as those options vest immediately upon grant. A stock option was considered “underwater” if the exercise price was $12.90 per share or greater. A total of 346,186 options were impacted by this acceleration. The effect on net loss in 2005 resulting from this acceleration, if we had applied the fair value recognition provisions of SFAS No. 148 to stock-based employee compensation, was approximately $1,500 net of related tax effects. (See Note 7.)

w. *Segment Reporting*

We report segment information in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”. We have four operating segments. The basis for determining our operating segments is the manner in which financial information is used by us in our operations. Management operates and organizes itself according to business units that comprise unique products and services across geographic locations.

x. *Recent Accounting Pronouncements*

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141R”), which replaces SFAS 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. The impact of adopting SFAS No. 141R will be dependent on the future business combinations that we may pursue after its effective date.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51”, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The impact of adopting SFAS No. 160 will be dependent on the structure of future business combinations or partnerships that we may pursue after its effective date.

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for an entity's first fiscal year beginning after November 15, 2007. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In December 2006, FASB issued FASB Staff Position ("FSP") EITF 00-19-2 which addresses an issuer's accounting for registration payment arrangements for financial instruments such as equity shares, warrants or debt instruments. This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB SFAS No. 5, "Accounting for Contingencies" and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." The financial instrument(s) subject to the registration payment arrangement shall be recognized and measured in accordance with other applicable Generally Acceptable Accounting Principles, ("GAAP") without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. An entity should recognize and measure a registration payment arrangement as a separate unit of account from the financial instrument(s) subject to that arrangement. Adoption of this FSP may require additional disclosures relating to the nature of the registration payment, settlement alternatives, current carrying amount of the liability representing the issuer's obligations and the maximum potential amount of consideration, undiscounted that the issuer could be required to transfer. This FSP shall be effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of this FSP. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of this FSP, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006. The adoption of this pronouncement had no impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which establishes a framework for measuring fair value and requires expanded disclosure about the information used to measure fair value. The statement applies whenever other statements require, or permit, assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances and is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, FASB issued FSP FASB No 157-2, which delays the effective date of FASB No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, with early adoption encouraged. We do not expect the adoption of this pronouncement to have a significant impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109" ("FIN 48"). This statement clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were effective for fiscal years beginning after December 15, 2006. The adoption of this pronouncement had no significant impact on our financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 156"). SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 was effective for an entity's first fiscal year beginning after September 15, 2006. The adoption of this pronouncement had no impact on our financial statements.

In January 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"). SFAS No. 155 amended SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 also resolved issues addressed in SFAS No. 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 eliminated the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for in the same manner regardless of the form of the instruments. SFAS No. 155 allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis. SFAS No. 155 was effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that began after September 15, 2006. The fair value election provided for in paragraph 4(c) of SFAS No. 155 may also be applied upon adoption of SFAS No. 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS No. 133 prior to the adoption of this Statement. Earlier adoption was permitted as of the beginning of an entity's fiscal year, provided the entity had not yet issued financial statements, including financial statements for any interim period for that fiscal year. Provisions of SFAS No. 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The adoption of this pronouncement had no significant impact on our financial statements.

In June 2005, the FASB issued FASB Staff Position No. FAS 143-1 ("FSP FAS 143-1"), Accounting for Electronic Equipment Waste Obligations. FSP FAS 143-1 addresses the accounting for obligations associated with the Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). FSP FAS 143-1 was effective the latter of the first reporting period that ends after June 8, 2005 or the date that the EU-member country adopts the law. Effective January 2, 2007, the United Kingdom, the only EU-member country in which we have significant operations, adopted the law. The adoption of this law had no significant impact on our financial statements.

Note 2 — Acquisitions

We accounted for the following acquisitions in accordance with the purchase method of accounting provisions of SFAS No. 141, "Business Combinations," whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

2007 Acquisitions

RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.)

On September 28, 2007, we finalized the acquisition of all of the issued and outstanding shares of common stock of Innovative Solutions Consulting, Inc. ("ISC"), a provider of a full range of engineering and technical services for communication electronic systems to government agencies and prime contractors. In January 2008, we renamed ISC to RedBlack Communications, Inc. ("RedBlack").

The initial cash purchase price was $943 (net of $57 in cash acquired), with up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones. The additional cash consideration is payable in up to three annual payments and subject to possible adjustments as set forth in the stock purchase agreement. The contingent payments will be recorded as an addition to the purchase price when the performance milestones are attained. The initial $943 cash payment was financed through a combination of cash on hand and borrowings through the revolver component of our credit facility with our primary lending banks. We incurred $41 in acquisition related costs, which are included in the initial cost of the investment of $984, with a potential total cost of the investment of $2,984 assuming the earn-out of all contingent consideration. During the fourth quarter of 2007, $28 of additional acquisition costs were incurred, which resulted in an increase of goodwill of $28.

The results of operations of RedBlack and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $136 (including $57 in cash) was recorded as goodwill in the amount of $905. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill will be assigned to the Design and Installation Services segment and is expected to be fully deductible for income tax purposes.

As a result of revisions to the asset valuations during the fourth quarter of 2007, values assigned to the tangible and intangible assets have been revised. The adjustments to the values for tangible assets from those reported for the quarter ended September 29, 2007 were as follows: inventory decreased by $117, property, plant and equipment decreased by $100, non-compete agreements increased by $180 and accounts payable increased by $98. These adjustments resulted in an increase to goodwill of $135.

The following table represents the revised, preliminary allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ 57
Trade accounts receivables, net	535
Prepaid expenses and other current assets	175
Total current assets	767
Property, plant and equipment, net	687
Goodwill	905
Intangible Assets:	
Non-compete agreements	180
Total assets acquired	2,539
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	720
Accounts payable	431
Other current liabilities	159
Total current liabilities	1,310
Long-term liabilities:	
Debt	188
Total liabilities assumed	1,498
Total Purchase Price	$ 1,041

Non-compete agreements are being amortized on a straight-line basis over their estimated useful lives of two years.

The following table summarizes the unaudited pro forma financial information for the periods indicated as if the RedBlack acquisition had occurred at the beginning of the period being presented. The pro forma information contains the actual combined results of RedBlack and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; and the impact on interest expense in connection with funding the cash portion of the acquisition purchase price. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each of the periods presented or that may be obtained in the future.

	Years Ended December 31,	
(in thousands, except per share data)	2007	2006
Revenues	$139,698	$ 97,284
Net Income (Loss)	$ 5,107	$ (28,987)
Earnings (Loss) per share — Basic	$ 0.33	$ (1.94)
Earnings (Loss) per share — Diluted	$ 0.33	$ (1.94)

Stationary Power Services, Inc. and Reserve Power Systems, Inc.

On November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Stationary Power Services, Inc. (“SPS”), an infrastructure power management services firm specializing in engineering, installation and preventative maintenance of standby power systems, uninterruptible power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, banking and information services industries. Immediately prior to the closing of the SPS acquisition, SPS distributed the real estate assets, along with the corresponding mortgage payable, to the original owner of SPS, as these assets and corresponding liability were not part of our acquisition of SPS. Also on November 16, 2007, we completed the acquisition of all of the issued and outstanding shares of common stock of Reserve Power Systems, Inc. (“RPS”), a supplier of lead acid batteries primarily for use by SPS in the design and installation of standby power systems. SPS and RPS were previously affiliated companies due to common ownership interests.

Under the terms of the stock purchase agreement for SPS, the initial purchase price of $10,000 consisted of $5,889 (net of $111 in cash acquired) in cash and a $4,000 subordinated convertible promissory note to be held by the seller. In addition, on the achievement of certain post-acquisition sales milestones, we will issue up to an aggregate amount of 100,000 shares of our common stock. The $6,000 cash payment was financed by a portion of the net proceeds from a limited public offering that we completed on November 16, 2007, whereby 1,000,000 shares of our common stock were issued. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the SPS cash payment. The $4,000 subordinated convertible promissory note carries a three-year term, bears interest at the rate of 5% per year and is convertible at $15.00 per share into 266,667 shares of our common stock, with a forced conversion feature at $17.00 per share. We have evaluated the terms of the conversion feature under applicable accounting literature, including SFAS No. 133 and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19"), and concluded that this feature should not be separately accounted for as a derivative. We incurred $54 in acquisition related costs, which are included in the initial cost of the SPS investment of $10,054.

Under the terms of the stock purchase agreement for RPS, the initial purchase price consisted of 100,000 shares of our common stock, valued at $1,383. In addition, on the achievement of certain post-acquisition sales milestones, we will pay the sellers, in cash, 5% of sales up to the operating plan, and 10% of sales that exceed the operating plan, for the remainder of the calendar year 2007 and for calendar years 2008, 2009 and 2010. The additional contingent cash consideration is payable in annual installments, and excludes sales made to SPS, which historically have comprised substantially all of RPS's sales.

The results of operations of SPS and RPS and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $5,940 (including $111 of cash) was recorded as goodwill in the amount of $5,497. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new businesses. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill will be assigned to the Design and Installation Services and the Rechargeable Products segments and is expected to be fully deductible for income tax purposes.

The following table represents the preliminary allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash	$ 111
Trade accounts receivables, net	1,594
Inventories	1,687
Prepaid expenses and other current assets	52
Total current assets	3,444
Property, plant and equipment, net	324
Goodwill	5,497
Intangible Assets:	
Trademarks	1,300
Patents and Technology	440
Customer Relationships	4,600
Other Assets:	
Security deposits	12
Total assets acquired	15,617

LIABILITIES	
Current liabilities:	
Current portion of long-term debt	1,277
Accounts payable	1,958
Other current liabilities	788
Total current liabilities	4,023
Long-term liabilities:	
Debt	137
Other long-term liabilities	20
Total liabilities assumed	4,180
Total Purchase Price	$ 11,437

Trademarks have an indefinite life and are not being amortized. The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of nineteen years.

In connection with the SPS acquisition, we entered into an operating lease agreement for real property in Clearwater, Florida with a company partially owned by William Mahar, former owner of SPS and who joined the company as an employee following the completion of the SPS acquisition. The lease term is for three years and expires on November 15, 2010. The lease has a base annual rent of approximately $144, payable in monthly installments. In addition to the base annual rate, we are obligated to pay the real estate and personal property taxes associated with the facility. Under the terms of the lease, we have the right to extend the lease for one additional three-year term, with the base annual rent, applicable to the extension, of approximately $147.

The following table summarizes the unaudited pro forma financial information for the periods indicated as if the SPS and RPS acquisitions had occurred at the beginning of the period being presented. Because SPS and RPS were under common control as of the date of these acquisitions, the pro forma information contains the actual combined results of SPS and RPS and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; the interest expense incurred relating to the convertible note payable issued in connection with the acquisition purchase price; interest expense that would not have been incurred for the mortgage payable that was not assumed by us in the SPS acquisition; the elimination of the sales and purchases between SPS and RPS and us; and rent expense that would have been incurred for the building that was not acquired by us in the SPS acquisition, net of the reduction in depreciation expense for the building. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each of the periods presented or that may be obtained in the future.

(in thousands, except per share data)	Years Ended December 31, 2007	2006
Revenues	$144,356	$102,484
Net Income (Loss)	$5,393	$ (26,887)
Earnings (Loss) per share — Basic	$0.34	$ (1.74)
Earnings (Loss) per share — Diluted	$0.33	$ (1.74)

2006 Acquisitions

ABLE New Energy Co., Ltd.

On May 19, 2006, we acquired 100% of the equity securities of ABLE New Energy Co., Ltd. (“ABLE”), an established manufacturer of lithium batteries located in Shenzhen, China. With more than 50 products, including a wide range of lithium-thionyl chloride and lithium-manganese dioxide batteries and coin cells, this acquisition broadens our expanding portfolio of high-energy power sources, enabling us to further penetrate large and emerging markets such as remote meter reading, RFID (Radio Frequency Identification) and other markets that will benefit from these chemistries. We expect this acquisition will strengthen our global presence, facilitate our entry into the rapidly growing Chinese market, and improve our access to lower material and manufacturing costs.

The total consideration given for ABLE was a combination of cash and equity. The initial cash purchase price was $1,896 (net of $104 in cash acquired), with an additional $500 cash payment contingent on the achievement of certain performance milestones, payable in separate $250 increments, when cumulative ABLE revenues from the date of acquisition attain $5,000 and $10,000, respectively. The contingent payments will be recorded as an addition to the purchase price when the performance milestones are attained. In August 2007, the $5,000 cumulative revenue milestone was attained, and as such, we recorded the first $250 contingent cash payment, which resulted in an increase in goodwill of $250. The equity portion of the purchase price consisted of 96,247 shares of our common stock valued at $1,000, based on the closing price of the stock on the closing date of the acquisition, and 100,000 stock warrants valued at $526, for a total equity consideration of $1,526. The fair value of the stock warrants was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions as of May 19, 2006 (the date of acquisition):

Risk-free interest rate	4.31%
Volatility factor	61.25%
Dividends	0.00%
Weighted average expected life (years)	2.50

We incurred $59 in acquisition related costs, which is included in the total potential cost of the investment of $3,981.

The results of operations of ABLE and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $2,268 (including $104 in cash) was recorded as goodwill in the amount of $1,567. The acquired goodwill has been assigned to the Non-Rechargeable Products segment and is not deductible for income tax purposes.

The following table represents the final allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Cash and cash equivalents	$ 104
Trade accounts receivables, net	318
Inventories	737
Prepaid expenses and other current expenses	73
Total current assets	1,232
Property, plant and equipment, net	740
Goodwill	1,567
Intangible Assets:	
Trademarks	90
Patents and technology	390
Customer relationships	820
Distributor relationships	300
Non-compete agreements	40
Total assets acquired	5,179
LIABILITIES	
Current liabilities:	
Accounts payable	1,085
Other current liabilities	110
Total current liabilities	1,195
Long-term liabilities:	
Other long-term liabilities	65
Deferred tax liability	84
Total liabilities assumed	1,344
Total Purchase Price	$ 3,835

Trademarks have an indefinite life and will not be amortized. The intangible assets related to patents and technology, customer relationships, and distributor relationships are being amortized as the economic benefits of these intangible assets are being utilized over their weighted-average estimated useful life of eleven years. The non-compete agreements are being amortized on a straight-line basis over its estimated useful life of three years.

McDowell Research, Ltd.

On July 3, 2006, we finalized the acquisition of substantially all of the assets of McDowell Research, Ltd. (“McDowell”), a manufacturer of military communications accessories located in Waco, Texas.

Under the terms of the acquisition agreement, the purchase price of approximately $25,000 consisted of $5,000 in cash and a $20,000 non-transferable, subordinated convertible promissory note to be held by the sellers. The purchase price was subject to a post-closing adjustment based on a final valuation of trade accounts receivable, inventory and trade accounts payable that were acquired or assumed on the date of the closing, using a base value of $3,000. The final net value of these assets, under our contractual obligation under the acquisition agreement, was $6,389, resulting in a revised purchase price of approximately $28,448. A cash payment of $1,500 was made to the sellers during the first quarter of 2007 and we had accrued $1,889 for the remaining final post-closing adjustment of $3,389. As of December 31, 2006, we had accrued $3,000 for the post-closing adjustment. The 2006 accrual for the post-closing adjustment is included in the other current liabilities line on our Consolidated Balance Sheet.

The initial $5,000 cash portion was financed through a combination of cash on hand and borrowing through the revolver component of our credit facility with our primary lending banks, which was amended to accommodate the acquisition of McDowell. The $20,000 convertible note carried a five-year term, an annual interest rate of 4% and was convertible at $15 per share into 1.33 million shares of our common stock, with a forced conversion feature, at our option, at any time after the 30-day average closing price of our common stock exceeded $17.50 per share. We had evaluated the terms of the conversion feature under applicable accounting literature, including SFAS No. 133 and EITF 00-19, and concluded that this feature should not be separately accounted for as a derivative. The conversion price was subject to adjustment as defined in the subordinated convertible promissory note. Interest was payable quarterly in arrears, with all unpaid accrued interest and outstanding principal due in full on July 3, 2011. In April 2007, in connection with its dissolution, McDowell distributed the convertible note to its members in proportion to their membership interests, resulting in six separate convertible notes aggregating $20,000.

On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell, which resolved various operational issues that arose during the first several months following the acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible notes from $20,000 to $14,000, and eliminating the $1,889 liability related to the purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. Upon payment of the $3,500, we reported a one-time, non-operating gain of approximately $7,550 to account for the purchase price reduction, net of certain adjustments related to the change in the interest rate on the convertible notes. Based on the facts and circumstances surrounding the settlement agreement, there was not a clear and direct link to the purchase price; therefore, we recorded the settlement as an adjustment to income in accordance with SFAS No. 141. In January 2008, the convertible notes were converted in full into 700,000 shares of our common stock.

We have incurred $59 in acquisition related costs, which are included in the approximate total cost of the investment of $28,448.

The results of operations of McDowell and the estimated fair value of assets acquired and liabilities assumed are included in our consolidated financial statements beginning on the acquisition date. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $15,373 was recorded as goodwill in the amount of $13,075. The acquired goodwill has been assigned to the Communications Systems and the Rechargeable Products segments and is fully deductible for income tax purposes.

The following table represents the final allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date:

ASSETS	
Current assets:	
Trade accounts receivables, net	$ 3,532
Inventories	5,155
Prepaid inventory and other current expenses	10
Total current assets	8,697
Property, plant and equipment, net	397
Goodwill	13,075
Intangible Assets:	
Trademarks	3,000
Patents and technology	3,201
Customer relationships	1,990
Non-compete agreements	166
Total assets acquired	30,526
LIABILITIES	
Current liabilities:	
Current portion of long-term debt	46
Accounts payable	1,787
Other current liabilities	208
Total current liabilities	2,041
Long-term liabilities:	
Debt	37
Total liabilities assumed	2,078
Total Purchase Price	$ 28,448

Trademarks have an indefinite life and are not being amortized. The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of these intangible assets are being utilized over their weighted-average estimated useful life of thirteen years. The non-compete agreements are being amortized on a straight-line basis over their estimated useful life of two years.

In connection with the McDowell acquisition, we entered into an operating lease agreement for real property in Waco, Texas with a partnership that is 50% owned by Thomas Hauke, who joined us as an executive officer following the completion of the McDowell acquisition. The lease term was for one year, with annual rent of $227, payable in monthly installments. This lease was extended and on November 1, 2007, we entered into a new operating lease agreement on a month-to-month basis for $10 per month, due to a reduction in total square feet being utilized. During the first quarter of 2007, Mr. Hauke resigned from his position.

The following table summarizes the unaudited pro forma financial information for the periods indicated as if the McDowell acquisition had occurred at the beginning of the period being presented. The pro forma information contains the actual combined results of McDowell and us, with the results prior to the acquisition date including pro forma impact of: the amortization of the acquired intangible assets; the interest expense incurred relating to the convertible note payable issued in connection with the acquisition purchase price; the elimination of the sales and purchases between McDowell and us; the impact on interest income and interest expense in connection with funding the cash portion of the acquisition purchase price; and the impact on income taxes. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred as of the beginning of each of the periods presented or that may be obtained in the future.

(in thousands, except per share data)	Year Ended December 31, 2006
Revenues	$105,691
Net Loss	$ (26,359)
Loss per share — Basic	$ (1.77)
Loss per share — Diluted	$ (1.77)

Note 3 — Supplemental Balance Sheet Information

a. Inventory

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:

	December 31, 2007	December 31, 2006
Raw materials	$22,613	$14,964
Work in process	7,493	9,061
Finished products	7,325	4,541
	37,431	28,566
Less: Reserve for obsolescence	2,333	1,206
	$35,098	$27,360

b. Property, Plant and Equipment

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

	December 31, 2007	December 31, 2006
Land	$ 123	$ 123
Buildings and Leasehold Improvements	5,104	4,336
Machinery and Equipment	43,252	40,485
Furniture and Fixtures	1,229	982
Computer Hardware and Software	2,359	2,127
Construction in Progress	1,090	1,300
	53,157	49,353
Less: Accumulated Depreciation	33,792	29,957
	$ 19,365	$ 19,396

Estimated costs to complete construction in progress as of December 31, 2007 and 2006 was approximately $876 and $900, respectively.

Depreciation expense was $3,765, $3,610, and $3,112 for the years ended December 31, 2007, 2006, and 2005, respectively.

Included in Buildings and Leasehold Improvements is our Newark, New York facility that was held under a capital lease. Upon expiration of the lease in December 2007, we purchased the facility for the purchase price of one dollar. The carrying value for this facility is as follows:

	December 31, 2007	December 31, 2006
Acquisition Value	$ 553	$ 553
Accumulated Amortization	544	488
Carrying Value	$ 9	$ 65

Included in Machinery and Equipment are various capital leases. The carrying value for these assets is as follows:

	December 31, 2007	December 31, 2006
Acquisition Value	$ 600	$ 37
Accumulated Amortization	29	0
Carrying Value	$ 571	$ 37

c. Goodwill

The following table summarizes the goodwill activity by segment for the years ended December 31, 2007 and 2006:

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Total
Balance at December 31, 2005	$ —	$ —	$ —	$ —	$ —
Acquisition of ABLE	1,239	—	—	—	1,239
Acquisition of McDowell	—	2,421	9,684	—	12,105
Balance at December 31, 2006	$ 1,239	$ 2,421	$ 9,684	$ —	$ 13,344
Acquisition of RedBlack	—	—	—	905	905
Acquisition of SPS	—	—	—	3,825	3,825
Acquisition of RPS	—	1,672	—	—	1,672
Adjustments to purchase price allocation	328	194	776	—	1,298
Effect of foreign currency translations	136	—	—	—	136
Balance at December 31, 2007	$ 1,703	$ 4,287	$ 10,460	$ 4,730	$ 21,180

d. Other Intangible Assets

The composition of intangible assets was:

	December 31, 2007		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 4,399	$ —	$ 4,399
Patents and technology	4,069	1,662	2,407
Customer relationships	7,489	1,608	5,881
Distributor relationships	329	123	206
Non-compete agreements	390	170	220
Total intangible assets	$ 16,676	$ 3,563	$ 13,113

	December 31, 2006		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 3,090	$ —	$ 3,090
Patents and technology	3,737	619	3,118
Customer relationships	2,940	476	2,464
Distributor relationships	300	55	245
Non-compete agreements	204	49	155
Total intangible assets	$ 10,271	$ 1,199	$ 9,072

Amortization expense for intangible assets was $2,317, $1,199, and $0 for the years ended December 31, 2007, 2006, and 2005, respectively.

The change in the cost value of total intangible assets is a result of the 2007 acquisitions, changes in the final valuation of intangible assets in connection with the 2006 acquisitions and the effect of foreign currency translations.

Note 4 — Operating Leases

We lease various buildings, machinery, land, automobiles and office equipment. Rental expenses for all operating leases were approximately $1,234, $1,026 and $768 for the years ended December 31, 2007, 2006 and 2005, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2007 are as follows:

2008	2009	2010	2011	2012 and beyond
$ 944	$ 681	$ 621	$ 346	$ 476

Note 5 — Debt and Capital Leases

Credit Facilities

Our primary credit facility, which was initiated in 2004, consists of both a term loan component and a revolver component, and the facility is collateralized by essentially all of our assets, including all of our subsidiaries. The lenders of the credit facility are JP Morgan Chase Bank and Manufacturers and Traders Trust Company, with JP Morgan Chase Bank acting as the administrative agent. The current revolver loan commitment is $15,000. Availability under the revolving credit component is subject to meeting certain financial covenants. We are required to meet certain financial covenants under the facility, as amended, including a debt to earnings ratio, a fixed charge coverage ratio, and a current assets to total liabilities ratio. In addition, we are required to meet certain non-financial covenants. The rate of interest, in general, is based upon either a LIBOR rate or Prime, plus a Eurodollar spread (dependent upon a debt to earning ratio within a predetermined grid).

On June 30, 2004, we drew down the full $10,000 term loan. The term loan is being repaid in equal monthly installments of $167 over five years. On July 1, 2004, we entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. We received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by us is equal to the swap rate of 3.98% plus the Eurodollar spread stipulated in the predetermined grid associated with the term loan. On January 1, 2006, the adjusted rate was 6.98%. On February 14, 2007, the adjusted rate increased to 7.23%, on August 15, 2007, the adjusted rate decreased to 6.98%, and on November 7, 2007, the adjusted rate decreased to 5.98%. Derivative instruments are accounted for in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of this arrangement at December 31, 2007 resulted in an asset of $4, all of which was reflected as a short-term asset.

There have been several amendments to the credit facility during the past few years, including amendments to authorize acquisitions and modify financial covenants. Effective February 14, 2007, we entered into Forbearance and Amendment Number Six to the Credit Agreement (“Forbearance and Amendment”) with the banks. The Forbearance and Amendment provided that the banks would forbear from exercising their rights under the credit facility arising from our failure to comply with certain financial covenants in the credit facility with respect to the fiscal quarter ended December 31, 2006. Specifically, we were not in compliance with the terms of the credit facility because we failed to maintain the required debt-to-earnings and EBIT-to-interest ratios provided for in the credit facility at that time. The banks agreed to forbear from exercising their respective rights and remedies under the credit facility until March 23, 2007 ("Forbearance Period"), unless we breached the Forbearance and Amendment or unless another event or condition occurred that constituted a default under the credit facility. Each bank agreed to continue to make revolving loans available to us during the Forbearance Period. Pursuant to the Forbearance and Amendment, the aggregate amount of the banks' revolving loan commitment was reduced from $20,000 to $15,000. During the Forbearance Period, the applicable revolving interest rate and the applicable term interest rate, in each case as set forth in the credit agreement, both were increased by 25 basis points. In addition to a number of technical and conforming amendments, the Forbearance and Amendment revised the definition of "Change in Control" in the credit facility to provide that the acquisition of equity interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of us shall constitute a "Change in Control" for purposes of the credit facility. Previously, the equity interests threshold had been set at 20%.

Effective March 23, 2007, we entered into Extension of Forbearance and Amendment Number Seven to Credit Agreement ("Extension and Amendment") with the banks. The Extension and Amendment provided that the banks agreed to extend the Forbearance Period until May 18, 2007. The Extension and Amendment also acknowledged that we continued not to be in compliance with the financial covenants identified above for the fiscal quarter ended December 31, 2006 and did not contemplate being in compliance for the fiscal quarter ending March 31, 2007.

Effective May 18, 2007, we entered into Extension of Forbearance and Amendment Number Eight to Credit Agreement ("Second Extension and Amendment") with the banks. The Second Extension and Amendment provided that the banks agreed to extend the Forbearance Period until August 15, 2007. The Second Extension and Amendment also acknowledged that we continued not to be in compliance with the financial covenants identified above for the fiscal quarter ended March 31, 2007 and did not contemplate being in compliance for the fiscal quarter ending June 30, 2007.

Effective August 15, 2007, we entered in Amendment Number Nine to Credit Agreement ("Amendment Nine") with the banks. Amendment Nine effectively ended the Forbearance Period and extended the term of the revolving credit component of the facility to January 31, 2009 and the term of the term loan component of the facility to July 1, 2009. Amendment Nine also added several definitions and modified or replaced certain covenants. As of December 31, 2007, we were in compliance with all of the credit facility covenants, as amended.

While we believe relations with our lenders are good and we have received waivers as necessary in the past, there can be no assurance that such waivers can always be obtained. In such case, we believe we have, in the aggregate, sufficient cash, cash generation capabilities from operations, working capital, and financing alternatives at our disposal, including but not limited to alternative borrowing arrangements (e.g. asset secured borrowings) and other available lenders, to fund operations in the normal course and repay the debt outstanding under our credit facility.

As of December 31, 2007, we had $3,167 outstanding under the term loan component of our credit facility with our primary lending bank and $11,200 was outstanding under the revolver component. At December 31, 2007, the interest rate on the revolver component was 7.25%. The revolver arrangement now provides for up to $15,000 of borrowing capacity, including outstanding letters of credit. At December 31, 2007, we had no outstanding letters of credit related to this facility, as amended August 15, 2007, leaving $3,800 of additional borrowing capacity.

As of December 31, 2007, our wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd. ("Ultralife UK"), had nothing outstanding under its revolving credit facility with a commercial bank in the U.K. This credit facility provides our U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility are collateralized with Ultralife UK's outstanding accounts receivable balances. The maximum credit available to that subsidiary under the facility is approximately $899 as of December 31, 2007. The rate of interest is based upon prime plus 2.25% (7.75% at December 31, 2007).

Equipment and Vehicle Notes Payable

We have two equipment notes payable related to our McDowell operations. The first note payable is for equipment that provides for payments (including principal and interest at 5.85%) of $34 per year through January 2008. The other note payable is also for equipment that provides for payments (including principal and interest at 6.75%) of $12 per year through May 2009. The respective equipment collateralizes both notes payable.

We have two equipment and one vehicle notes payable related to our RedBlack operations. The first equipment note payable provides for payments (including principal and interest at 6.27%) of $8 per year through February 2008. The second equipment note payable provides for payments (including principal and interest at 6.27%) of $12 per year through November 2008. The vehicle note payable provides for payments (including principal and interest at 0.90%) of $13 per year through March 2009. The respective equipment and vehicles collateralize the notes payable.

We have eleven vehicle notes payable related to our SPS operations. The notes payable provide for payments (including principal and interest) of $73 per year, collectively. The interest rates on the notes payable range from 0.00% to 7.13%. The term on the notes payable range from 24 to 72 months, with payments on the individual notes payable ending between March 2008 and October 2012. The respective vehicles collateralize the notes payable.

Capital Leases

We have twelve capital leases. The first capital lease commitment was for the Newark, New York facility which provided for payments (including principal and interest) of $28 per year from December 2003 through 2007. Upon expiration of the lease, we purchased the facility for one dollar. The second capital lease commitment is for copiers that provides for payments (including principal and interest) of $14 per year from November 2006 through October 2009. The third capital lease commitment is for leasehold improvements that provide for payments (including principal and interest) of $91 per year from May 2007 through April 2012. The remaining nine capital lease commitments are for copiers that provide for payments (including principal and interest) of $38 per year, collectively, from July 2007 through December 2012. Remaining interest payable on the capital leases is approximately $89. At the end of the lease terms, we are required to purchase the assets under the capital lease commitments for one dollar each.

Payment Schedule

Scheduled principal payments under the current amount outstanding of debt and capital leases are as follows:

	Credit Facility	Equipment and Vehicle Notes Payable	Capital Leases	Convertible Notes Payable	Total
2008	$ 13,200	$ 113	$ 110	$ —	$ 13,423
2009	1,167	60	115	—	1,342
2010	—	50	111	4,000	4,161
2011	—	34	119	10,500	10,653
2012 and thereafter	—	9	59	—	68
	14,367	266	514	14,500	29,647
Less: Current portion	13,200	113	110	—	13,423
Long-term	$ 1,167	$ 153	$ 404	$ 14,500	$ 16,224

In January 2008, the convertible notes in connection with the McDowell acquisition, with a balance of $10,500 at December 31, 2007, were converted in full into 700,000 shares of our common stock.

Letters of Credit

In connection with the $4,000 operating lease line that we initiated in March 2001, we maintained a letter of credit, which expired in July 2007. At December 31, 2007, we had no outstanding letters of credit.

Note 6 — Commitments and Contingencies

a. *Indemnity Agreement*

The Delaware General Corporation Law provides that directors or officers will be reimbursed for all expenses, to the fullest extent permitted by law arising out of their performance as agents or trustees of ours.

b. *Purchase Commitments*

As of December 31, 2007, we have made commitments to purchase approximately $326 of production machinery and equipment.

c. *Royalty Agreements*

Technology underlying certain of our products is based in part on non-exclusive transfer agreements. In 2003, we entered into an agreement with Saft, to license certain tooling for battery cases. The licensing fee associated with this agreement is essentially one dollar per battery case. The total royalty expense reflected in 2007, 2006 and 2005 was $13, $39 and $103, respectively. This agreement expires in the year 2017.

d. *Government Grants/Loans*

We have been able to obtain certain grants/loans from government agencies to assist with various funding needs. In November 2001, we received approval for a $300 grant/loan from New York State. The grant/loan was to fund capital expansion plans that we expected would lead to job creation. In this case, we were to be reimbursed after the full completion of the particular project. This grant/loan also required us to meet and maintain certain levels of employment. During 2002, since we did not meet the initial employment threshold, it appeared unlikely at that time that we would be able to gain access to these funds. However, during 2006, our employment levels had increased to a level that exceeded the minimum threshold, and we received these funds in April 2007. As this grant/loan requires us to not only meet, but maintain our employment levels for a pre-determined time period, we currently reflect the funds that we received as a current liability, in the Other Current Liabilities line on our Consolidated Balance Sheet. Our employment levels met the specified levels as of December 31, 2007. In the event our employment levels are not maintained at the specified levels at December 31, 2008, we may be required to pay back these funds.

In October 2005, we received a contract valued at approximately $3,000 from the U.S. Defense Department to purchase equipment and enhance processes to reduce lead times and increase manufacturing efficiency to boost production surge capability of our BA-5390 battery during contingency operations. Approximately $1,800 of the total contract amount pertains to inventory that is included in our inventory balance at December 31, 2007, offset by deferred revenues which are included in other current liabilities. Approximately $700 of the total contract pertains to a reimbursement for expenses incurred to implement more effective processes and procedures, and the remaining approximately $500 was allocated to purchase equipment that is owned by the U.S. Defense Department. In 2006, we received $1,325 relating to this contract. In 2007, we received $1,257 relating to this contract. The contract term has been extended and we expect to complete this contract during 2008.

e. *Employment Contracts*

We have employment contracts with certain of our key employees with automatic one-year renewals unless terminated by either party. These agreements provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment.

In connection with the ABLE acquisition, we entered into employment contracts with certain key employees for a term of one to three years. These agreements provide for minimum salaries and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment.

In connection with the McDowell acquisition, we have one employment contract with a key employee for a term of two years. This agreement provides for a minimum salary and may include incentive bonuses based upon attainment of specified management goals. In addition, this agreement provides for severance payments in the event of specified termination of employment.

In connection with the RedBlack (formerly ISC) acquisition, we entered into employment contracts with certain key employees for a term of one year. These agreements provide for minimum salaries and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment.

In connection with the SPS and RPS acquisitions, we entered into employment contracts with certain key employees for a term of three years. These agreements provide for minimum salaries and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment.

f. *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 years ended December 31, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Balance at beginning of year	$ 522	$464	$326
Accruals for warranties issued	210	131	205
Settlements made	(231)	(73)	(67)
Balance at end of year	$ 501	$522	$464

g. *Post Audits of Government Contracts*

We have had certain “exigent”, non-bid contracts with the U.S. government that have been subject to an audit and final price adjustment and have resulted in decreased margins compared with the original terms of the contracts. As of December 31, 2007, 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. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. 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 are cooperating with the DoD IG inquiry and have furnished the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DOD IG inquiry, could have an adverse effect on our business, financial condition and results of operations.

h. *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 the financial position or results of operations of ours.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provides us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We retained an engineering firm, which estimated that the cost of remediation should be in the range of $230. In February 1998, we entered into an agreement with a third party which provides that we and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse us for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. We have fully reserved for our portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation ("NYSDEC") for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. We responded by submitting a work plan to NYSDEC, which was approved in April 2002. We sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health ("NYSDOH"). The NYSDEC, with input from the NYSDOH, requested that we perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and approved. In November 2005, additional soil, sediment and surface water samples were taken from the area outlined in the work plan, as well as groundwater samples from the monitoring wells. We received the laboratory analysis and met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental consulting firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and NYSDOH took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH have requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007 and we are awaiting the results from our environmental consulting firm. The results of the additional investigation requested by the NYSDEC may increase the estimated remediation costs modestly. Through December 31, 2007, total costs incurred have amounted to approximately $195, none of which has been capitalized. At December 31, 2007 and December 31, 2006, we have $85 and $35, respectively, reserved for this matter.

A retail end-user of a product manufactured by one of our customers (the "Customer"), made a claim against the Customer wherein it asserted that the Customer's product, which is powered by one of our batteries, does not operate according to the Customer's product specification. No claim has been filed against us. However, in the interest of fostering good customer relations, in September 2002, we agreed to lend technical support to the Customer in defense of its claim. Additionally, we assured the Customer that we would honor our warranty by replacing any batteries that may be determined to be defective. Subsequently, we learned that the end-user and the Customer settled the matter. In February 2005, we entered into a settlement agreement with the Customer. Under the terms of the agreement, we have agreed to provide replacement batteries for product determined to be defective, to warrant each replacement battery under our standard warranty terms and conditions, and to provide the Customer product at a discounted price for shipments made prior to December 31, 2008 in recognition of the Customer's administrative costs in responding to the claim of the retail end-user. In consideration of the above, the Customer released us from any and all liability with respect to this matter. Consequently, we do not anticipate any further expenses with regard to this matter other than our obligation under the settlement agreement. As of December 31, 2007, we no longer have an accrual in the warranty reserve related to anticipated replacements under this agreement, due to lack of actual claims for replacements during the past few years. Further, we do not expect the ongoing terms of the settlement agreement to have a material impact on our operations or financial condition.

i. *Workers' Compensation Self-Insured Trust*

From August 2002 through August 2006, we participated in a self-insured trust to manage our workers' compensation activity for our employees in New York State. All members of this trust have, by design, joint and several liability during the time they participate in the trust. In August 2006, we left the self-insured trust and have obtained alternative coverage for our workers' compensation program through a third-party insurer. In the third quarter of 2006, we confirmed that the trust was in an underfunded position (i.e. the assets of the trust were insufficient to cover the actuarially projected liabilities associated with the members in the trust). In the third quarter of 2006, we recorded a liability and an associated expense of $350 as an estimate of our potential future cost related to the trust's underfunded status. As of December 31, 2007, we have determined that our reserve for this potential liability continues to be reasonable. It is likely, however, that the final amount may be more or less, depending upon the ultimate settlement of claims that remain in the trust for the period of time we were a member. It is likely to take several years before resolution of outstanding workers' compensation claims are finally settled. We will continue to review this liability periodically and make adjustments accordingly as new information is collected.

Note 7 — Shareholders' Equity

a. *Preferred Stock*

We have authorized 1,000,000 shares of preferred stock, with a par value of $0.10 per share. At December 31, 2007, no preferred shares were issued or outstanding.

b. *Common Stock*

We have authorized 40,000,000 shares of common stock, with a par value of $0.10 per share.

In November 2007, we issued 1,000,000 shares of common stock in a limited public offering at $13.50 per share. Total net proceeds from the offering were approximately $12,600, of which $6,000 was used for the SPS cash payment, $3,500 was used as a prepayment on the subordinated convertible notes that were issued as partial consideration for the McDowell acquisition, $1,000 was used as a repayment of borrowings outstanding under our credit facility used to fund the RedBlack acquisition, and for general working capital purposes.

c. *Treasury Stock*

At December 31, 2007 and 2006, we had 728,690 and 727,250 shares, respectively, of treasury stock outstanding, valued at $2,401 and $2,378, respectively. The 1,440 increase in treasury shares related to the vesting of restricted stock awards for certain key employees in December 2007, a portion of which were withheld as treasury shares to cover for estimated individual income taxes, since the vesting of such awards is a taxable event for the individuals.

d. *Stock Options*

We have various stock-based employee compensation plans. Effective January 1, 2006, we adopted the provisions SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") requiring 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). We adopted SFAS No. 123R using the modified prospective method and, accordingly, did not restate prior periods presented in this Form 10-K to reflect the fair value method of recognizing compensation cost. Under the modified prospective approach, SFAS No. 123R applies to new awards, awards that were unvested as of January 1, 2006 and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled.

Prior to January 1, 2006, we applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations which required compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. As all options granted to employees under such plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant, and given the fixed nature of the equity instruments, no stock-based employee compensation cost relating to stock options was reflected in net income (loss). For purposes of the disclosure-only provision of SFAS No. 148, "Accounting for Stock–Based Compensation", the fair value of each fixed option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in the years ended December 31, 2005:

	2005
Risk-free interest rate	4.2%
Volatility factor	69.4%
Dividends	0%
Weighted average expected life (years)	4
Weighted average fair value of options granted	$7.53

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

Our shareholders have approved a 1992 stock option for grants to key employees, directors and consultants of ours. The shareholders approved reservation of 1,150,000 shares of Common Stock for grant under the plan. During 1997, the Board of Directors and shareholders approved an amendment to the plan increasing the number of shares of Common Stock reserved by 500,000 to 1,650,000. Options granted under the 1992 plan are either Incentive Stock Options ("ISOs") or Non-Qualified Stock Options ("NQSOs"). Key employees were eligible to receive ISOs and NQSOs; however, directors and consultants were eligible to receive only NQSOs. All ISOs vested at twenty percent per year for five years and expired on the sixth anniversary of the grant. The NQSOs vested immediately and expire on the sixth anniversary of the grant. On October 13, 2002, this plan expired and as a result, there are no more shares available for grant under this plan. As of December 31, 2007, there were 25,400 stock options outstanding under this plan.

Effective December 2000, we established the 2000 stock option plan which is substantially the same as the 1992 stock option plan. The shareholders approved reservation of 500,000 shares of Common Stock for grant under the plan. In December 2002, the shareholders approved an amendment to the plan increasing the number of shares of Common Stock reserved by 500,000, to a total of 1,000,000.

In June 2004, shareholders adopted the Ultralife Batteries, Inc. 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. In June 2006, shareholders approved an amendment to the LTIP, increasing the number of shares of Common Stock by an additional 750,000, bringing the total shares authorized under the LTIP to 1,500,000.

Options granted under the amended 2000 stock option plan and the LTIP are either ISOs or 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 given to employees. As of December 31, 2007, there were 1,696,063 stock options outstanding under the amended 2000 stock option plan and the LTIP.

On December 19, 2005, we granted the current CEO an option to purchase 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 option to purchase 48,000 shares of Common Stock becomes exercisable in annual increments of 16,000 shares over a three-year period commencing December 9, 2006. The option expires on June 8, 2013.

On December 28, 2005, our Board of Directors approved the acceleration of vesting of certain "underwater" unvested stock options held by certain current employees of ours, including some of our executive officers. Options held by our President and Chief Executive Officer were not included in the acceleration. Options held by non-employee directors also were not included as those options vest immediately upon grant. A stock option was considered "underwater" if the exercise price was $12.90 per share or greater. The Board of Directors took action to accelerate the vesting of those options that were underwater and that had been granted prior to October 2, 2005. The decision to accelerate vesting of these underwater stock options was based on management's desire to incentivize our employees who hold options that are currently underwater, in addition to avoiding the recognition of future compensation expense of approximately $1,500, net of related tax effects, upon the effectiveness of SFAS No. 123R. The aggregate number of shares issuable upon options for which the vesting was accelerated and the weighted average exercise price per share for executive officers, all other employees, and total, respectively, are set forth below:

	Aggregate Number of Shares Issuable Upon Accelerated Stock Options	Weighted Average Exercise Price Per Share
Executive Officers*	109,486	$15.46
All Other Employees	236,700	$15.41
Total	346,186	$15.43

* Executive officers exclude our President and Chief Executive Officer.

In taking these actions, and to avoid any unintended personal benefits to our executive officers, our Board of Directors imposed, as a condition of the acceleration, a holding period on the shares underlying the options for which the vesting was accelerated which were held by certain executive officers of ours. The holding period requires all such executive officers to refrain from selling any shares of our common stock acquired upon the exercise of the options until the earlier of the original vesting date applicable to such shares (or any portion thereof) underlying the stock option grant or the termination of the executive officer's employment. The decision to accelerate vesting of these underwater stock options was based on two considerations. First, we took the action as an alternative to issuing additional options, in order to incentivize our employees who hold options that are currently underwater. With the broad distribution of options that we have, the Board of Directors felt that it was a non-dilutive way to incentivize these employees on a going forward basis. Second, it would enable us to avoid recognizing future compensation expense associated with the accelerated stock options upon the effectiveness of SFAS No. 123R. We also believe that the underwater stock options may not be offering the intended incentives to the holders of those options when compared to the potential future compensation expense that we would have had to bear had we chosen not to accelerate their vesting.

The 346,186 stock options affected by this accelerated vesting represented approximately 25% of the outstanding stock options awarded to our employees under our LTIP and predecessor plans.

In conjunction with SFAS No. 123R, we recorded compensation cost related to stock options of $1,649 and $1,322 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, there was $1,785 of total unrecognized compensation costs related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.39 years.

We use the Black-Scholes option-pricing model to estimate fair value of stock-based awards. The following weighted average assumptions were used to value options granted during the years ended December 31, 2007 and 2006:

	Years Ended December 31,	
	2007	2006
Risk-free interest rate	4.59%	4.84%
Volatility factor	56.72%	60.04%
Dividends	0.00%	0.00%
Weighted average expected life (years)	3.75	3.66
Forfeiture rate	7.00%	7.00%

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. Prior to 2006, the computation of expected volatility was based solely on historical volatility. The change to a blended volatility measure was based on a thorough review of assumptions underlying the valuation of our stock options, in conjunction with additional information and guidance that became more widely available as we prepared to implement SFAS No. 123R in 2006. A blended volatility factor was deemed to be more appropriate as we believe that implied volatility, a forward-looking measure, provides a more market-driven valuation related to investors' expectations of the volatility of our business, and provides a balance against focusing only on a historical measure. 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. Forfeiture rates are calculated by dividing unvested shares forfeited by beginning shares outstanding. The pre-vesting forfeiture rate is calculated yearly and is determined using a historical twelve-quarter rolling average of the forfeiture rates.

The following table summarizes data for the stock options issued by us:

	Year Ended December 31, 2007			
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option at beginning of year	1,815,471	$11.03		
Options granted	263,000	10.49		
Options exercised	(204,008)	6.43		
Options cancelled	(105,000)	10.58		
Shares under option at end of year	1,769,463	$11.51	4.32 years	$15,323
Vested and expected to vest as end of year	1,661,586	$11.55	4.23 years	$14,316
Options exercisable at end of year	1,095,735	$12.18	3.55 years	$ 8,761

Year Ended December 31,	2006		2005	
	Number of Shares	Weighted Average Exercise Price Per Share	Number Of Shares	Weighted Average Exercise Price Per Share
Shares under option at beginning of year	1,430,271	$10.94	1,652,013	$ 8.95
Options granted	566,300	10.54	291,000	13.82
Options exercised	(119,400)	6.09	(452,142)	5.50
Options cancelled	(61,700)	14.04	(60,600)	11.18
Shares under option at end of year	1,815,471	$11.03	1,430,271	$10.94
Options exercisable at end of year	1,038,376	$11.96	974,858	$12.36

The following table represents additional information about stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Outstanding at December 31, 2007	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2007	Weighted-Average Exercise Price
$2.61-$4.96	251,805	0.98	$ 4.01	208,705	$ 3.92
$5.18-$9.84	281,025	6.08	$ 9.69	32,925	$ 9.27
$9.95-$10.55	290,183	5.12	$10.18	135,217	$10.16
$10.70-$12.96	408,000	5.18	$12.48	201,938	$12.67
$12.99-$14.75	51,000	4.27	$13.88	29,500	$14.21
$15.05-$15.05	335,450	3.91	$15.05	335,450	$15.05
$16.15-$20.89	127,500	3.89	$18.06	127,500	$18.06
$21.28-$21.28	24,500	2.52	$21.28	24,500	$21.28
$2.61-$21.28	1,769,463	4.32	$11.51	1,095,735	$12.18

The weighted average fair value of options granted during the years ended December 31, 2007 and 2006 was $4.84 and $5.02. The total intrinsic value of 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 years ended December 31, 2007 and 2006 was $1,526 and $604.

Prior to adopting FAS 123R, all tax benefits resulting from the exercise of stock options were presented as operating cash flows in the Condensed Statement of Cash Flows. SFAS No. 123R 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 options in excess of the deferred tax asset attributable to stock compensation costs for such options. We did not record any excess tax benefits in 2007 or 2006. Cash received from option exercises under our stock-based compensation plans for the years ended December 31, 2007, 2006 and 2005 was $1,314, $728 and $2,487, respectively.

e. *Warrants*

In July 2001, we issued warrants to purchase 109,000 shares of our common stock to H.C. Wainwright & Co., Inc. and other affiliated individuals that participated as investment bankers in the $6,800 private placement of 1,090,000 shares of common stock that was completed at that time. The exercise price of the warrants was $6.25 per share and the warrants had a five-year term. Through 2005, 22,365 warrants had been exercised. During 2006, 80,545 warrants were exercised. On July 20, 2006, warrants to purchase 6,090 shares expired unexercised. At December 31, 2006, none of these warrants were outstanding.

On May 19, 2006, in connection with our acquisition of ABLE New Energy Co., Ltd., we granted warrants to acquire 100,000 shares of common stock. The exercise price of the warrants is $12.30 per share and the warrants have a five-year term. At December 31, 2007, there were 100,000 warrants outstanding. In January 2008, 82,000 warrants were exercised.

f. *Restricted Stock Awards*

During 2007, we issued 28,948 restricted stock awards to directors. The restrictions lapse in equal installments of 7,237 shares on August 15, 2007, November 15, 2007, February 15, 2008 and May 15, 2008. As of December 31, 2007, 14,474 of these shares had vested.

During 2007, we issued 22,600 time-vested restricted stock awards to our executive officers. The restrictions for 10,000 of these restricted stock awards will lapse annually in three equal installments, commencing on March 1, 2008. The restrictions for the remaining 12,600 restricted stock awards will lapse annually in three equal installments, commencing on March 1, 2009. As of December 31, 2007, none of these shares had vested.

During 2006, we issued 26,668 restricted stock awards to directors. The restrictions lapse in equal installments of 6,667 shares on August 15, 2006, November 15, 2006, February 15, 2007 and May 15, 2007. As of December 31, 2007, all 26,668 of these shares had vested.

During 2006, we issued 12,500 time-vested restricted stock awards to our executive officers. The restrictions will lapse over a three-year period in equal installments, commencing on the first anniversary of the grant date (December 21, 2006). As of December 31, 2007, 4,171 of these shares had vested.

During 2006, we issued 46,500 performance-vested restricted stock awards to our executive officers. The restrictions will lapse in three equal installments only if we meet or exceed the same predetermined target for our operating performance for 2007, 2008 and 2009 as used for determining cash awards pursuant to the non-equity incentive plan. As of December 31, 2007, none of these shares had vested.

Restricted stock grants were awarded during the years ended December 31, 2007 and 2006 with the following values:

	Years Ended December 31, 2007	2006
Number of shares awarded	51,548	85,668
Weighted average fair value per share	$ 11.85	$ 10.47
Aggregate total value	$610,854	$897,237

The activity of restricted stock grants of common stock for the years ended December 31, 2007 and 2006 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested as December 31, 2005	—	$ —
Granted	85,668	10.47
Vested	(13,334)	10.30
Forfeited	—	—
Unvested as December 31, 2006	72,334	$ 10.50
Granted	51,548	11.85
Vested	(31,979)	10.46
Forfeited	—	—
Unvested at December 31, 2007	91,903	$ 11.28

We recorded compensation cost related to restricted stock grants of $500 and $158 for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007, we had $848 of total unrecognized compensation expense related to restricted stock grants, which is expected to be recognized over the remaining weighted average period of approximately

2.00 years. The total fair value of these grants that vested during the years ended December 31, 2007 and 2006 was $334 and $141, respectively.

g. *Reserved Shares*

We have reserved 1,934,598, 2,191,554, and 1,627,357 shares of common stock under the various stock option plans, warrants and restricted stock awards as of December 31, 2007, 2006, and 2005 respectively.

h. Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) is reported on the Consolidated Statement of Changes in Shareholders' Equity and accumulated other comprehensive income (loss) is reported on the Consolidated Balance Sheet.

The components of accumulated other comprehensive income (loss) were as follows:

	December 31,		
	2007	2006	2005
Foreign Currency Exchange Translation Adjustments	$66	$(371)	$(1,114)
Unrealized Gains (Losses) on Derivative Instruments	3	50	(60)
Accumulated Other Comprehensive Income (Loss)	$69	$(321)	$(1,054)

Note 8 — Income Taxes

The provision for income taxes consists of:

	December 31, 2007	December 31, 2006	December 31, 2005
Current:			
Federal	$ —	$ —	$ —
State	—	—	3
	—	—	3
Deferred:			
Federal	—	23,611	(970)
State	—	124	1,456
Foreign	77	—	—
	77	23,735	486
Total	$ 77	$ 23,735	$ 489

We reflected a tax provision of $77 for the year ended December 31, 2007. This was due to the adjustment required for deferred taxes outside the United States. We continued to report in 2007 a full valuation allowance for our deferred tax assets in the United States and in the United Kingdom arising from our conclusion that it was more likely than not that we would not be able to utilize our U.S. and U.K. net operating loss carryforwards ("NOLs") that had accumulated over time. The recognition of the full valuation allowance on our deferred tax asset resulted from our evaluation of all available evidence, both positive and negative, including: a) recent historical net income/losses, and income/losses on a cumulative three-year basis; and b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios. Because evidence, such as our operating results during the most recent historical periods excluding the gain on the McDowell settlement, is afforded more weight than forecasted results for future periods, our cumulative loss during our most recent three-year period represents sufficient negative evidence regarding the need for a full valuation allowance under SFAS No. 109. We continually assess the carrying value of this asset based on relevant accounting standards.

In December 2006, we placed a full valuation allowance on our deferred tax assets arising from our conclusion that it was more likely than not that we would not be able to utilize our U.S. and U.K. NOLs that had accumulated over time. As a result, we reflected a tax provision of $23,735 for the year ended December 31, 2006. The recognition of the full valuation allowance on our deferred tax asset resulted from our evaluation of all available evidence, both positive and negative, including: a) recent historical net income/losses, and income/losses on a cumulative three-year basis; and b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios.

We reported a deferred income tax provision of $486 for 2005. We concluded at the end of 2005 that it was more likely than not that we would be able to utilize the U.S. NOLs. Our conclusion was based on the expectation that the U.S. federal and state deferred tax assets will be realized primarily through future taxable income from operations, and partly from reversing taxable temporary differences. The continued recognition of a deferred tax asset resulted from our evaluation of all available evidence, both positive and negative, including: a) recent historical net income, and income on a cumulative three-year basis, as well as anticipated future profitability based in part on recent military contracts; b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios; and c) the award of a significant contract with the U.S. Defense Department in December 2004 for various battery types that could reach a maximum value of $286,000 in revenues over the next five years. Included in the 2005 provision was a $1,456 impact from a change in the New York State income tax law in the second quarter of 2005, which caused a reduction in the associated deferred tax asset. In April 2005, legislation was enacted in New York State that changed the apportionment methodology for corporate income from a “three factor formula” comprised of payroll, property and sales, to one which uses only sales. This change was phased in beginning in 2006, and the change is fully effective for the tax year 2008 and thereafter. This legislative change resulted in a reduction in our New York State effective tax rate from approximately 2.46% in 2005 to 0.18% in 2008. Excluding the New York State tax provision, the 2005 benefit related mainly from the loss before income taxes for U.S. operations.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of our deferred tax liabilities and assets are as follows:

	December 31, 2007	December 31, 2006
Deferred tax liabilities:		
Property, plant and equipment	$ 1,669	$ 1,224
Intangible assets and other	1,793	75
Total deferred tax liabilities	3,462	1,299
Deferred tax assets:		
Net operating loss carryforwards	27,081	28,225
Accrued expenses, reserves and other	2,242	2,383
Investments	1,142	1,142
Total deferred tax assets	30,465	31,750
Valuation allowance for deferred tax assets	(27,149)	(30,526)
Net deferred tax assets	3,316	1,224
Net deferred tax liability	$ (146)	$ (75)

The $146 net deferred tax liability for the year ended December 31, 2007 is comprised of a long-term deferred tax liability of $455, offset in part by a current deferred tax asset of $309. The $75 net deferred tax liability for the year ended December 31, 2006 is comprised of a long-term deferred tax liability of $150, offset in part by a current deferred tax asset of $75.

As of December 31, 2007, we have foreign and domestic net operating loss carryforwards totaling approximately $83,679 available to reduce future taxable income. Foreign loss carryforwards of approximately $11,915 can be carried forward indefinitely. The domestic net operating loss carryforward of $71,764 expires from 2008 through 2027. The domestic net operating loss includes approximately $1,831 of the net operating loss carryforward for which a benefit will be recorded in capital in excess of par value when realized.

We have determined that a change in ownership as defined under Internal Revenue Code Section 382 occurred during the fourth quarter of 2003, during the third quarter of 2005 and during the fourth quarter of 2006. As such, the domestic net operating loss carryforward will be subject to an annual limitation, which is currently estimated to be approximately $12,000, the unused portion of which can be carried forward to subsequent periods. 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 2007 and 2006.

For financial reporting purposes, income (loss) before income taxes is as follows:

	December 31, 2007	December 31, 2006	December 31, 2005
United States	$ 3,170	$ (2,931)	$ (2,871)
Foreign	2,490	(822)	(985)
Total	$ 5,660	$ (3,753)	$ (3,856)

There are no undistributed earnings of our foreign subsidiaries, at December 31, 2007 or December 31, 2006.

We have been granted a tax holiday in China. For 2007, our tax rate for our Chinese subsidiary, ABLE, was 7.5%, which is 50% of the normal 15% tax rate for the jurisdiction in which we operate. As a result of new legislation effective for 2008, ABLE's corporate income rate will increase to 9% which is 50% of the new 2008 tax rate of 18%. Thereafter, our tax rate in China will be phased in until ultimately reaching a rate of 25% in 2012.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to income before income taxes as follows:

	December 31, 2007	December 31, 2006	December 31, 2005
Provision/(benefit) computed using the statutory rate	34.0%	(34.0)%	(34.0)%
Increase (reduction) in taxes resulting from:			
State tax, net of federal benefit	0.0	3.3	37.8
Foreign	(14.0)	7.4	8.7
Valuation allowance/deferred impact	(27.3)	649.6	—
Compensation	7.8	6.8	—
Other	0.9	(0.7)	.2
Provision for income taxes	1.4%	632.4%	12.7%

In 2007, the provision for income taxes was lower than what would be expected if the statutory rate were applied to pretax income. This is due to the continuation of reflecting a full valuation allowance for our U.S. and U.K. deferred tax assets. In addition, there was a lower than expected tax rate on our non-U.S. income due to the reduction of our valuation allowance on our foreign deferred tax assets. In 2006, the provision for income taxes is higher than would be expected if the statutory rate were applied to pretax income. This is due to the establishment of the valuation allowance for our U.S. net deferred tax asset. In addition, there were no benefits recognized for losses in the foreign jurisdictions. In 2005, we recorded a provision for income taxes. This provision resulted primarily from the reduction in state deferred tax asset due to a legislative change in New York State. The state tax provision for 2005 reflected in the table above includes the amount related to this legislative change.

Accounting for Uncertainty in Income Taxes ("FIN 48")

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). As a result of the implementation of FIN 48, there was no cumulative effect adjustment for unrecognized tax benefits, which would have been accounted for as an adjustment to the January 1, 2007 balance of retained earnings. We have recorded no liability for income taxes associated with unrecognized tax benefits at the date of adoption and have not recorded any liability associated with unrecognized tax benefits during 2007, and as such, have not recorded any interest or penalty in regard to any unrecognized benefit. Our policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense (benefit). It is possible that a liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months.

We file a consolidated income tax return in the U.S. federal jurisdiction and consolidated and separate income tax returns in many state and foreign jurisdictions. Our U.S. tax matters for the years 2004 through 2007 remain subject to examination by the Internal Revenue Service (“IRS”). Our U.S. tax matters for the years 2003 through 2007 remain subject to examination by various state and local tax jurisdictions. Our tax matters for the years 2003 through 2007 remain subject to examination by the respective foreign tax jurisdiction authorities.

Note 9- 401(k) Plan

We maintain a defined contribution 401(k) plan covering substantially all employees. Employees can contribute a portion of their salary or wages as prescribed under Section 401(k) of the Internal Revenue Code and, subject to certain limitations, we may, at the Board of Directors discretion, authorize an employer contribution based on a portion of the employees’ contributions. Effective February 2004, the Board of Directors approved our matching of employee contributions at the rate of 50% of the first 4% contributed by an employee, or a maximum of 2% of the employee’s income. In November 2005, the employer match was suspended in an effort to conserve cash. In October 2007, the employer match was reinstated at the rate of 50% of the first 4% contributed by an employee, or a maximum of 2% of the employee’s income. For 2007, 2006, and 2005 we contributed $63, $0, and $133, respectively.

Note 10 — Business Segment Information

We report our results in four operating segments: Non-Rechargeable Products, Rechargeable Products, Communications Systems and Design and Installation Services. The Non-Rechargeable Products segment includes: lithium 9-volt, cylindrical and various other non-rechargeable batteries, including seawater-activated. The Rechargeable Products segment includes: rechargeable batteries, charging systems, uninterruptable power supplies and accessories, such as cables. In 2006, as a result of the acquisition of McDowell, we formed a new segment, Communications Accessories, which was renamed Communications Systems in 2007. The Communications Systems segment includes: power supplies, cable and connector assemblies, RF amplifiers, amplified speakers, equipment mounts, case equipment and integrated communication system kits. In the fourth quarter of 2007, as a result of the acquisitions of RedBlack and SPS, we renamed our Technology Contracts segment to Design and Installation Services. The Design and Installation Services segment includes: standby power and communications and electronics systems design, installation and maintenance activities and revenues and related costs associated with various development contracts. We look at our segment performance at the gross margin level, and we do not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these four segments and are not considered in the performance of the segments are considered to be Corporate charges.

2007	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 80,262	$ 16,756	$ 37,140	$ 3,438	$ —	$ 137,596
Segment contribution	17,747	3,578	6,693	756	(28,973)	(199)
Interest expense, net					(2,184)	(2,184)
Gain on McDowell settlement					7,550	7,550
Other income (expense), net					493	493
Income taxes-current					—	—
Income taxes-deferred					(77)	(77)
Net income						5,583

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2007

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Total assets	44,921	20,733	32,706	15,713	7,975	122,048
Capital expenditures	1,671	16	7	41	338	2,073
Depreciation and amortization	2,710	194	58	23	3,193	6,178
Stock-based compensation	191	2	1	3	1,952	2,149

2006

	Non-Rechargeable Products	Rechargeable Products	Communications Accessories	Technology Contracts	Corporate	Total
Revenues	$ 67,779	$ 17,745	$ 7,433	$ 589	$ —	$ 93,546
Segment contribution	11,858	3,822	1,771	(8)	(20,400)	(2,957)
Interest expense, net					(1,298)	(1,298)
Other income (expense), net					502	502
Income taxes-current					—	—
Income taxes-deferred					(23,735)	(23,735)
Net loss						(27,488)
Total assets	50,029	17,759	24,473	—	5,497	97,758
Capital expenditures	1,410	3	22	—	20	1,455
Depreciation and amortization	2,649	204	8	—	2,005	4,866
Stock-based compensation	182	1	1	10	1,286	1,480

2005

	Non-Rechargeable Products	Rechargeable Products	Technology Contracts	Corporate	Total
Revenues	$ 58,509	$ 10,067	$ 1,925	$ —	$ 70,501
Segment contribution	10,883	1,316	59	(15,160)	(2,902)
Interest expense, net				(636)	(636)
Other income (expense), net				(318)	(318)
Income taxes-current				(3)	(3)
Income taxes-deferred				(486)	(486)
Net loss					(4,345)
Total assets	43,231	4,473	478	32,575	80,757
Capital expenditures	2,756	73	—	480	3,309
Depreciation and amortization expense	2,140	329	—	712	3,181

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Geographical Information

	Revenues			Long-Lived Assets		
	2007	2006	2005	2007	2006	2005
United States	$ 79,263	$ 57,255	$ 50,178	$ 15,728	$ 15,557	$ 16,776
United Kingdom	22,140	9,509	6,501	2,356	2,880	3,155
China*	1,566	899	—	1,281	959	—
Hong Kong	1,672	2,309	479	—	—	—
Europe, excluding United Kingdom	8,775	5,680	4,421	—	—	—
Japan*	3,520	4,018	—	—	—	—
Singapore	244	169	2,610	—	—	—
Canada	12,903	10,033	2,494	—	—	—
Australia**	3,390	—	—	—	—	—
Other	4,123	3,674	3,818	—	—	—
Total	$ 137,596	$ 93,546	$ 70,501	$ 19,365	$ 19,396	$ 19,931

* Geographical data for 2005 included in “Other” category.

** Geographical data for 2006 and 2005 included in “Other” category.

Long-lived assets represent the sum of the net book value of property, plant and equipment.

Note 11 — Fires at Manufacturing Facilities

In May 2004 and June 2004, we experienced two fires that damaged certain inventory and property at our facilities. The May 2004 fire occurred at our Newark facility and was caused by cells that shorted out when a forklift truck accidentally tipped the cells over in an oven in an enclosed area. Certain inventory, equipment and a small portion of the building where the fire was contained were damaged. The June 2004 fire happened at our U.K. location and mainly caused damage to various inventory and the Ultralife UK’s leased facility. The fire was contained mainly in a bunkered, non-manufacturing area designed to store various material, and there was additional smoke and water damage to the facility and its contents. It is unknown how the U.K. fire was started.

The total amount of the two losses and related expenses associated with company-owned assets was approximately $2,000. Of this total, approximately $450 was related to machinery and equipment, approximately $750 was related to inventory and approximately $800 was required to repair and clean up the facilities. The insurance claim related to the fire at our Newark facility was finalized in March 2005. In the first quarter of 2006, we received notice of a final claim settlement for the U.K. facility. As a result of the final settlement for the fire at the U.K. facility, we reflected a gain of $148 in the first quarter of 2006 related to equipment and inventory damage. In April 2006 we received payment in final settlement. In June 2006 we recorded a gain of $43 for the favorable settlement of fire damage that pertained to our leased facilities in the U.K.

In November 2006, we experienced a fire that damaged certain inventory and property at our facility in China, which began in a battery storage area. Certain inventory and portions of buildings were damaged. We believe we maintain adequate insurance coverage for this operation. The total amount of the loss pertaining to assets and the related expenses is expected to be approximately $849. The majority of the insurance claim is related to the recovery of damaged inventory. In July 2007, we received approximately $637 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. As of December 31, 2007, our current assets in our Consolidated Balance Sheet included a receivable from insurance companies for approximately $152, representing additional proceeds to be received.

Note 12 — Selected Quarterly Information (unaudited)

The following table presents reported net revenues, gross margin (net sales less cost of products sold), net income (loss) and net income (loss) per share, basic and diluted, for each quarter during the past two years:

	Quarter ended				
2007	**March 31, 2007**	**June 30, 2007**	**Sept 29, 2007**	**Dec 31, 2007**	**Full Year**
Revenues	$ 32,320	$ 35,196	$ 33,291	$ 36,789	$ 137,596
Gross margin	7,501	8,617	6,922	5,734	28,774
Net Income (Loss)	(36)	1,298	(128)	4,449	5,583
Net Income (Loss) per share-basic	(0.00)	0.09	(0.01)	0.28	0.36
Net Income (Loss) per share- diluted	(0.00)	0.08	(0.01)	0.27	0.36

	Quarter ended				
2006	**April 1, 2006**	**July 1, 2006**	**Sept 30, 2006**	**Dec 31, 2006**	**Full Year**
Revenues	$ 18,319	$ 21,393	$ 23,725	$ 30,109	$ 93,546
Gross margin	3,970	4,377	3,981	5,115	17,443
Net Income (Loss)	140	109	(1,698)	(26,039)	(27,488)
Net Income (Loss) per share-basic	0.01	0.01	(0.11)	(1.73)	(1.84)
Net Income (Loss) per share- diluted	0.01	0.01	(0.11)	(1.73)	(1.84)

Our monthly closing schedule is a weekly-based cycle as opposed to a calendar month-based cycle. 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.

Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the year.

Earnings in the fourth quarter of 2007 were favorably impacted by the recognition of a one-time, non-operating gain of $7,550 pertaining to a purchase price settlement agreement that was finalized during the quarter with the sellers of McDowell, which we acquired in July 2006. In addition, gross margins in the fourth quarter were hampered by inventory adjustments of approximately $1,000 mainly related to physical inventory valuations at our McDowell operation.

Earnings in the fourth quarter of 2006 were impacted, in part, by a net income tax charge of $24,116 resulting from the recognition of a full reserve on the U.S. net deferred tax asset.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures – Our president and chief executive officer (principal executive officer) and our vice president-finance and chief financial officer (principal financial officer) have evaluated our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report. Based on this evaluation, the president and chief executive officer and vice president — finance and chief financial officer concluded that our disclosure controls and procedures were effective as of such date.

Changes In Internal Controls Over Financial Reporting – In 2006 and 2007, we completed the acquisitions of ABLE, McDowell, RedBlack, SPS and RPS. We have worked to integrate these companies into our business and are assimilating their operations, services, products and personnel with our management policies, procedures and strategies. As all of these businesses were closely-held private companies prior to our acquisitions, the internal controls and processes inherent in these businesses have typically not been as sound as we require. We believe that we have taken the necessary steps to implement adequate controls and procedures to ensure that our financial statements are stated properly in compliance with U.S. GAAP.

There has been no other change in the internal control over financial reporting that occurred during the fiscal year covered by this annual report that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting – Our management team is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed 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. Because of our inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, we concluded that, as of December 31, 2007, our internal control over financial reporting was effective based on those criteria. Our assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of RedBlack, SPS and RPS, which were acquired on September 28, 2007, November 16, 2007 and November 16, 2007, respectively, and which are included in the consolidated balance sheet of Ultralife Batteries, Inc. as of December 31, 2007, and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive income, and cash flows for the year then ended. RedBlack constituted 2% and 4% of total assets and net assets, respectively, as of December 31, 2007, and 1% and (2%) of revenues and net income, respectively, for the year then ended. SPS constituted 11% and 18% of total assets and net assets, respectively, as of December 31, 2007, and 1% and (2%) of revenues and net income, respectively, for the year then ended. RPS constituted 2% and 3% of total assets and net assets, respectively, as of December 31, 2007, and 0% and 0% of revenues and net income, respectively, for the year then ended. We did not assess the effectiveness of internal control over financial reporting of RedBlack, SPS and RPS because of the timing of the acquisitions during 2007.

BDO Seidman, LLP, an independent registered public accounting firm that audited the financial statements included in this report, has issued a report on the operating effectiveness of internal control over financial reporting. A copy of the report follows:

Report of Independent Registered Public Accounting Firm on Internal Controls Over Financial Reporting

Board of Directors and Shareholders
Ultralife Batteries, Inc.
Newark, New York

We have audited Ultralife Batteries, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Ultralife Batteries, Inc's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A — Controls and Procedures." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying "Management's Report on Internal Control over Financial Reporting," included in "Item 9A – Controls and Procedures," management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of RedBlack Communications, Inc. ("RedBlack"), Stationary Power Services, Inc. ("SPS") and Reserve Power Systems, Inc. ("RPS"), which were acquired on September 28, 2007, November 16, 2007 and November 16, 2007, respectively, and which are included in the consolidated balance sheet of Ultralife Batteries, Inc. as of December 31, 2007, and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive income, and cash flows for the year then ended. RedBlack constituted 2% and 4% of total assets and net assets, respectively, as of December 31, 2007, and 1% and (2%) of revenues and net income, respectively, for the year then ended. SPS constituted 11% and 18% of total assets and net assets, respectively, as of December 31, 2007, and 1% and (2%) of revenues and net income, respectively, for the year then ended. RPS constituted 2% and 3% of total assets and net assets, respectively, as of December 31, 2007, and 0% and 0% of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of these acquired entities because of the timing of the acquisitions. Our audit of internal control over financial reporting of Ultralife Batteries, Inc. also did not include an evaluation of the internal control over financial reporting of RedBlack, SPS and RPS.

In our opinion, Ultralife Batteries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ultralife Batteries, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of operations, shareholders' equity and accumulated other comprehensive income (loss) and cash flows for the years ended December 31, 2007 and 2006 and our report dated March 19, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Troy, Michigan
March 19, 2008

ITEM 9B. OTHER INFORMATION

None.

PART III

The information required by Part III, other than as set forth in Item 12, and each of the following items is omitted from this report and will be presented in our definitive proxy statement ("Proxy Statement") to be filed pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, in connection with our 2008 Annual Meeting of Shareholders, which information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Election of Directors", "Executive Officers", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance" in the Proxy Statement are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The sections entitled "Executive Compensation", "Directors' Compensation", "Employment Arrangements" and "Compensation and Management Committee Report" in the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The section entitled "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in the Proxy Statement is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,861,366	$11.50	65,135
Equity compensation plans not approved by security holders	0	0	0
Total	1,861,366	$11.50	65,135

See Note 7 in Notes to Consolidated Financial Statements for additional information.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled "Corporate Governance — General" in the Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled "Proposal 2 — Ratify the Selection of Independent Registered Accounting Firm — Principal Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements

The financial statements and schedules required by this Item 15 are set forth in Part II, Item 8 of this report.

2. Financial Statement Schedules

Schedule II – Valuation and Qualifying Accounts	See Item 15 (c)

(b) Exhibits. The following exhibits are filed as a part of this report:

Exhibit Index	Description of Document	Incorporated By Reference from:
3.1	Restated Certificate of Incorporation	Exhibit 4.3 of our Registration Statement on Form S-8 filed on May 15, 2001, File No. 333-60984 (the “2001 Registration Statement”)
3.2	By-laws	Exhibit 3.2 of Registration Statement, No 33-54470 (the “1992 Registration Statement”)
4.1	Specimen Stock Certificate	Exhibit 4.1 of the 1992 Registration Statement
10.1	Asset Purchase Agreement between the Registrant, Eastman Technology, Inc. and Eastman Kodak Company	Exhibit 10.1 of the 1992 Registration Statement
10.2	1992 Stock Option Plan, as amended	Exhibit 10.7 of the 1992 Registration Statement
10.3	Stock Option Agreement under the Company’s 1992 Stock Option Plan for incentive stock options	Exhibit 10.10 of Form 10-Q for the fiscal quarter ended December 31, 1993, File No. 0-20852 (the “1993 10-Q”); (this Exhibit may be found in SEC File No. 0-20852)
10.4	Stock Option Agreement under the Company’s 1992 Stock Option Plan for non-qualified options	Exhibit 10.10 of the 1993 10-Q (this Exhibit may be found in SEC File No. 0-20852)
10.5*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.19 of our Registration Statement on Form S-1 filed on October 7, 1994, File No. 33-84888 (the “1994 Registration Statement”)
10.6*	Technology Transfer Agreement relating to Lithium Batteries	Exhibit 10.20 of the 1994 Registration Statement

Exhibit Index	Description of Document	Incorporated By Reference from:
10.7*	Amendment to the Agreement relating to rechargeable batteries	Exhibit 10.24 of our Form 10-K for the fiscal year ended June 30, 1996 (this Exhibit may be found in SEC File No. 0-20852)
10.8	Lease agreement between Wayne County Industrial Development Agency and the Registrant, dated as of February 1, 1998	Exhibit 10.1 of our Registration Statement on Form S-3 filed on February 27, 1998, File No. 333-47087
10.9	Ultralife Batteries, Inc. 2000 Stock Option Plan	Exhibit 99.1 of the 2001 Registration Statement
10.10	Lease Agreement between Winthrop Resources and the Registrant	Exhibit 10.41 of our Report on Form 10-K for the year ended June 30, 2001
10.11	Amended Lease Agreement between Winthrop Resources and the Registrant	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended December 31, 2001
10.12	Employment Agreement between the Registrant and John D. Kavazanjian	Exhibit 10.45 of our Report on Form 10-K for the year ended June 30, 2002 (the “2002 10-K”)
10.13	Employment Agreement between the Registrant and William A. Schmitz	Exhibit 10.47 of the 2002 10-K
10.14	Stock Purchase Agreement with Ultralife Taiwan, Inc.	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended September 28, 2002
10.15	Financing Agreement between Ultralife Batteries (UK) Ltd. and EuroFinance	Exhibit 10 of the Form 10-Q for the fiscal quarter ended June 28, 2003
10.16	Form of Stock Purchase Agreement dated October 7, 2003 (Three separate but identical (other than subscription amount) stock purchase agreements for Corsair Capital Partners, LP, Corsair Long Short International Ltd., and Neptune Partners, LP for an aggregate 200,000 shares for an aggregate purchase price of $2,500,000).	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended September 27, 2003 (the “September 2003 10-Q”)
10.17	Form of Registration Rights Agreement dated October 7, 2003 (Three separate but identical (other than subscription amount) stock purchase agreements for Corsair Capital Partners, LP, Corsair Long Short International Ltd., and Neptune Partners, LP for an aggregate 200,000 shares for an aggregate purchase price of $2,500,000).	Exhibit 10.2 of the September 2003 10-Q
10.18	Loan and Stock Subscription Agreement with Ultralife Taiwan, Inc.	Exhibit 10.3 of the September 2003 10-Q
10.19	Credit Agreement dated as of June 30, 2004 with JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended June 26, 2004 (the “June 2004 10-Q”)
10.20	General Security Agreement dated as of June 30, 2004 in favor of JPMorgan Chase Bank	Exhibit 10.2 of the June 2004 10-Q

Exhibit Index	Description of Document	Incorporated By Reference from:
10.21	Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.2 of our Registration Statement on Form S-8 filed on July 26, 2004, File No. 333-117662
10.22	Amendment Numbers One and Two to Credit Agreement dated as of September 24, 2004 with JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended April 2, 2005
10.23	Base compensation information for certain executive officers of the Company	Current report on Form 8-K dated June 10, 2005
10.24	Amendment Number Three to Credit Agreement dated as of August 5, 2005 with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended July 2, 2005
10.25	Amendment Number Four to Credit Agreement dated as of November 1, 2005 with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended October 1, 2005
10.26	Officer bonus plan for 2006 and stock option grants for officers as of December 9, 2005	Current report on Form 8-K dated December 13, 2005
10.27	Form of Resale Restriction Agreement between the Registrant and option holders dated as of December 28, 2005	Exhibit 10 of Form 8-K filed December 30, 2005
10.28	Agreement on Transfer of Shares in ABLE New Energy Co., Limited dated January 25, 2006	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended April 1, 2006 (the “March 2006 10-Q)
10.29	First Amendment to Agreement on Transfer of Shares in ABLE New Energy Co., Limited	Exhibit 10.2 of the March 2006 10-Q
10.30	Agreement on Transfer of Shares in ABLE New Energy Co., Ltd dated January 25, 2006	Exhibit 10.3 of the March 2006 10-Q
10.31	Asset Purchase Agreement by and among McDowell Research, Ltd., Thomas Hauke, Earl Martin, Sr., James Evans, Frank Alexander, the Registrant and MR Acquisition Corporation dated May 1, 2006	Exhibit 2.1.1 of the Form 8-K/A filed July 21, 2006 (the “July 2006 8-K/A”)
10.32	Subordinated Convertible Promissory Note with McDowell Research, Ltd.	Exhibit 2.1.3 of the July 2006 8-K/A
10.33	Waco Facilities Lease Agreement dated July 3, 2006	Exhibit 2.1.4 of the July 2006 8-K/A
10.34	Registration Rights Agreement dated July 3, 2006	Exhibit 2.1.5 of the July 2006 8-K/A
10.35	Amendment Number Five to Credit Agreement dated as of June 29, 2006 with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 10-Q for the fiscal quarter ended July 1, 2006
10.36	Amendment No. 1 to Ultralife Batteries, Inc. Amended and Restated 2004 Long-Term Incentive Plan	Exhibit 99.3 of our Registration Statement on Form S-8 filed August 18, 2006, File No. 333-136737
10.37	Forbearance and Amendment Number Six to Credit Agreement dated as of February 14, 2007 with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 8-K filed February 21, 2007

Exhibit Index	Description of Document	Incorporated By Reference from:
10.38	Extension of Forbearance and Amendment Number Seven to the Credit Agreement dated as of March 23, 2007, with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 8-K filed March 27, 2007
10.39	Employment Agreement between the Registrant and John D. Kavazanjian	Exhibit 99.1 of our Report on Form 8-K filed April 27, 2007.
10.40	Form of Employment Agreement between the Registrant and each of William A. Schmitz, Robert W. Fishback and Peter F. Comerford	Exhibit 99.2 of our Report on Form 8-K filed April 27, 2007.
10.41	Extension of Forbearance and Amendment Number Eight to the Credit Agreement dated as of May 18, 2007, with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 8-K filed May 21, 2007
10.42	Amendment Number Nine to the Credit Agreement dated as of August 15, 2007, with the Lenders Party Thereto and JPMorgan Chase Bank as Administrative Agent	Exhibit 10.1 of the Form 8-K filed on August 16, 2007
10.43	Settlement Agreement dated October 3, 2007, among MRC Chargers, LTD., Frank Alexander, James Evans, Thomas Hauke, Earl Martin, Sr., Gloria Martin, Lillian Hauke, the Registrant, and McDowell Research Co., Inc.	Exhibit 10.1 of the Form 8-K filed on October 5, 2007
10.44	Form of Amended and Restated Subordinated Convertible Promissory Note for Frank Alexander and James Evans	Exhibit 10.2(a) of the Form 8-K filed on October 5, 2007
10.45	Form of Amended and Restated Subordinated Convertible Promissory Note for Thomas Hauke, Lillian Hauke, Earl Martin, Sr., and Gloria Martin	Exhibit 10.2(b) of the Form 8-K filed on October 5, 2007
10.46	Stock Purchase Agreement by and among Innovative Solutions Consulting, Inc., Michele A. Aloisio, Marc DeLaVergne, Thomas R. Knowlton, Kenneth J. Wood, W. Michael Cooper, and the Registrant, dated September 12, 2007	Exhibit 10.1 of the Form 10-Q filed November 7, 2007
10.47	Placement Agency Agreement dated November 8, 2007 by and between the Registrant and Stephens, Inc.	Exhibit 10.1 of the Form 8-K filed November 9, 2007
10.48	Stock Purchase Agreement by and among Stationary Power Services, Inc., William Maher, and the Registrant dated October 30, 2007	Filed herewith
10.49	Subordinated Convertible Promissory Note with William Maher	Filed herewith
10.50	Stock Purchase Agreement by and among Reserve Power Systems, Inc., William Maher, Edward Bellamy, and the Registrant dated October 30, 2007	Filed herewith
21	Subsidiaries	Filed herewith
23.1	Consent of BDO Seidman, LLP	Filed herewith
23.2	Consent of PricewaterhouseCoopers LLP	Filed herewith

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Exhibit Index	Description of Document	Incorporated By Reference from:
31.1	CEO 302 Certifications	Filed herewith
31.2	CFO 302 Certifications	Filed herewith
32.1	906 Certifications	Filed herewith

* Confidential treatment has been granted as to certain portions of this exhibit.

(c) Financial Statement Schedules.

The following financial statement schedules of the Registrant are filed herewith:

Schedule II – Valuation and Qualifying Accounts

		Additions			
	December 31, 2006	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2007
Allowance for doubtful accounts	$ 447	$ 101	$ 6	$ 69	$ 485
Inventory reserves	1,206	1,323	—	196	2,333
Warranty reserves	522	210	—	231	501
Deferred tax valuation allowance	30,526	—	—	3,377	27,149

		Additions			
	December 31, 2005	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2006
Allowance for doubtful accounts	$ 458	$ 74	$ —	$ 85	$ 447
Inventory reserves	868	90	753	505	1,206
Warranty reserves	464	131	—	73	522
Deferred tax valuation allowance	5,721	24,805	—	—	30,526

		Additions			
	December 31, 2004	Charged to Expense	Charged to Other Accounts	Deductions	December 31, 2005
Allowance for doubtful accounts	$ 284	$ 208	$ —	$ 34	$ 458
Inventory reserves	508	221	157	18	868
Warranty reserves	326	205	—	67	464
Deferred tax valuation allowance	5,449	349	—	77	5,721

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 BATTERIES, INC.

Date: March 19, 2008	By: /s/ John D. Kavazanjian John D. Kavazanjian President and Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 19, 2008	/s/ John D. Kavazanjian John D. Kavazanjian President, Chief Executive Officer and Director
Date: March 19, 2008	/s/ Robert W. Fishback Robert W. Fishback Vice President — Finance and Chief Financial Officer (Principal Financial Officer)
Date: March 19, 2008	/s/ Carole Lewis Anderson Carole Lewis Anderson (Director)
Date: March 19, 2008	/s/ Patricia C. Barron Patricia C. Barron (Director)
Date: March 19, 2008	/s/ Anthony J. Cavanna Anthony J. Cavanna (Director)
Date: March 19, 2008	/s/ Paula H. J. Cholmondeley Paula H. J. Cholmondeley (Director)
Date: March 19, 2008	/s/ Daniel W. Christman Daniel W. Christman (Director)
Date: March 19, 2008	/s/ Ranjit C. Singh Ranjit C. Singh (Director)
Date: March 19, 2008	/s/ Bradford T. Whitmore Bradford T. Whitmore (Director)

Exhibit 10.48

STOCK PURCHASE AGREEMENT

AMONG

ULTRALIFE BATTERIES, INC.

AND

STATIONARY POWER SERVICES, INC.

AND

WILLIAM MAHER

OCTOBER 30, 2007

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Attachments to Stock Purchase Agreement

1. Annex I: Exceptions to Seller’s Representations and Warranties
2. Annex II: Exceptions to Buyer’s Representations and Warranties
3. Disclosure Schedule for Target
4. Exhibit A: Form of Promissory Note
5. Exhibit B: Financial Statements of Target
6. Exhibit C: Form of Lease Agreement
7. Exhibit D-1: Form of Employment Agreement for William Maher

   Exhibit D-2: Form of Employment Agreement for Edward Bellamy
8. Exhibit E: Form of Registration Rights Agreement

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "***Agreement***") is entered into as of October 30, 2007, by and among Ultralife Batteries, Inc., a Delaware corporation ("***Buyer***"), Stationary Power Services, Inc., a Florida corporation ("***Target***"), and William Maher ("***Seller***"). Buyer, Target and Seller are referred to collectively herein as the "Parties."

RECITALS

A. Seller owns all of the outstanding capital stock of Target.

B. This Agreement contemplates a transaction in which Buyer will purchase from Seller, and Seller will sell to Buyer, all of the outstanding capital stock of Target in return for certain consideration described below.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

SECTION 1. DEFINITIONS

"*Adjusted Net Worth*" has the meaning set forth in Section 2(e) below.

"*Adverse Consequences*" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, liens, actual losses, expenses, and fees, including court costs and attorneys' fees and expenses.

"*Affiliate*" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

"*Affiliated Group*" means any affiliated group within the meaning of Code Section 1504(a) or any similar group defined under a similar provision of state, local or foreign law.

"*Auditor*" has the meaning set forth in Section 2(e) below.

"*Basis*" means any past or present fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction that forms or could form the basis for any specified consequence.

"*Buyer*" has the meaning set forth in the preface above.

"*Closing*" has the meaning set forth in Section 2(c) below.

"*Closing Balance Sheet*" has the meaning set forth in Section 2(e) below.

"*Closing Date*" has the meaning set forth in Section 2(c) below.

"*Closing Payment*" has the meaning set forth in Section 2(b) below.

"*COBRA*" means the requirements of Part 6 of Subtitle B of Title I of ERISA and Code Section 4980B and of any similar state law.

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

"*Confidential Information*" means any information concerning the businesses and affairs of the Target, Seller or Buyer, as the context requires, that is not already generally available to the public.

"*Controlled Group*" has the meaning set forth in Code Section 1563.

"*Disclosure Schedule*" has the meaning set forth in Section 4 below.

"*Employee Benefit Plan*" has the meaning set forth in Section 4(x) below.

"*Employee Pension Benefit Plan*" has the meaning set forth in ERISA Section 3(2).

"*Employee Welfare Benefit Plan*" has the meaning set forth in ERISA Section 3(1).

"*Employment Agreements*" means the forms of employment agreement attached as Exhibits D-1 and D-2 to this Agreement.

"*Encumbrance Documents*" has the meaning set forth in Section 4(l) below.

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

"*Equity Payments*" has the meaning set forth in Section 2(b)(iii) below.

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

"*ERISA Affiliate*" means any Person that is a member of a "controlled group of corporations" with, or is under "common control" with, or is a member of the same "affiliated service group" with Target, as defined in Section 414 of the Code.

"*Estoppel Certificates*" has the meaning set forth in Section 7(a) below.

"*Fiduciary*" has the meaning set forth in ERISA Section 3(21).

“*Financial Statements*” has the meaning set forth in Section 4(g) below.

“*GAAP*” means United States generally accepted accounting principles as in effect from time to time, consistently applied.

“*Improvements*” has the meaning set forth in Section 4(l) below.

“*Indemnified Party*” has the meaning set forth in Section 8(d) below.

“*Indemnifying Party*” has the meaning set forth in Section 8(d) below.

“*Intellectual Property*” means all of the following in any jurisdiction throughout the world: (a) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof, (b) all trademarks, service marks, trade dress, logos, slogans, trade names, corporate names, Internet domain names, and rights in telephone numbers, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith, (c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (d) all mask works and all applications, registrations, and renewals in connection therewith, (e) all trade secrets and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), (f) all computer software (including source code, executable code, data, databases, and related documentation), (g) all advertising and promotional materials, (h) all other proprietary rights, and (i) all copies and tangible embodiments thereof (in whatever form or medium).

“*Knowledge*” means actual knowledge after reasonable investigation.

“*Lease Agreement*” means the form of Lease Agreement attached as Exhibit C to this Agreement.

“*Lease Consents*” has the meaning set forth in Section 7(a) below.

“*Leased Real Property*” means all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures, or other interest in real property held by Target.

“*Leases*” means all leases, subleases, licenses, concessions and other agreements (written or oral), including all amendments, extensions, renewals, guaranties, and other agreements with respect thereto, pursuant to which Target holds any Leased Real Property, including the right to all security deposits and other amounts and instruments deposited by or on behalf of Target thereunder.

“*Liability*” means any liability or obligation of whatever kind or nature (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

"*Lien*" means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) liens for Taxes not yet due and payable and (b) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"*Material Adverse Effect*" or "*Material Adverse Change*" means any effect or change that would be materially adverse to the business, assets, condition (financial or otherwise), operating results, operations, or business prospects of Target, taken as a whole, or on the ability of Seller to consummate timely the transactions contemplated hereby (regardless of whether or not such adverse effect or change can be or has been cured at any time or whether Buyer has knowledge of such effect or change on the date hereof).

"*Measuring Periods*" means the following periods of time: (i) the period commencing on the Closing Date and ending on December 31, 2008; (ii) the period commencing on January 1, 2009 and ending on December 31, 2009; (iii) the period commencing on January 1, 2010 and ending on December 31, 2010; (iv) the period commencing on January 1, 2011 and ending on December 31, 2011; and (v) the period commencing on January 1, 2012 and ending on December 31, 2012. Each of such Measuring Periods may be referred to individually as a "*Measuring Period*."

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

"*Most Recent Financial Statements*" has the meaning set forth in Section 4(g) below.

"*Most Recent Fiscal Month End*" has the meaning set forth in Section 4(g) below.

"*Most Recent Fiscal Year End*" has the meaning set forth in Section 4(g) below.

"*Multiemployer Plan*" has the meaning set forth in ERISA Section 3(37).

"*Non-Disturbance Agreements*" has the meaning set forth in Section 7(a) below.

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

"*Party*" has the meaning set forth in the preface above.

"*Permitted Encumbrances*" means with respect to each parcel of Real Property: (a) real estate taxes, assessments and other governmental levies, fees, or charges imposed with respect to such Real Property that are (i) not due and payable as of the Closing Date or (ii) that are being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (b) mechanics' liens and similar liens for labor, materials, or supplies provided with respect to such Real Property incurred in the Ordinary Course of Business for amounts that are (i) not due and payable as of the Closing Date or (ii) being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (c) zoning, building codes and other land use laws regulating the use or occupancy of such Real Property or the activities conducted thereon which are imposed by any governmental authority having jurisdiction over such Real Property and are not violated by the current use or occupancy of such Real Property or the operation of Target's business as currently conducted thereon; and (d) easements, covenants, conditions, restrictions, and other similar matters of record affecting title to such Real Property which do not or would not impair the use or occupancy of such Real Property in the operation of Target's business as currently conducted thereon.

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

"*Prohibited Transaction*" has the meaning set forth in ERISA Section 406 and Code Section 4975.

"*Promissory Note*" has the meaning set forth in Section 2(b)(ii) below.

"*Purchase Price*" has the meaning set forth in Section 2(b) below.

"*Real Property*" has the meaning set forth in Section 4(l) below.

"*Real Property Laws*" has the meaning set forth in Section 4(l) below.

"*Registrable Securities*" means those Ultralife Shares issuable to Seller in accordance with the provisions of Section 2(b)(iii).

"Registration Rights Agreement" means the form of Registration Rights Agreement attached as Exhibit E to this Agreement.

"*Reportable Event*" has the meaning set forth in ERISA Section 4043.

"*Sales*" means revenues, determined in accordance with GAAP, that are achieved by Target in the ordinary course of business.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Securities Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*Seller*" has the meaning set forth in the preface above.

"*Subsidiary*" means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons own a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity's gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term "Subsidiary" shall include all Subsidiaries of such Subsidiary.

"*Target*" has the meaning set forth in the preface above.

"*Target Share*" means any share of the common stock, par value $0.01 per share, of Target.

"*Tax*" or "*Taxes*" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the Tax liability of any other Person.

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

"*Third Party Claim*" has the meaning set forth in Section 8(d) below.

"*Treasury Regulations*" means the Treasury Regulations promulgated under the Code.

"*Ultralife Shares*" means shares of common stock, par value $0.10 per share, of Ultralife Batteries, Inc.

SECTION 2. PURCHASE AND SALE OF TARGET SHARES

(a) Basic Transaction. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Seller, and Seller agrees to sell to Buyer, all of his Target Shares for the consideration specified below in this Section 2.

(b) Purchase Price; Payment. The aggregate consideration for the Target Shares shall be up to $10,000,000, subject to adjustment after Closing as provided by Section 2(e), plus up to 100,000 Ultralife Shares (together, as adjusted, the "***Purchase Price***"). On the terms and subject to the conditions set forth herein, Buyer shall pay the Purchase Price to Seller as follows:

(i) At Closing, Buyer shall pay Seller the aggregate amount of $6,000,000 by wire transfer of immediately available funds into an account designated by Seller prior to the Closing Date (the "***Closing Payment***"). The Closing Payment shall be made by a single wire transfer. The Closing Payment shall be subject to adjustment after Closing as provided by Section 2(e).

(ii) At Closing, Buyer shall execute and deliver to Seller a subordinated convertible promissory note with a principal amount of $4,000,000 and a term of three years in the form attached hereto as Exhibit A (the "***Promissory Note***").

(iii) Following the Closing, during the Measuring Periods if Target achieves certain Sales target, then Buyer shall issue up to an aggregate of 100,000 Ultralife Shares to Seller on the following terms and conditions (the "***Equity Payments***"):

(A) The first time Sales exceed $14,000,000 during any of the Measuring Periods, and only the first time such threshold is exceeded, Buyer shall issue 20,000 Ultralife Shares to Seller.

(B) The first time Sales exceed $16,500,000 during any of the Measuring Periods, and only the first time such threshold is exceeded, Buyer shall issue an additional 20,000 Ultralife Shares to Seller.

(C) The first time Sales exceed $19,000,000 during any of the Measuring Periods, and only the first time such threshold is exceeded, Buyer shall issue an additional 20,000 Ultralife Shares to Seller.

(D) The first time Sales exceed $22,000,000 during any of the Measuring Periods, and only the first time such threshold is exceeded, Buyer shall issue an additional 20,000 Ultralife Shares to Seller.

(E) The first time Sales exceed $25,000,000 during any of the Measuring Periods, and only the first time such threshold is exceeded, Buyer shall issue an additional 20,000 Ultralife Shares to Seller.

(F) The following illustrates how the Equity Payments are earned. If Sales were $17,000,000 during the period commencing on the Closing Date and ending on December 31, 2008, $18,000,000 during the period commencing on January 1, 2009 and ending on December 31, 2009, and $26,000,000 during the period commencing on January 1, 2010 and ending on December 31, 2010, then (1) Buyer would issue to Seller 40,000 Ultralife Shares for the period commencing on the Closing Date and ending on December 31, 2008 because both the $14,000,000 and the $16,500,000 Sales thresholds would have been satisfied in that Measuring Period; (2) Buyer would not issue any Ultralife Shares to Seller for the period commencing on January 1, 2009 and ending on December 31, 2009 because the $14,000,000 and the $16,500,000 Sales thresholds would have been already satisfied during the prior Measuring Period and none of the three additional Sales thresholds (i.e., $19,000,000, $22,000,000 and $25,000,000) were satisfied during such period; and (3) Buyer would issue to Seller 60,000 Ultralife Shares for the period commencing on January 1, 2010 and ending on December 31, 2010 because each of the $19,000,000, $22,000,000 and $25,000,000 Sales thresholds would have been satisfied during such Measuring Period. Finally, because an aggregate of

100,000 Ultralife Shares would have been then issued to Seller, Seller would not be entitled to any additional Ultralife Shares during the remaining Measuring Periods.

(G) Notwithstanding anything herein to the contrary, in no event shall the aggregate number of Ultralife Shares issuable as Equity Payments exceed 100,000 shares. In the event of a stock split or other re-capitalization event affecting the Ultralife Shares, the number of shares issuable as Equity Payments shall be adjusted accordingly.

(H) Any Equity Payments due from Buyer to Seller hereunder shall be made within ten days of the completion of the audit by Buyer's independent public accountant of the books and records of Buyer and its affiliates, including Target, for the applicable Measuring Period and shall be made in accordance with Buyer's customary practices for issuing securities in transactions that are exempt from registration under Section 5 of the Securities Act.

(c) Closing. The closing of the transactions contemplated by this Agreement (the "***Closing***") shall take place at the offices of Harter Secrest & Emery LLP, in Rochester, New York, commencing at 10:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as Buyer and Seller may mutually determine (the "***Closing Date***"); provided, however, that the Closing Date shall be no later than November 30, 2007.

(d) Deliveries at Closing. At the Closing, (i) Seller will deliver to Buyer the various certificates, instruments, and documents referred to in Section 7(a) below, (ii) Buyer will deliver to Seller the various certificates, instruments, and documents referred to in Section 7(b) below, (iii) Seller will deliver to Buyer stock certificates representing all of his Target Shares, endorsed in blank or accompanied by duly executed assignment documents, and (iv) Buyer will deliver to Seller the consideration specified in Section 2(b) above.

(e) Post-Closing Purchase Price Adjustment.

(i) A closing balance sheet will be prepared and finally determined as provided by this Section 2(e), whereupon all references herein to the "***Closing Balance Sheet***" will mean the same as so finally determined. Within 45 days following Closing, Buyer will prepare the Closing Balance Sheet and deliver the same to Seller. Buyer will cause the Closing Balance Sheet to be derived from the books and records of Target, and to present fairly the assets and liabilities of Target as of the Closing Date. The Closing Balance Sheet will be prepared from Target's books and records and will be true, correct and complete in all material respects, consistent with Target's books and records, and will fairly present the financial condition of Target as of the Closing Date. Buyer agrees that the Seller shall participate in the preparation of the Closing Balance Sheet.

(ii) Within 60 days after the delivery of the Closing Balance Sheet, Buyer and Seller shall mutually agree on the contents of the Closing Balance Sheet, which will then be final and binding upon the parties for all purposes. If the parties fail such mutual agreement within such period, then either Buyer or Seller may submit the Closing Balance Sheet, or the resolution of only such item or items thereof as are in dispute, to BDO Seidman LLP (the "***Auditor***") for computation, verification or resolution in accordance with the provisions of this Agreement. Buyer and Seller shall make readily available to the Auditor all relevant books and records (including work papers of a party's independent public accountants) as the Auditor reasonably requests. The Auditor's computation or verification of the Closing Balance Sheet or resolution of such disputed item or items thereof (as the case may be), which Buyer and Seller will instruct the Auditor to deliver to them within 30 days after submission to the Auditor, will be final and binding upon the parties for all purposes relating to this Section 2(e), and the Auditor' fees and expenses therefor will be borne by the non-prevailing party or, in the event that each party prevails on some of the issues in dispute, will be shared proportionately, as determined by the Auditor.

(iii) For all purposes relating to this Section 2(e), "***Adjusted Net Worth***" means the net worth of Target, as defined by GAAP and as shown on the Closing Balance Sheet, calculated and determined in accordance with the methodology set forth on Schedule 2(e), which Adjusted Net Worth shall include the adjusted book value of the Real Property transferred to Seller prior to Closing as contemplated by Section 4(l)(i).

(iv) The amount of the Closing Payment, as finally determined pursuant to the provisions hereof following the Closing, shall be $6,000,000 less the amount (if any) by which the Adjusted Net Worth is less than $500,000.

(v) If the amount of the Adjusted Net Worth as so finally determined is less than $500,000, then Seller shall, within ten days after such final determination, pay the amount of such deficiency to Buyer by wire transfer of immediately available funds to an account designated by Buyer. If the amount of the Adjusted Net Worth as so finally determined is greater than $500,000, then Buyer shall, within ten days after such final determination, pay the amount of such excess to Seller by wire transfer of immediately available funds to an account designated by Seller.

(vi) If Seller does not satisfy any deficiency he owes under Section 2(e)(v) within the prescribed time, then Buyer shall have the right to setoff the amount of such deficiency against any amounts owed by Buyer to Seller under the Promissory Note. The exercise by Buyer of such right of setoff shall not preclude Buyer from pursuing other remedies available to Buyer against Seller.

SECTION 3. TRANSACTION REPRESENTATIONS AND WARRANTIES

(a) Seller's Representations and Warranties. Seller represents and warrants to Buyer that the statements contained in this Section 3(a) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(a)) with respect to himself, except as set forth in Annex I attached hereto.

(i) *Authorization of Transaction*. Seller has full power and authority to execute and deliver this Agreement and to perform his obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Seller, enforceable in accordance with its terms and conditions. Seller need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery, and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Seller.

(ii) *Non-contravention*. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Seller is subject or, if Seller is an entity, any provision of its charter, bylaws, or other governing documents, (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Seller is a party or by which he is bound or to which any of his assets is subject, or (C) result in the imposition or creation of a Lien upon or with respect to the Target Shares.

(iii) *Brokers' Fees*. Seller has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(iv) *Target Shares*. Seller holds of record and owns beneficially the number of Target Shares set forth next to his or its name in Section 4(b) of the Disclosure Schedule, which constitute all of the issued and outstanding Target Shares, free and clear of any restrictions on transfer (other than any restrictions under the Securities Act and state securities laws), Taxes, Liens, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands. Seller is not a party to any option, warrant, purchase right, or other contract or commitment that could require Seller to sell, transfer, or otherwise dispose of any capital stock of Target (other than this Agreement). Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any capital stock of Target.

(v) *Investment Representations for Ultralife Shares*. Seller acknowledges that any Ultralife Shares acquired by Seller pursuant to this Agreement shall be acquired by Seller for his own account, for investment purposes only, and not with a view to or for distributing or reselling such securities or any part thereof or interest therein. Seller, either alone or together with his representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of any investment by him in Ultralife Shares, and has so evaluated the merits and risks of any such investment to his satisfaction. As of the Closing Date, Seller shall be able to bear the economic risk of an investment in the Ultralife Shares offered pursuant to this Agreement and shall be able to afford a complete loss of any such investment. Seller acknowledges that at the time Seller was offered the Ultralife Shares pursuant to this Agreement, Seller was and, at the date hereof, Seller is, and at the Closing Date Seller will be, an "accredited investor" as defined in Rule 501 under the Securities Act. Seller acknowledges that he has been afforded: (A) the opportunity to ask such questions as he has deemed necessary of, and to receive answers from, representatives of Buyer concerning the terms and conditions of the offer and sale of any Ultralife Shares offered pursuant to this Agreement, and the merits and risks of investing in such securities; (B) access to information about Buyer and Buyer's financial condition, results of operations, business, properties, management and prospects sufficient to enable Seller to evaluate his investment; and (C) the opportunity to obtain such additional information that Buyer possesses or can acquire without unreasonable effort or expense that is reasonably necessary to permit Seller to make an informed investment decision with respect to any Ultralife Shares to be acquired by Seller pursuant to this Agreement. Seller understands and acknowledges that any Ultralife Shares acquired by Seller pursuant to this Agreement were offered and acquired by him without registration under the Securities Act in a private transaction pursuant to the exemption from registration under Section 5 of the Securities Act provided by Section 4(2) of the Securities Act and that such securities are and shall be "restricted securities" as defined in Rule 144 under the Securities Act and thus such securities shall not be freely transferable by Seller. Seller understands and acknowledges that except as set forth in Section 3(a)(vi) below, Buyer is not providing Seller with any registration rights in connection with any Ultralife Shares offered pursuant to this Agreement. Seller understands and acknowledges that Buyer shall rely on the accuracy and truthfulness of Seller's representations herein in order to avail of the exemption from registration under Section 5 of the Securities Act provided by Section 4(2) of the Securities Act.

(vi) *Registration Rights.* Buyer hereby grants Seller piggyback registration rights as it relates to any future Registration Statement and covenants to include to the extent legally permissible and subject to any limitations imposed by the underwriter or placement agent, if applicable, Registrable Securities in such Registration Statement. If at any time prior to the removal of restrictive legends pursuant to Rule 144(k)(a) Buyer proposes to register shares of Common Stock under the Securities Act other than on Forms S-8, S-4 or any successor forms in connection with a public offering of such shares for cash (a " Proposed Registration") and (b) a Registration Statement covering the resale of all of the Registrable Securities is not been effective and available for sales thereof by Seller, Buyer shall at such time promptly give Seller written notice of such Proposed Registration. Buyer shall use its best efforts to cause such Registration

Statement to cover the resale of the Registrable Securities, which have not otherwise been registered or covered under a current effective Registration Statement, which Registration Statement shall state that in accordance with Rule 416 promulgated under the Securities Act, such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon stock splits, stock dividends or similar transactions. The Seller and the Buyer shall enter into a separate Registration Rights Agreement in substantially the form attached to hereto as Exhibit E consistent with the provision of this Section 3(a)(iv), which Registration Rights Agreement shall contain customary representations and warranties and provisions regarding indemnification and contribution.

(b) Buyer's Representations and Warranties. Buyer represents and warrants to Seller that the statements contained in this Section 3(b) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(b)), except as set forth in Annex II attached hereto.

(i) *Organization of Buyer*. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware.

(ii) *Authorization of Transaction*. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery, and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

(iii) *Non-contravention*. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject.

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

(v) *Investment*. Buyer is not acquiring the Target Shares with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act.

(vi) *Access to Information*. Buyer has such knowledge of the business and financial affairs of the Target and possesses a sufficient degree of sophistication, knowledge and experience in financial and business matters such that Buyer is capable of evaluating the information provided to Buyer by Seller and Target about Target's business, including Target's assets and liabilities, and the economic risks of acquiring the Target Shares. Buyer acknowledges and agrees that Target and Seller make no further representations or warranties to Buyer regarding the Target or the Target Shares, other than as set forth in this Agreement. Specifically, Buyer acknowledges and agrees, that Target and Seller give no assurances, representations or warranties as to the continued viability of the Target as a going concern or otherwise or its future profitability after Buyer's purchase.

(vii) *Litigation; Judgments*. There are no pending or threatened, suits, actions, grievances or proceedings against or relating to Buyer, the business or any property or asset of the business of Buyer that individually or in the aggregate could reasonably be expected to have a Material Adverse Effect on Buyer's ability to consummate the transactions contemplated by this Agreement. There is no unsatisfied or outstanding judgment, decree, injunction, rule or order of any governmental entity or arbitrator which (i) could reasonably be expected to have a Material Adverse Effect on Buyer or the business of Buyer or (ii) seeks to enjoin or prohibit the consummation of the transactions contemplated by this Agreement.

(viii) *Equity Payments*. The Equity, if and when issued pursuant to the Convertible Note, will be duly authorized, validly issued, fully paid and non assessable shares of common stock of Buyer. Upon delivery of such shares, Seller will receive good and unencumbered title to such shares, free and clear of all liens, restrictions, charges, encumbrances and other security interests of any kind or nature whatsoever, except for any restrictions existing under applicable securities laws and the restrictions imposed by this Agreement.

(ix) *Reports and Financial Statements*. As of their respective dates, the periodic reports (the "***Reports***") filed by Buyer with the Securities and Exchange Commission (the "***Commission***") under the Securities Exchange Act of 1934, as amended (the "***Exchange Act***") complied or will comply in all material respects with the then applicable published rules and regulations of the Commission with respect thereto (including, without limitation, rules related to the financial statements included therein) at the date of their issuance and did not or will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Buyer has filed all reports and filings with the SEC required pursuant to the Securities Act or 1933 or the Exchange Act on a timely basis. Each such report or filing is true, correct and complete in all material respects and 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 they were made, not misleading.

SECTION 4. TARGET REPRESENTATIONS AND WARRANTIES

Seller represents and warrants to Buyer that the statements contained in this Section 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 4), except as set forth in the disclosure schedule delivered by Seller to Buyer on the date hereof and initialed by the Parties (the "***Disclosure Schedule***"). Nothing in the Disclosure Schedule shall be deemed adequate to disclose an exception to a representation or warranty made herein, however, unless the Disclosure Schedule identifies the exception with particularity and describes the relevant facts in detail. Without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item shall not be deemed adequate to disclose an exception to a representation or warranty made herein (unless the representation or warranty has to do with the existence of the document or other item itself). The Disclosure Schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Section 4.

(a) Organization, Qualification, and Corporate Power. Target is a corporation duly organized, validly existing, and in good standing under the laws of the State of Florida. Target is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required. Target has full corporate power and authority and all licenses, permits, and authorizations necessary to carry on the businesses in which it is engaged and in which it presently proposes to engage and to own and use the properties owned and used by it. Section 4(a) of the Disclosure Schedule lists the directors and officers of Target. Seller has delivered to Buyer correct and complete copies of the charter and bylaws of Target (as amended to date). The minute books (containing the records of meetings of the stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock record books of Target are correct and complete. Target is not in default under or in violation of any provision of its charter or bylaws.

(b) Capitalization. The entire authorized capital stock of Target consists of Ten 10,000 Target Shares, of which 100 Target Shares are issued and outstanding and no Target Shares are held in treasury. All of the issued and outstanding Target Shares have been duly authorized, are validly issued, fully paid, and non-assessable, and are held of record by the respective Seller as set forth in Section 4(b) of the Disclosure Schedule. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require Target to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to Target. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock of Target.

(c) Non-contravention. Except as set forth on Section 4(c) of the Disclosure Schedule, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Target is subject or any provision of the charter or bylaws of Target or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Target is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Lien upon any of its assets). Target does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement.

(d) Brokers' Fees. Target has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(e) Title to Assets. Except as set forth on Section 4(e) of the Disclosure Schedule, Target has good and marketable title to, or a valid leasehold interest in, the properties and assets used by Target, located on its premises, or shown on the Most Recent Balance Sheet or acquired after the date thereof, free and clear of all Liens, except for properties and assets disposed of in the Ordinary Course of Business since the date of the Most Recent Balance Sheet. The 2007 Lexus GS450HU is currently leased by Target and used by Seller. All of Target's rights in and to that Lexus shall be distributed to Seller prior to closing and Seller shall assume all obligations with respect to the lease of the Lexus.

(f) Subsidiaries. Target has no Subsidiaries.

(g) Financial Statements. Attached hereto as Exhibit B are the following financial statements (collectively the "***Financial Statements***"): (i) an audited balance sheet and statements of income, changes in stockholders' equity, and cash flow as of and for the fiscal year ended December 31, 2006 (the "***Most Recent Fiscal Year End***") for Target; and (ii) an unaudited balance sheet and statements of income, changes in stockholders' equity, and cash flow (the "***Most Recent Financial Statements***") as of and for the six months ended June 30, 2007 (the "***Most Recent Fiscal Month End***") for Target. The Financial Statements have been prepared from Target's books and records, are true, correct and complete in all material respects, are consistent with Target's books and records applied on a consistent basis throughout the periods covered thereby, present fairly the financial condition of Target as of such dates and the results of operations of Target for such periods, are correct and complete, and are consistent with the books and records of Target (which books and records are correct and complete);

(h) Events Subsequent to Most Recent Fiscal Year End. Except as set forth on Section 4(h) of the Disclosure Schedule, since the Most Recent Fiscal Year End, there has not been any Material Adverse Change. Without limiting the generality of the foregoing, since that date:

(i) Target has not sold, leased, transferred, or assigned any of its assets, tangible or intangible, other than for a fair consideration in the Ordinary Course of Business;

(ii) Target has not entered into any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) either involving more than $100,000 or outside the Ordinary Course of Business;

(iii) no party (including Target) has accelerated, terminated, modified, or cancelled any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) involving more than $100,000 to which Target is a party or by which Target is bound;

(iv) Target has not imposed any Liens upon any of its assets, tangible or intangible;

(v) Except as set forth on Section 4(h)(v) of the Disclosure Schedule, Target has not made any capital expenditure (or series of related capital expenditures) either involving more than $100,000 or outside the Ordinary Course of Business;

(vi) Target has not made any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person (or series of related capital investments, loans, and acquisitions) either involving more than $100,000 or outside the Ordinary Course of Business;

(vii) Except as set forth on Section 4(h)(vii) of the Disclosure Schedule, Target has not issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligation either involving more than $100,000 in the aggregate;

(viii) Target has not delayed or postponed the payment of accounts payable and other Liabilities outside the Ordinary Course of Business;

(ix) Target has not cancelled, compromised, waived, or released any right or claim (or series of related rights and claims) either involving more than $10,000 or outside the Ordinary Course of Business;

(x) Target has not transferred, assigned, or granted any license or sublicense of any rights under or with respect to any Intellectual Property;

(xi) there has been no change made or authorized in the charter or bylaws of Target;

(xii) Except as set forth on Section 4(h)(xii) of the Disclosure Schedule, Target has not issued, sold, or otherwise disposed of any of its capital stock, or granted any options, warrants, or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of its capital stock;

(xiii) Target has not declared, set aside, or paid any dividend or made any distribution with respect to its capital stock (whether in cash or in kind) or redeemed, purchased, or otherwise acquired any of its capital stock;

(xiv) Target has not experienced any damage, destruction, or loss (whether or not covered by insurance) to its property;

(xv) Target has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees outside the Ordinary Course of Business;

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

(xvii) Target has not granted any increase in the base compensation of any of its directors, officers, and employees outside the Ordinary Course of Business;

(xviii) Target has not adopted, amended, modified, or terminated any bonus, profit sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Employee Benefit Plan);

(xix) Target has not made any other change in employment terms for any of its directors, officers, and employees outside the Ordinary Course of Business;

(xx) Target has not made or pledged to make any charitable or other capital contribution outside the Ordinary Course of Business;

(xxi) there has not been any other material occurrence, event, incident, action, failure to act, or transaction outside the Ordinary Course of Business involving Target;

(xxii) Target has not discharged a material Liability or Lien outside the Ordinary Course of Business;

(xxiii) Target has not made any loans or advances of money;

(xxiv) Target has not disclosed any Confidential Information; and

(xxv) Target has not committed to any of the foregoing.

(i) Undisclosed Liabilities. Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability), except for (i) Liabilities set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) and (ii) Liabilities which have arisen after the Most Recent Fiscal Month End in the Ordinary Course of Business (none of which results from, arises out of, relates to, is in the nature of, or was caused by any breach of contract, breach of warranty, tort, infringement, or violation of law).

(j) Legal Compliance. Target and its predecessors and Affiliates, if any, have complied with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder and including the Foreign Corrupt Practices Act, 15 U.S.C. 78dd-1 et seq.) of federal, state, local, and foreign governments (and all agencies thereof), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of them alleging any failure so to comply except where the failure to comply would not have a Material Adverse Effect..

(k) Tax Matters.

(i) Target (and any predecessor of Target) has been a validly electing S corporation within the meaning of Code Section 1361 and Section 1362 at all times during its existence and Target will be an S corporation up to and including the Closing Date.

(ii) Target has no potential liability for any Tax under Code Section 1374. Target has not, in the past 10 years, (A) acquired assets from another corporation in a transaction in which Target's Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation that is a qualified subchapter S subsidiary.

(iii) Target has filed all Tax Returns that it was required to file under applicable laws and regulations. All such Tax Returns were correct and complete in all respects and have been prepared in substantial compliance with all applicable laws and regulations. All Taxes due and owing by Target (whether or not shown on any Tax Return) have been paid. Target currently is not the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by an authority in a jurisdiction where Target does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of Target.

(iv) Target has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(v) No Seller or director or officer (or employee responsible for Tax matters) of Target expects any authority to assess any additional Taxes for any period for which Tax Returns have been filed. No foreign, federal, state, or local tax audits or administrative or judicial Tax proceedings are pending or being conducted with respect to Target. Target has not received from any foreign, federal, state, or local taxing authority (including jurisdictions where Target has not filed Tax Returns) any (i) notice indicating an intent to open an audit or other review, (ii) request for information related to Tax matters, or (iii) notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against Target; Disclosure Schedule lists all federal, state, local, and foreign income Tax Returns filed with respect to Target for taxable periods ended on or after December 31, 2003, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. Seller have delivered to Buyer correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by Target filed or received since December 31, 2003.

(vi) Target has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(vii) Target is not a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of (i) any "excess parachute payment" within the meaning of Code Section 280G (or any corresponding provision of state, local or foreign Tax law) and (ii) any amount that will not be fully deductible as a result of Code 162(m) (or any corresponding provision of state, local or foreign Tax law). Target has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Target has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662. Target is not a party to or bound by any Tax allocation or sharing agreement. Target (A) has not been a member of an Affiliated Group filing a consolidated federal income Tax Return (other than a group the common parent of which was Target) or (B) has no Liability for the Taxes of any Person (other than Target) under Reg. Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(viii) The unpaid Taxes of Target (A) did not, as of the Most Recent Fiscal Month End, exceed the reserve for Tax Liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) and (B) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target in filing their Tax Returns. Since the date of the Most Recent Balance Sheet, Target has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the Ordinary Course of Business consistent with past custom and practice.

(ix) Target will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (A) change in method of accounting for a taxable period ending on or prior to the Closing Date; (B) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (C) intercompany transactions or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of state, local or foreign income Tax law); (D) installment sale or open transaction disposition made on or prior to the Closing Date; or (E) prepaid amount received on or prior to the Closing Date.

(x) Target 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 Code Section 355 or Section 361.

(xi) Target has not, since October 3, 2004, (A) granted to any person an interest in a nonqualified deferred compensation plan (as defined in Code Section 409A) which interest has been or, upon the lapse of a substantial risk of forfeiture with respect to such interest, will be subject to the Tax imposed by Code Section 409A, or (B) modified the terms of any nonqualified deferred compensation plan in a manner that could cause an interest previously granted under such plan to become subject to the Tax imposed by Code Section 409A. No person has a right to be indemnified by Target for any Tax imposed by Code Section 409A.

(l) Real Property.

(i) Except as set forth on Section 4(l)(i) of the Disclosure Schedule, Target does not own any Real Property. The Real Property owned by Target shall be distributed to Seller prior to Closing together with all mortgages and other encumbrances related to the Real Property, all of which shall be assumed by Seller or Seller's affiliate to whom the Real Property is transferred.

(ii) Section 4(l)(ii) of the Disclosure Schedule sets forth the address of each parcel of Leased Real Property, and a true and complete list of all Leases for each such Leased Real Property (including the date and name of the parties to such Lease document). Target has delivered to Buyer a true and complete copy of each such Lease document, and in the case of any oral Lease, a written summary of the material terms of such Lease. Except as set forth in Section 4(l)(ii) of the Disclosure Schedule, with respect to each of the Leases:

(A) such Lease is legal, valid, binding, enforceable and in full force and effect;

(B) the transaction contemplated by this Agreement does not require the consent of any other party to such Lease (except for those Leases for which Lease Consents (as hereinafter defined) are obtained), will not result in a breach of or default under such Lease, and will not otherwise cause such Lease to cease to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Closing;

(C) Target's possession and quiet enjoyment of the Leased Real Property under such Lease has not been disturbed and there are no disputes with respect to such Lease;

(D) neither Target nor any other party to the Lease is in breach or default under such Lease, and no event has occurred or circumstance exists which, with the delivery of notice, the passage of time or both, would constitute such a breach or default, or permit the termination, modification or acceleration of rent under such Lease;

(E) no security deposit or portion thereof deposited with respect to such Lease has been applied in respect of a breach or default under such Lease which has not been redeposited in full;

(F) Target neither owes or will owe in the future any brokerage commissions or finder’s fees with respect to such Lease;

(G) the other party to such Lease is not an Affiliate of, and otherwise does not have any economic interest in, Target;

(H) Target has not subleased, licensed or otherwise granted any Person the right to use or occupy such Leased Real Property or any portion thereof;

(I) Target has not collaterally assigned or granted any other Lien in such Lease or any interest therein; and

(J) there are no Liens on the estate or interest created by such Lease.

(iii) The Real Property identified in Section 4(l)(i) and the Leased Real Property identified in Section 4(l)(ii) of the Disclosure Schedule (collectively, the “***Real Property***”), comprises all of the real property used or intended to be used in, or otherwise related to, Target’s business; and Target is not a party to any agreement or option to purchase any real property or interest therein.

(iv) All buildings, structures, fixtures, building systems and equipment, and all components thereof, including the roof, foundation, load-bearing walls and other structural elements thereof, heating, ventilation, air conditioning, mechanical, electrical, plumbing and other building systems, environmental control, remediation and abatement systems, sewer, storm and waste water systems, irrigation and other water distribution systems, parking facilities, fire protection, security and surveillance systems, and telecommunications, computer, wiring and cable installations, included in the Real Property (the “***Improvements***”) are in good condition and repair and sufficient for the operation of Target’s business. There are no structural deficiencies or latent defects affecting any of the Improvements and there are no facts or conditions affecting any of the Improvements which would, individually or in the aggregate, interfere in any respect with the use or occupancy of the Improvements or any portion thereof in the operation of Target’s business as currently conducted thereon.

(v) There is no condemnation, expropriation or other proceeding in eminent domain, pending or threatened, affecting any parcel of Real Property or any portion thereof or interest therein. There is no injunction, decree, order, writ or judgment outstanding, nor any claims, litigation, administrative actions or similar proceedings, pending or threatened, relating to the ownership, lease, use or occupancy of the Real Property or any portion thereof, or the operation of Target's business as currently conducted thereon.

(vi) Except as set forth in Section 4 (l) (vi) of the Disclosure Schedule, the Real Property is in compliance with all applicable building, zoning, subdivision, health and safety and other land use laws, including the Americans with Disabilities Act of 1990, as amended ("ADA"), and all insurance requirements affecting the Real Property (collectively, the "***Real Property Laws***"), and the current use and occupancy of the Real Property and operation of Target's business thereon does not violate any Real Property Laws. Target has not received any notice of violation of any Real Property Law and there is no basis for the issuance of any such notice or the taking of any action for such violation. There is no pending or anticipated change in any Real Property Law that will materially impair the ownership, lease, use or occupancy of any Real Property or any portion thereof in the continued operation of Target's business as currently conducted thereon.

(vii) Each parcel of Real Property has direct vehicular and pedestrian access to a public street adjoining the Real Property, or has vehicular and pedestrian access to a public street via an insurable, permanent, irrevocable and appurtenant easement benefiting such parcel of Real Property, and such access is not dependent on any land or other real property interest which is not included in the Real Property. None of the Improvements or any portion thereof is dependent for its access, use or operation on any land, building, improvement or other real property interest which is not included in the Real Property.

(viii) All water, oil, gas, electrical, steam, compressed air, telecommunications, sewer, storm and waste water systems and other utility services or systems for the Real Property have been installed and are operational and sufficient for the operation of Target's business as currently conducted thereon. Each such utility service enters the Real Property from an adjoining public street or valid private easement in favor of the supplier of such utility service or appurtenant to such Real Property, and is not dependent for its access, use or operation on any land, building, improvement or other real property interest which is not included in the Real Property.

(ix) All certificates of occupancy, permits, licenses, franchises, approvals and authorizations (collectively, the "***Real Property Permits***") of all governmental authorities, boards of fire underwriters, associations or any other entity having jurisdiction over the Real Property which are required or appropriate to use or occupy the Real Property or operate Target's business as currently conducted thereon, have been issued and are in full force and effect. Section 4(l)(ix) of the Disclosure Schedule lists all material Real Property Permits held by Target with respect to each parcel of Real Property. Target has delivered to Buyer a true and complete copy of all Real Property Permits. Target has not received any notice from any governmental authority or other entity having jurisdiction over the Real

Property threatening a suspension, revocation, modification or cancellation of any Real Property Permit and there is no basis for the issuance of any such notice or the taking of any such action. The Real Property Permits are transferable to Buyer without the consent or approval of the issuing governmental authority or entity, no disclosure, filing or other action by Target is required in connection with such transfer, and Buyer shall not be required to assume any additional liabilities or obligations under the Real Property Permits as a result of such transfer.

(x) The classification of each parcel of Real Property under applicable zoning laws, ordinances and regulations permits the use and occupancy of such parcel and the operation of Target's business as currently conducted thereon, and permits the Improvements located thereon as currently constructed, used and occupied. There are sufficient parking spaces, loading docks and other facilities at such parcel to comply with such zoning laws, ordinances and regulations. Target's use or occupancy of the Real Property or any portion thereof or the operation of Target's business as currently conducted thereon is not dependent on a "permitted non-conforming use" or "permitted non-conforming structure" or similar variance, exemption or approval from any governmental authority.

(xi) The current use and occupancy of the Real Property and the operation of Target's business as currently conducted thereon does not violate any easement, covenant, condition, restriction or similar provision in any instrument of record or other unrecorded agreement affecting such Real Property (the "***Encumbrance Documents***"). Neither Seller nor Target has received any notice of violation of any Encumbrance Documents, and there is no basis for the issuance of any such notice or the taking of any action for such violation.

(xii) None of the Improvements encroach on any land which is not included in the Real Property or on any easement affecting such Real Property, or violate any building lines or set-back lines, and there are no encroachments onto any of the Real Property, or any portion thereof, which encroachment would interfere with the use or occupancy of such Real Property or the continued operation of Target's business as currently conducted thereon.

(xiii) Each parcel of Real Property is a separate lot for real estate tax and assessment purposes, and no other real property is included in such tax parcel. There are no Taxes, assessments, fees, charges or similar costs or expenses imposed by any governmental authority, association or other entity having jurisdiction over the Real Property (collectively, the "***Real Estate Impositions***") with respect to any Real Property or portion thereof which are delinquent. There is no pending or threatened increase or special assessment or reassessment of any Real Estate Impositions for such parcel.

(xiv) None of the Real Property or any portion thereof is located in a flood hazard area (as defined by the Federal Emergency Management Agency).

(m) Intellectual Property.

(i) Target owns and possesses or has the right to use pursuant to a valid and enforceable, written license, sublicense, agreement, or permission all Intellectual Property necessary or desirable for the operation of the businesses of Target as presently conducted and as presently proposed to be conducted. Each item of Intellectual Property owned or used by Target immediately prior to the Closing hereunder will be owned or available for use by Target on identical terms and conditions immediately subsequent to the Closing hereunder. Target has taken all necessary and desirable action to maintain and protect each item of Intellectual Property that Target owns or uses.

(ii) Target has not interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties, and none of Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target has ever received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that Target must license or refrain from using any Intellectual Property rights of any third party). To the Knowledge of any of Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of Target.

(iii) Section 4(m)(iii) of the Disclosure Schedule identifies each patent or registration that has been issued to Target with respect to any of its Intellectual Property, identifies each pending patent application or application for registration which Target has made with respect to any of its Intellectual Property, and identifies each license, sublicense, agreement, or other permission which Target has granted to any third party with respect to any of its Intellectual Property (together with any exceptions). Seller have delivered to Buyer correct and complete copies of all such patents, registrations, applications, licenses, sublicenses, agreements, and permissions (as amended to date). Section 4(m)(iii) of the Disclosure Schedule also identifies each material unregistered trademark, service mark, trade name, corporate name or Internet domain name, computer software item (other than commercially available off-the-shelf software purchased or licensed for less than a total cost of $1,000 in the aggregate) and each material unregistered copyright used by Target in connection with any of its businesses. With respect to each item of Intellectual Property required to be identified in Section 4(m)(iii) of the Disclosure Schedule:

(A) Target owns and possesses all right, title, and interest in and to the item, free and clear of any Lien, license, or other restriction or limitation regarding use or disclosure;

(B) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(C) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of any of Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, is threatened which challenges the legality, validity, enforceability, use, or ownership of the item, and there are no grounds for the same;

(D) Target has never agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the item; and

(E) no loss or expiration of the item is threatened, pending, or reasonably foreseeable, except for patents expiring at the end of their statutory terms (and not as a result of any act or omission by Seller or Target, including without limitation, a failure by Seller or Target to pay any required maintenance fees).

(iv) Section 4(m)(iv) of the Disclosure Schedule identifies each item of Intellectual Property that any third party owns and that Target uses pursuant to license, sublicense, agreement, or permission. Seller has delivered to Buyer correct and complete copies of all such licenses, sublicenses, agreements, and permissions (as amended to date). With respect to each item of Intellectual Property required to be identified in Section 4(m)(iv) of the Disclosure Schedule:

(A) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect;

(B) the license, sublicense, agreement, or permission will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following consummation of the transactions contemplated hereby;

(C) no party to the license, sublicense, agreement, or permission is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(D) no party to the license, sublicense, agreement, or permission has repudiated any provision thereof;

(E) with respect to each sublicense, the representations and warranties set forth in subsections (A) through (D) above are true and correct with respect to the underlying license;

(F) the underlying item of Intellectual Property is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(G) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of any of Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, is threatened that challenges the legality, validity, or enforceability of the underlying item of Intellectual Property, and there are no grounds for the same; and

(H) Target has not granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission.

(v) To the Knowledge of any of Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target: (A) Target has not in the past nor will interfere with, infringe upon, misappropriate, or otherwise come into conflict with, any Intellectual Property rights of third parties as a result of the continued operation of its businesses as presently conducted; (B) there are no facts that indicate a likelihood of any of the foregoing; and (C) no notices regarding any of the foregoing (including, without limitation, any demands or offers to license any Intellectual Property from any third party) have been received.

(vi) Seller have taken all necessary and desirable action to maintain and protect all of the Intellectual Property of Target and will continue to maintain and protect all of the Intellectual Property of Target prior to Closing so as not to adversely affect the validity or enforceability thereof. To the Knowledge of any of Seller, the owners of any of the Intellectual Property licensed to Target have taken all necessary and desirable action to maintain and protect the Intellectual Property covered by such license.

(vii) Seller have complied in all material respects with and are presently in compliance in all material respects with all foreign, federal, state, local, governmental (including, but not limited to, the Federal Trade Commission and State Attorneys General), administrative or regulatory laws, regulations, guidelines and rules applicable to any Intellectual Property and Seller shall take all steps necessary to ensure such compliance until Closing.

(n) Tangible Assets. Target owns or leases all buildings, machinery, equipment, and other tangible assets necessary for the conduct of their businesses as presently conducted and as presently proposed to be conducted. Each such tangible asset is free from defects (patent and latent), has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear), and is suitable for the purposes for which it presently is used and presently is proposed to be used.

(o) Inventory. The inventory of Target consists of raw materials and supplies, manufactured and purchased parts, goods in process, and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, and none of which is slow-moving, obsolete, damaged, or defective, subject only to the reserve for inventory writedown set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target.

(p) Contracts. Section 4(p) of the Disclosure Schedule lists the following contracts and other agreements to which Target is a party:

(i) any agreement (or group of related agreements) for the lease of personal property to or from any Person regardless of amount;

(ii) any agreement (or group of related agreements) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one year, result in a loss to Target, or involve consideration in excess of $10,000;

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

(iv) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation;

(v) any agreement concerning confidentiality or non-competition;

(vi) any agreement with any of Seller and their Affiliates (other than Target);

(vii) any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other plan or arrangement for the benefit of its current or former directors, officers, and employees;

(viii) any collective bargaining agreement;

(ix) any agreement for the employment of any individual on a full-time, part-time, consulting, or other basis providing annual compensation in excess of $10,000 or providing severance benefits;

(x) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees outside the Ordinary Course of Business;

(xi) any agreement under which the consequences of a default or termination could have a Material Adverse Effect;

(xii) any agreement under which it has granted any Person any registration rights (including, without limitation, demand and piggyback registration rights);

(xiii) any agreement under which Target has advanced or loaned any other Person any amounts; or

(xiv) any other agreement (or group of related agreements) the performance of which involves consideration in excess of $10,000.

Seller have delivered to Buyer a correct and complete copy of each written agreement (as amended to date) listed in Section 4(p) of the Disclosure Schedule and a written summary setting forth the terms and conditions of each oral agreement referred to in Section 4(p) of the Disclosure Schedule. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect; (B) the agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby; (C) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under the agreement; and (D) no party has repudiated any provision of the agreement.

(q) Notes and Accounts Receivable. All notes and accounts receivable of Target are reflected properly on their books and records, are valid receivables subject to no setoffs or counterclaims, are current and collectible, and will be collected in accordance with their terms at their recorded amounts, subject only to the reserve for bad debts set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target. All accounts receivable collected by Buyer shall be applied on a first in, first out basis. Buyer shall continue Target's customary collection practices following Closing and shall provide Seller with all normal and customary information relating to the accounts receivable that were in existence on the Closing Date, including all normal aging reports, following the Closing. Any accounts receivable determined by Buyer to be uncollectible shall be reassigned to Seller, subject, however, to buyer's indemnification rights hereunder.

(r) Powers of Attorney. There are no outstanding powers of attorney executed on behalf of Target.

(s) Insurance. Section 4(s) of the Disclosure Schedule sets forth the following information with respect to each insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) to which Target has been a party, a named insured, or otherwise the beneficiary of coverage at any time within the past 10 years:

(i) the name, address, and telephone number of the agent;

(ii) the name of the insurer, the name of the policyholder, and the name of each covered insured;

(iii) the policy number and the period of coverage;

(iv) the scope (including an indication of whether the coverage was on a claims made, occurrence, or other basis) and amount (including a description of how deductibles and ceilings are calculated and operate) of coverage; and

(v) a description of any retroactive premium adjustments or other loss-sharing arrangements.

With respect to each such insurance policy: (A) the policy is legal, valid, binding, enforceable, and in full force and effect; (B) the policy will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transaction contemplated hereby; (C) neither Target nor any other party to the policy is in breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination, modification, or acceleration, under the policy; and (D) no party to the policy has repudiated any provision thereof. Target has been covered during the past 10 years by insurance in scope and amount customary and reasonable for the businesses in which they have engaged during the aforementioned period. Section 4(s) of the Disclosure Schedule describes any self-insurance arrangements affecting Target.

(t) Litigation. Section 4(t) of the Disclosure Schedule sets forth each instance in which Target (i) is subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) is a party or , to the Knowledge of any of Seller and the directors and officers (and employees with responsibility for litigation matters) of Target, is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator. None of the actions, suits, proceedings, hearings, and investigations set forth in Section 4(t) of the Disclosure Schedule could result in any Material Adverse Change. None of Seller and the directors and officers (and employees with responsibility for litigation matters) of Target has any reason to believe that any such action, suit, proceeding, hearing, or investigation may be brought or threatened against Target or that there is any Basis for the foregoing.

(u) Product Warranty. Each product manufactured, sold, leased, or delivered by Target has been in conformity with all applicable contractual commitments and all express and implied warranties, and Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability) for replacement or repair thereof or other damages in connection therewith, subject only to the reserve for product warranty claims set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target. Section 4(u) of the Disclosure Schedule includes copies of the standard terms and conditions of sale or lease for Target (containing applicable guaranty, warranty, and indemnity provisions). No product manufactured, sold, leased, or delivered by Target is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease set forth in Section 4(u) of the Disclosure Schedule.

(v) Product Liability. Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by Target.

(w) Employees. Except as set forth on Section 4(w) of the Disclosure Schedule, to the Knowledge of Seller and the directors and officers (and employees with responsibility for employment matters) of Target, no executive, key employee, or group of employees has any plans to terminate employment with Target. Target is not a party to or bound by any collective bargaining agreement, nor has Target experienced any strikes, grievances, claims of unfair labor practices, or other collective bargaining disputes. Target has not committed any unfair labor practice. None of Seller and the directors and officers (and employees with responsibility for employment matters) of Target has any Knowledge of any organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of Target.

(x) Employee Benefits.

(i) Section 4(x) of the Disclosure Schedule lists all employee benefit plans and collective bargaining, employment or severance agreements or other similar arrangements which Target, or any ERISA Affiliate, has ever sponsored, maintained, or to which contributions are made or have ever been made, or for which obligations have been incurred, for the benefit of employees or former employees of Target or an ERISA Affiliate, including, without limitation, (1) any "employee benefit plan" (within the meaning of Section 3(3) of ERISA), (2) any profit-sharing, deferred compensation, bonus, stock option, stock purchase, pension, retainer, consulting, retirement, severance, welfare or incentive plan, agreement or arrangement, (3) any plan, agreement or arrangement providing for "fringe benefits" or perquisites to employees, officers, directors or agents, including but not limited to benefits relating to automobiles, clubs, vacation, child care, parenting, sabbatical, sick leave, tuition reimbursement, medical, dental, hospitalization, life insurance, disability insurance and other types of insurance, and (4) any employment agreement. The plans, agreements and arrangements described in this Section 4(x) are referred to herein as "***Employee Benefit Plans***."

(ii) None of the Employee Benefit Plans is, and neither Target nor any other ERISA Affiliate has ever contributed to or had any obligation to contribute to, (i) a plan subject to Title IV of ERISA or Section 412 of the Code, (ii) a "multiemployer plan" (within the meaning of Section 3(37) of ERISA), (iii) or a "multiple employer plan" (within the meaning of Section 413(c) of the Code), any "voluntary employees' beneficiary association" (within the meaning of Section 501(c)(9) of the Code), or any "multiple employer welfare arrangement" (within the meaning of Section 3(40) of ERISA).

(iii) None of the Employee Benefit Plans, nor any trust created thereunder, now holds or has heretofore held as assets any stock or securities issued by Target or any ERISA Affiliate.

(iv) Target has delivered to Buyer true and complete copies of all documents (including plan documents, trust agreements and insurance contracts) and summary plan descriptions of the Employee Benefit Plans or summary descriptions of any such Employee Benefit Plan not otherwise in writing. Target has delivered to Buyer true and complete copies of the most recent determination letters and the Forms 5500 filed in the most recent three plan years with respect to any Employee Benefit Plan, including all schedules thereto and financial statements with attached opinions of independent accountants. Target has delivered to Buyer summaries of material modifications and material communications distributed within the last year to the participants of each Employee Benefit Plan. Target has delivered to Buyer all communications received from or sent to the Internal Revenue Service, Pension Benefit Guaranty

Corporation or the Department of Labor within the last three years and any Forms 5330 required to be filed by Target or any ERISA Affiliate, whether related to a Employee Benefit Plan or otherwise. Target and any ERISA Affiliate, as applicable, have maintained all employee data necessary to administer each Employee Plan, including all data required to be maintained under Sections 107 and 209 of ERISA, and such data is true and correct and is maintained in usable form.

(v) Each Employee Benefit Plan (and any related trust agreement) has been maintained, funded and administered in accordance with its terms and the terms of any applicable collective bargaining agreement, and Target, and each ERISA Affiliate, is in compliance with the applicable provisions of ERISA, the Code and all laws applicable thereto. Without limitation of the foregoing:

(A) None of Target, any ERISA Affiliate, nor any Employee Benefit Plan fiduciary has, with respect to the Employee Benefit Plans, engaged in a non-exempt Prohibited Transaction, and no event or condition exists with respect to any Employee Benefit Plan which constitutes a reportable event within the meaning of Section 4043 of ERISA, as to which a waiver is not applicable. No event has occurred and no condition exists with respect to any Employee Benefit Plan which would give rise to any Liability under the Code or ERISA, including but not limited to Sections 511, 4971, 4972, 4975, 4976, 4977, 4979, 4980B, 4980D, 4980E, 4980F or 6652 of the Code, or to any fine or civil penalty under Sections 502, 4069 or 4071 of ERISA.

(B) Target and each ERISA Affiliate have complied in all respects with COBRA, the Health Insurance Portability & Accountability Act of 1996, and Medicare Part D with respect to any events occurring prior to and including the Closing Date. Each Employee Benefit Plan that is subject to Section 1862(b)(1) of the Social Security Act has been operated in compliance with the secondary payor requirements of Section 1862 of such Act.

(C) Each Employee Benefit Plan that constitutes a “welfare benefit plan,” within the meaning of Section 3(1) of ERISA, and for which contributions are claimed by Target or any ERISA Affiliate as deductions under any provision of the Code, is in compliance with all applicable requirements pertaining to such deduction. §4(x) of the Disclosure Schedule discloses whether each welfare plan is (i) unfunded, (ii) with respect to welfare plans subject to the provisions of the Code, funded through a “welfare benefit fund”, as such term is defined in Section 419(e) of the Code, or other funding mechanism or (iii) insured.

(D) Arrangements which constitute “nonqualified deferred compensation plans” as defined by §409A of the Code have been administered in compliance with §409A or an exemption therefrom since January 1, 2005.

(E) All reports, returns and similar documents with respect to each Employee Benefit Plan required to be filed with any Governmental Authority or distributed to any participant of each Employee Benefit Plan have been duly and timely filed or distributed.

All contributions, fees, interest, penalties and assessments that are payable by or for Target or any ERISA Affiliate have been timely reported, fully paid and discharged. There are no unpaid contributions, fees, penalties, interest or assessments due from Target or any ERISA Affiliate or from any other person that are or could become a Lien on any asset of Target or any ERISA Affiliate or could otherwise adversely affect the business or assets of Target or any ERISA Affiliate, and no assets of Target or any ERISA Affiliate are subject to (or expected to be subject to) any such Lien. Target and each ERISA Affiliate have collected or withheld all amounts that are required to be collected or withheld by them to discharge their obligations, and all of those amounts have been paid to the appropriate Employee Benefit Plans or governmental agencies or set aside in appropriate accounts for future payment when due.

(vi) No actions, suits, disputes or claims (other than routine claims for benefits in the ordinary course) are pending or threatened with respect to any Employee Benefit Plan. No audits, inquiries, reviews, proceedings, claims, or demands are pending with any governmental authority with respect to any Employee Benefit Plan. There are no facts which could give rise to any Liability in the event of any such investigation, claim, action, suit, audit, review, or other proceeding (including, without limitation, any claim for breach of fiduciary duty).

(vii) Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service that such Employee Benefit Plan is qualified under Section 401(a) of the Code, and such determination letter considers the Uruguay Round Agreements Act, the Small Business Job Protection Act of 1996, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and the Community Renewal Tax Relief Act of 2000. Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code has been timely amended to reflect the provisions of the Economic Growth & Tax Relief Reconciliation Act of 2001 and any other statutory or regulatory changes requiring amendments, and has been timely submitted for a determination letter regarding the provisions of the Economic Growth & Tax Relief Reconciliation Act of 2001 if the deadline for such submission has passed. No event has occurred that will or could give rise to the revocation of any applicable determination letter, or the disqualification or loss of tax-exempt status of any such Employee Benefit Plan or trust under Sections 401(a) or 501(a) of the Code.

(viii) Each of the Employee Benefit Plans can be terminated within a period of thirty (30) days following the Closing Date, without any additional contribution to such Employee Benefit Plan or the payment of any additional compensation or amount or acceleration of any benefits.

(ix) No Employee Benefit Plan provides for or continues medical or health benefits, or life insurance or other benefits (through insurance or otherwise) for any Person or any dependent or beneficiary of any Person after such employee’s retirement or other termination of employment except as may be required by

COBRA or applicable state law, and there has been no communication to any Person that could reasonably be expected to promise or guarantee any such benefits.

(x) No condition exists as a result of which Target or any ERISA Affiliate would have any Liability, whether absolute or contingent, including any obligations under the Employee Benefit Plans, with respect to any misclassification of a Person performing services for Target or an ERISA Affiliate as an independent contractor rather than as an employee.

(xi) All contributions (including all employer contributions and employee salary reduction contributions) and premium payments which are or have been due have been paid to or with respect to each Employee Benefit Plan within the time required by law. All required or discretionary (in accordance with historical practices) payments, premiums, contributions, reimbursements, or accruals for all periods ending prior to or as of the Closing Date shall have been made or properly accrued on the Closing Balance Sheets or will be properly accrued on the books and records of Target and each ERISA Affiliate as of the Closing Date. None of the Employee Benefit Plans has any unfunded liabilities which are not reflected on the Closing Balance Sheet or the books and records of Target and each ERISA Affiliate.

(xii) The consummation of the transactions contemplated by this Agreement will not entitle any individual to severance pay, and will not accelerate the time of payment or vesting, or increase the amount of compensation due to any individual. None of the Employee Benefit Plans obligates Target or any ERISA Affiliate to pay separation, severance, termination or similar benefits solely as a result of any transaction contemplated by this Agreement or solely as a result of "change of control" (as such term is defined in Section 280G of the Code).

(y) Guaranties. Target is not a guarantor or otherwise is liable for any Liability or obligation (including indebtedness) of any other Person.

(z) Environmental, Health, and Safety Matters.

(i) Target and its predecessors and Affiliates have complied and are in compliance with all Environmental, Health, and Safety Requirements.

(ii) Without limiting the generality of the foregoing, Target and its Affiliates have obtained and complied with, and are in compliance with, all permits, licenses and other authorizations that are required pursuant to Environmental, Health, and Safety Requirements for the occupation of their facilities and the operation of their business; a list of all such permits, licenses and other authorizations is set forth on Section 4(z) of the Disclosure Schedule.

(iii) Neither Target nor, to its Knowledge, its predecessors or Affiliates has received any written or oral notice, report or other information regarding any actual or alleged violation of Environmental, Health, and Safety Requirements, or any Liabilities or potential Liabilities, including any investigatory, remedial or corrective obligations, relating to any of them or its facilities arising under Environmental, Health, and Safety Requirements.

(iv) To knowledge of Target, none of the following exists at any property or facility owned or operated by Target: (1) underground storage tanks, (2) asbestos-containing material in any form or condition, (3) materials or equipment containing polychlorinated biphenyls, or (4) landfills, surface impoundments, or disposal areas.

(v) Neither Target nor, to its Knowledge, its predecessors or Affiliates have treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or released any substance, including without limitation any hazardous substance, or owned or operated any property or facility (and no such property or facility is contaminated by any such substance) in a manner that has given or would give rise to Liabilities, including any Liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("***CERCLA***"), the Solid Waste Disposal Act, as amended ("***SWDA***") or any other Environmental, Health, and Safety Requirements.

(vi) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of government agencies or third parties, pursuant to any of the so-called "transaction-triggered" or "responsible property transfer" Environmental, Health, and Safety Requirements.

(vii) Neither Target nor, to its Knowledge, its predecessors or Affiliates has, either expressly or by operation of law, assumed or undertaken any Liability, including without limitation any obligation for corrective or remedial action, of any other Person relating to Environmental, Health, and Safety Requirements.

(viii) No facts, events or conditions relating to the past or present facilities, properties or operations of Target or, to its Knowledge, its predecessors or Affiliates will prevent, hinder or limit continued compliance with Environmental, Health, and Safety Requirements, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental, Health, and Safety Requirements, or give rise to any other Liabilities pursuant to Environmental, Health, and Safety Requirements, including without limitation any relating to onsite or offsite releases or threatened releases of hazardous materials, substances or wastes, personal injury, property damage or natural resources damage.

(aa) Certain Business Relationships with Target. None of Seller, their Affiliates, Seller' directors, officers, employees and stockholders and Target's directors, officers, employees, and stockholders has been involved in any business arrangement or relationship with Target within the past 12 months, and none of Seller, their Affiliates, Seller's directors, officers, employees and stockholders and Target's directors, officers, employees, and stockholders owns any asset, tangible or intangible, which is used in the business of Target.

(bb) Customers and Suppliers.

(i) Section 4(bb) of the Disclosure Schedule lists the 10 largest customers of Target for each of the two most recent fiscal years and sets forth opposite the name of each such customer the percentage of consolidated net sales attributable to such customer. Section 4(bb) of the Disclosure Schedule also lists any additional current customers that Target anticipates shall be among the 10 largest customers for the current fiscal year.

(ii) Since the date of the Most Recent Balance Sheet, no supplier of Target has indicated that it shall stop, or decrease the rate of, supplying materials, products or services to Target, and no customer listed on Section 4(bb) of the Disclosure Schedule has indicated that it shall stop, or decrease the rate of, buying materials, products or services from Target.

(cc) Disclosure. The representations and warranties contained in this Section 4 do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information contained in this Section 4 not misleading.

SECTION 5. PRE-CLOSING COVENANTS

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

(a) General. Each of the Parties will use his, her, or its best efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Section 7 below).

(b) Notices and Consents. Seller will cause Target to give any notices to third parties, and will cause Target to use its best efforts to obtain any third party consents referred to in Section 4(c) above, the Lease Consents, and the items set forth on Section 5(b) of the Disclosure Schedule. Each of the Parties will (and Seller will cause Target to) give any notices to, make any filings with, and use its best efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above.

(c) Operation of Business. Seller will not cause or permit Target to engage in any practice, take any action, or enter into any transaction outside the Ordinary Course of Business. Without limiting the generality of the foregoing, Seller will not cause or permit Target to (i) declare, set aside, or pay any dividend or make any distribution whatsoever with respect to its capital stock (whether in cash or in kind) or redeem, purchase, or otherwise acquire any of its capital stock or (ii) otherwise engage in any practice, take any action, or enter into any transaction of the sort described in Section 4(h) above; provided, however, that nothing herein contained shall prohibit Target from making cash distributions to the Seller (whether in the form of dividends or compensation) so long as such distributions do not cause the Adjusted Net Worth to be materially less than $500,000.

(d) Preservation of Business. Seller will cause Target to keep its business and properties substantially intact, including its present operations, physical facilities, working conditions, insurance policies, and relationships with lessors, licensors, suppliers, customers, and employees.

(e) Full Access. Each of Seller will permit, and Seller will cause Target to permit, representatives of Buyer (including legal counsel and accountants) to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Target, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents of or pertaining to Target.

(f) Notice of Developments. Seller will give prompt written notice to Buyer of any material adverse development causing a breach of any of the representations and warranties in Section 4 above. Each Party will give prompt written notice to the others of any material adverse development causing a breach of any of his or its own representations and warranties in Section 3 above. No disclosure by any Party pursuant to this Section 5(f), however, shall be deemed to amend or supplement Annex I, Annex II, or the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

(g) Exclusivity. Seller will not (and Seller will not cause or permit Target to) (i) solicit, initiate, or encourage the submission of any proposal or offer from any Person relating to the acquisition of any capital stock or other voting securities, or any substantial portion of the assets, of Target (including any acquisition structured as a merger, consolidation, or share exchange) or (ii) participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing. Seller will not vote its Target Shares in favor of any such acquisition. Seller will notify Buyer immediately if any Person makes any proposal, offer, inquiry, or contact with respect to any of the foregoing.

(h) Maintenance of Real Property. Seller will cause Target to maintain the Real Property, including all of the Improvements, in substantially the same condition as of the date of this Agreement, ordinary wear and tear excepted, and shall not demolish or remove any of the existing Improvements, or erect new improvements on the Real Property or any portion thereof, without the prior written consent of Buyer.

(i) Leases. Except to the extent necessary to satisfy the Closing conditions set forth in Section 7 below, Seller will not cause or permit any of Target’s Leases to be amended, modified, extended, renewed or terminated, nor shall Target enter into any new lease, sublease, license or other agreement for the use or occupancy of any real property, without the prior written consent of Buyer.

(j) Tax Matters. Without the prior written consent of Buyer, Target shall not make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended Tax Return, enter into any closing agreement, settle any Tax claim or assessment relating to Target, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to Target, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the Tax liability of Target for any period ending after the Closing Date or decreasing any Tax attribute of Target existing on the Closing Date.

(k) S Corporation Status. Target and Seller shall not revoke Target's election to be taxed as an S corporation within the meaning of Code Section 1361 and Section 1362. Target and Seller shall not take or allow any action, other than the sale of Target's stock pursuant to this Agreement, which would result in the termination of Target's status as a validly electing S corporation within the meaning of Code Section 1361 and Section 1362.

(l) Employee Benefits and Welfare Matters. Notwithstanding anything in this Agreement to the contrary, prior to Closing, Seller shall cause the Target to terminate the Stationary Power Services, Inc. 401(k) Plan (the "***401(k) Plan***") and any other Target Plan intended to be qualified under Code Section 401(a) or 403(a). In addition, (a) Sellers shall cause the Target to remove, or Seller shall cause to resign, as a trustee under the 401(k) Plan, Seller and each other trustee, if any, of the 401(k) Plan, effective as of the Closing Date; and (b) Seller shall cause the Target to appoint, effective as of the Closing Date, successor trustees designated by Buyer.

SECTION 6. POST-CLOSING COVENANTS

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

(a) General. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Section 8 below). Seller acknowledge and agree that from and after the Closing Buyer will be entitled to possession of all documents, books, records (including Tax records), agreements, and financial data of any sort relating to Target.

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

(c) Transition. Seller will not take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of Target from maintaining the same business relationships with Target after the Closing as it maintained with Target prior to the Closing. Seller shall refer all customer inquiries relating to the businesses of Target to Buyer from and after the Closing.

(d) Confidentiality. Each of the parties hereto will treat and hold as such all of the Confidential Information of the other parties, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to such other party or destroy, at the request and option of disclosing party, all tangible embodiments (and all copies) of the Confidential Information which are in his, her, or its possession. In the event that any party is requested or required pursuant to written or oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process to disclose any Confidential Information, such party will notify the disclosing party promptly of the request or requirement so that the disclosing party may seek an appropriate protective order or waive compliance with the provisions of this Section 6(d). If, in the absence of a protective order or the receipt of a waiver hereunder, any of receiving parties is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or party in a proceeding therein or else stand liable for contempt, such party may disclose the Confidential Information to the tribunal or such person involved in such action; provided, however, that the disclosing party shall use his, her, or its best efforts to obtain, at the reasonable request of the disclosing party, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the disclosing party shall designate. The foregoing provisions shall not apply to any Confidential Information that is generally available to the public immediately prior to the time of disclosure unless such Confidential Information is so available due to the actions of a party, nor shall the foregoing provisions apply to Buyer to the extent Buyer is required to disclose such information in order to comply with its disclosure obligations as a publicly-traded company under applicable federal securities laws and stock exchange rules and listing standards.

(e) Release of Target by Seller. Effective at and (only) upon Closing, Seller (the "***Releasing Party***") hereby irrevocably and unconditionally releases and forever discharges the Target and its respective successors and assigns (the "***Released Parties***") from any and all claims, charges, complaints, causes of action, damages, agreements and liabilities of any kind or nature whatsoever, including any claim by Seller against the Target for indemnification or for advances with respect to actions or omissions (or claims or allegations thereof) of Seller prior to the Closing in their capacities as shareholders, officers, directors or employees of the Target ("***Released Claims***"), whether known or unknown and whether at law or in equity, arising from conduct occurring on or prior to the Closing Date, including without limitation any Released Claims relating to or arising out of Seller's ownership of securities of Target; provided that (i) nothing contained herein shall release Released Parties from any of their post-Closing obligations and liabilities to Releasing Party created under this Agreement or constitute a waiver of any claims that Releasing Party may bring or have for indemnification by the Released Parties under Section 8, and (ii) this release shall only relate to those claims arising from conduct or omissions occurring on or before the Closing.

SECTION 7. CONDITIONS TO OBLIGATION TO CLOSE

(a) Conditions to Buyer's Obligation. Buyer's obligation to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(a) and Section 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Effect," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Seller shall have performed and complied with all of his covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Effect," in which case Seller shall have performed and complied with all of such covenants in all respects through the Closing;

(iii) Target shall have procured all of the third party consents specified in Section 5(b) above;

(iv) no action, suit, or proceeding shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by this Agreement, (B) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, (C) affect adversely the right of Buyer to own the Target Shares and to control Target, or (D) affect adversely the right of Target to own its assets and to operate its businesses (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(v) Seller shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7(a)(i)-(iv) is satisfied in all respects;

(vi) the Parties shall have received all other authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above;

(vii) Buyer shall have received the resignations, effective as of the Closing, of each director and officer of Target other than those whom Buyer shall have specified in writing at least five business days prior to the Closing;

(viii) Buyer shall have obtained on terms and conditions satisfactory to it any debt or equity financing it needs in order to consummate the transactions contemplated hereby and fund the working capital requirements of Target after the Closing;

(ix) all actions to be taken by the Seller in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby shall be satisfactory in form and substance to Buyer;

(x) Target shall have obtained and delivered to Buyer a written consent for the assignment of each of the Leases, and, if requested by Buyer's lender, a waiver of landlord liens, collateral assignment of lease or leasehold mortgage from the landlord or other party whose consent thereto is required under such Lease (the "***Lease Consents***"), in form and substance satisfactory to Buyer and Buyer's lender;

(xi) [INTENTIONALLY OMITTED]

(xii) [INTENTIONALLY OMITTED]

(xiii) no damage or destruction or other change has occurred with respect to any of the Real Property or any portion thereof that, individually or in the aggregate, would materially impair the use or occupancy of the Real Property or the operation of Target's business as currently conducted thereon;

(xiv) William Maher and Edward Bellamy shall have entered into the Employment Agreements with Buyer (or an Affiliate of Buyer) in the forms attached hereto as Exhibits D-1 and D-2, respectively, and such agreements shall be in full force and effect as of the Closing;

(xv) Seller shall have delivered to Buyer copies of the certificate of incorporation of Target certified on or soon before the Closing Date by the Secretary of State (or comparable officer) of the jurisdiction of Target's incorporation;

(xvi) Seller shall have delivered to Buyer copies of the certificate of good standing of Target issued on or soon before the Closing Date by the Secretary of State (or comparable officer) of the jurisdiction of Target's organization and of each jurisdiction in which Target is qualified to do business;

(xvii) Seller shall have delivered to Buyer a certificate of the secretary or an assistant secretary of Target, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to (i) no amendments to the Certificate of Incorporation of Target since the date specified in clause (xxii) above; (ii) the bylaws of Target; and (iii) any resolutions of the board of directors of Target relating to this Agreement and the transactions contemplated hereby;

(xviii) Seller shall have entered into a confidentiality, non-solicitation, non-compete and non-disparagement agreement with Target on terms satisfactory to Buyer, and such agreement shall be in full force and effect as of the Closing.

(xix) Any amounts owed by Target to Seller shall have been paid in full and, at the request of Buyer, Seller shall deliver to Target a release to such effect in form and substance satisfactory to Buyer.

(xx) Buyer shall have obtained the approval of its lenders of this Agreement and the transactions contemplated thereby and consent for payment of the Promissory Note and Equity Payments and there shall be no payment default under Buyer's loan agreements with its lenders unless waived by Buyer's lenders.

(xxi) Buyer shall have obtained the approval of its board of directors of this Agreement and the transactions contemplated thereby.

(xxii) Target and Seller shall have delivered to Buyer signed copies of the applicable forms and attachments thereto required in connection with the Section 338(h)(10) Election pursuant to Section 9(f) below.

(xxiii) Target and Seller or an affiliate of Seller shall have entered into the Lease Agreement and such agreement shall be in full force and effect as of the Closing.

(xxiv) Buyer shall have received from Bonadio and Company, LLP audited Financial Statements of Target for the year ended December 31, 2006.

(xxv) Seller and Buyer shall have entered into the Registration Rights Agreement.

(xxvi) Buyer's acquisition of Reserve Power Systems, Inc. shall have been completed as of the Closing Date.

Buyer may waive any condition specified in this Section 7(a) if it executes a writing so stating at or prior to the Closing.

(b) Conditions to Seller's Obligation. The obligation of Seller to consummate the transactions to be performed by them in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(b) above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Effect," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse

Effect," in which case Buyer shall have performed and complied with all of such covenants in all respects through the Closing;

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

(iv) Buyer shall have delivered to Seller a certificate to the effect that each of the conditions specified above in Section 7(b)(i)-(iii) is satisfied in all respects;

(v) the Parties shall have received all authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above;

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

(vii) William Maher and Edward Bellamy shall have entered into the Employment Agreements with Buyer (or an Affiliate of Buyer) in the forms attached hereto as Exhibits D-1 and D-2, respectively, and such agreements shall be in full force and effect as of the Closing;

(viii) Buyer and Seller shall have entered into the Registration Rights Agreement; and

(ix) Buyer shall have paid in full, or caused Target to pay in full at Closing, those obligations of Target set forth on Schedule 7(b)(ix).

Seller may waive any condition specified in this Section 7(b) if it executes a writing so stating at or prior to closing.

SECTION 8. REMEDIES FOR BREACHES OF THIS AGREEMENT

(a) Survival of Representations and Warranties.

(i) All of the representations and warranties of the Parties contained in Section 3 of this Agreement shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

(ii) Except for those representations and warranties of the Parties contained in Sections 4(a)-(f) (inclusive), (j), (k) and (z) of this Agreement, all of the representations and warranties of the Parties contained in Section 4 of this Agreement, shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect for a period of two years from the Closing Date. This provision shall not extinguish claims that are made within two years of the Closing Date but that remain unresolved on or after the date that is two years after the Closing Date.

(iii) All of the representations and warranties of the Parties contained in Sections 4(a)-(f) (inclusive), (j), (k) and (z) of this Agreement shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect until the expiration of any applicable statutes of limitations (after giving effect to any extensions or waivers) plus 60 days.

(b) Indemnification Provisions for Buyer's Benefit.

(i) In the event Seller breaches (or in the event any third party alleges facts that, if true, would mean Seller has breached) any of his representations, warranties, and covenants contained herein (other than the covenants in Section 2(a) above and the representations and warranties in Section 3(a) above) and, provided that Buyer makes a written claim for indemnification against Seller pursuant to Section 11(h) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Seller shall be obligated to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer (including any Adverse Consequences Buyer may suffer after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach); provided, however, that Seller shall not have any obligation to indemnify Buyer from and against any Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach (or alleged breach) of any representation or warranty of Sellers contained in Sections 4(g)-(i) inclusive, Sections 4(l)-(y) inclusive and Sections 4(aa)-(cc) inclusive above until Buyer has suffered Adverse Consequences by reason of all such breaches (or alleged breaches) in excess of a $30,000 aggregate threshold, at which point Seller will be obligated to indemnify Buyer from and against only such Adverse Consequences above such $30,000 aggregate threshold. Notwithstanding the other provisions of this Section 8(b)(i) to the contrary, Seller will be obligated to indemnify Buyer from and against any and all Adverse Consequences resulting from, arising out of, or relating to (a) the failure of the Real Property to be in compliance with ADA standards; (b) the Urban America, Inc. warranty matter described in Disclosure Schedule 4(i); (c) the Global Crossing preferential payment matter described in Disclosure Schedule 4(j); and (d) the Ohio, West Virginia and Louisiana Department of Revenue matters described in Disclosure Schedule 4(j).

(ii) In the event Seller breaches (or in the event any third party alleges facts that, if true, would mean Seller breached) any of his covenants in Section 2(a) above or any of his representations and warranties in Section 3(a) above, and provided that Buyer makes a written claim for indemnification against Seller pursuant to Section 11(h) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Seller shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer (including any Adverse Consequences Buyer may suffer after the end of any applicable survival period) resulting from arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach).

(iii) Seller shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any occurrence or circumstance related to Target or its business that first arose, in whole or in part, on or before the Closing Date.

(iv) Notwithstanding anything in this Agreement to the contrary, in no event shall the aggregate liability of Seller to Buyer under this Section 8(b) exceed THE PURCHASE PRICE.

(c) Indemnification Provisions for Seller's Benefit.

(i) In the event Buyer breaches (or in the event any third party alleges facts that, if true, would mean Buyer has breached) any of its representations, warranties, and covenants contained herein and, provided that Seller makes a written claim for indemnification against Buyer pursuant to Section 11(h) below within such survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Buyer shall indemnify Seller from and against the entirety of any Adverse Consequences suffered (including any Adverse Consequences suffered after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach).

(ii) Buyer shall indemnify Seller from and against the entirety of any Adverse Consequences Seller may suffer resulting from, arising out of, relating to, in the nature of, or caused by any occurrence or circumstance related to Target or its business that first arose, in whole or in part, after the Closing Date.

(d) Matters Involving Third Parties.

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

Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(ii) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (A) the Indemnifying Party notifies the Indemnified Party in writing within 15 days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (B) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (C) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (D) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice materially adverse to the continuing business interests or the reputation of the Indemnified Party, and (E) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(iii) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 8(d)(ii) above, (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (B) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably), and (C) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably).

(iv) In the event any of the conditions in Section 8(d)(ii) above is or becomes unsatisfied, however, (A) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (B) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (C) the Indemnifying Parties will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Section 8.

(e) Determination of Adverse Consequences. All indemnification payments under this Section 8 and Section 9(a) shall be deemed adjustments to the Purchase Price.

(f) Setoff against Promissory Note Payments; Priority; Escrow.

(i) Any indemnification to which Buyer is entitled under this Agreement as a result of any Adverse Consequences Buyer may suffer may, at Buyer's election, be satisfied by Buyer setting-off such indemnification amounts against any amounts due to Seller under the Promissory Note, and Buyer shall seek to satisfy such indemnification amounts against such amounts due to Seller under the Promissory Note prior to and before seeking to satisfy such indemnification amounts against other assets of Sellers. The exercise by Buyer of such right of setoff shall not preclude Buyer from pursuing other remedies available to Buyer against Seller.

(ii) In the event the Global Crossing preferential payment matter described in Disclosure Schedule 4(j) has not been resolved by the date the Promissory Note is converted in accordance with its terms or by the maturity date of the Promissory Note if not so converted, the principal amount of the Promissory Note shall be reduced by $500,000 and Buyer shall put $500,000 in escrow with a commercial bank selected by Buyer to act as escrow agent, which amount shall be held solely for purposes of satisfying any claims arising out of the Global Crossing preferential payment matter. Sellers and Buyer agree to enter into an escrow agreement with the escrow agent containing customary terms and terms consistent with this Section 8(f)(ii).

(g) Other Indemnification Provisions. Buyer and Seller acknowledge and agree that the foregoing indemnification provisions in this Section 8 shall be the exclusive remedy of Buyer and Seller with respect to Target, Seller, and the transactions contemplated by this Agreement. The party entitled to indemnification hereunder shall take all reasonable steps to mitigate all damages, upon and after becoming aware of any event that could reasonably be expected to give rise to any such losses that are indemnifiable hereunder. No party shall be entitled to indemnification to the extent of any insurance, of any tax deduction or benefit actually realized, refund or credit, or any other benefits actually realized resulting from or which may be claimed as a result of the facts and circumstance relating to any indemnifiable claim. If any damages are covered by insurance, the party seeking indemnity hereunder shall use all reasonable efforts to recover the amount of such losses from the insurer of such insurance, which such recovery shall reduce the amount of losses to be indemnified. To the extent either party discharges any claims for indemnification hereunder, that party shall be segregated to all rights of the other parties against third parties. Seller hereby agrees that he will not make any claim for indemnification against Target by reason of the fact that he was a director, officer, employee, or agent of any such entity or was serving at the request of any such entity as a partner, trustee, director, officer, employee, or agent of another entity (whether such claim is for judgments, damages, penalties, fines, costs, amounts paid in settlement, losses, expenses, or otherwise and whether such claim is pursuant to any statute, charter document, bylaw, agreement, or otherwise) with respect to any action, suit, proceeding, complaint, claim, or demand brought by Buyer against Seller (whether such action, suit, proceeding, complaint, claim, or demand is pursuant to this Agreement, applicable law, or otherwise).

SECTION 9. TAX MATTERS

The following provisions shall govern the allocation of responsibility as between Buyer and Seller for certain tax matters following the Closing Date:

(a) Tax Indemnification. Seller shall indemnify Target, Buyer, and each Buyer Affiliate and hold them harmless from and against without duplication, any loss, claim, liability, expense, or other damage attributable to (i) all Taxes (or the non-payment thereof) of Target for all Taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any Taxable period that includes (but does not end on) the Closing Date ("***Pre-Closing Tax Period***"), (ii) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which Target (or any predecessor of Target) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulation Section 1.1502-6 or any analogous or similar state, local, or foreign law or regulation, and (iii) any and all Taxes of any person (other than Target) imposed on Target as a transferee or successor, by contract or pursuant to any law, rule, or regulation, which Taxes relate to an event or transaction occurring before the Closing.

(b) Responsibility for Filing Tax Returns. Buyer acknowledges that the Target will no longer be eligible for S corporation status after the Closing Date. Accordingly, a final Form 1120S for the Target will be required to be prepared for the period January 1, 2007 through the end of the Closing Date. Such income tax return will be provided by the Seller allocating income and expenses to this period according to the closing of the books method, in accordance with Section 1377(a)(2) of the Code. At his expense, Seller shall prepare or caused to be prepared and file or caused to be filed all Tax Returns for Target for periods ending on or before the Closing Date. Seller shall permit Buyer to review and comment on each such Tax Return described in the preceding sentence prior to filing. Buyer shall have the right to contest the contents of all such Tax Returns, and any conflict between Seller and Buyer with respect thereto shall be resolved in accordance with the provisions of Section 2(e)(ii), except that the parties shall have 20 days in which to attempt to reach mutual agreement before referring the calculation to the Auditor.

(c) Cooperation on Tax Matters.

(i) Buyer, Target, and Seller shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns pursuant to Section 9(c) and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Target and Seller agree (A) to retain all books and records with respect to Tax matters pertinent to Target relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or Seller, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other Party so requests, Target or Seller, as the case may be, shall allow the other Party to take possession of such books and records.

(ii) Buyer and Seller further agree, upon request, to use their best efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) Buyer and Seller further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Code Section 6043 and all Treasury Regulations promulgated thereunder.

(iv) Buyer shall not with out the prior written consent of the Seller file, or cause to be filed, any amended Tax Return or claim for Tax Refund, with respect to the Target for pre-Closing Tax Period, to the extent any such filing may adversely effect the liability of the Seller, unless advised in writing that such filing is required by law.

(d) Tax Sharing Agreements. All Tax sharing agreements or similar agreements with respect to or involving Target shall be terminated as of the Closing Date and, after the Closing Date, Target shall not be bound thereby or have any liability thereunder.

(e) Certain Taxes and Fees. All transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with consummation of the transactions contemplated by this Agreement shall be paid by Seller when due, and Seller will, at his own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges, and, if required by applicable law, Buyer will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

(f) Section 338(h)(10) Election.

(i) At Buyer's request, Target and Seller shall join with Buyer in making an election under Sections 338(h)(10) of the Code and the Treasury Regulations, including Treasury Regulation Section 1.338(h)(10)-1T(c)(1), and any corresponding or similar elections under state, local or foreign Tax Law (collectively, a "***Section 338(h)(10) Election***") with respect to the purchase and sale of the Target Shares. In such case, Target and Seller shall include any income, gain, loss, deduction, or other Tax item resulting from the Section 338(h)(10) Election on their Tax Returns to the extent required by applicable law.

(ii) Buyer shall be responsible for the preparation and filing of all forms and documents required in connection with the Section 338(h)(10) Election. Seller shall execute and deliver to Buyer such documents or forms as are reasonably requested and are required by any law, rule or regulation to complete properly the Section 338(h)(10) Election no later than 60 days after the Closing. For the purposes of executing the Section 338 Election, on or prior to the Closing Date, Seller and Buyer will execute two copies of the applicable Internal Revenue Service form and all attachments required to be filed therewith pursuant to applicable Treasury Regulations.

(iii) Buyer, not less than 30 days prior to the date the forms required under Section 338(h)(10) of the Code are required to be filed, will provide Seller with a valuation statement reflecting, as of the Closing Date, the fair market values of all of the assets and the liabilities and obligations of the Target. Buyer and Seller will file, and will cause their Affiliates to file, all Tax Returns and statements, forms and schedules in connection therewith in a manner consistent with such valuation and will take no position contrary thereto unless required to do so by applicable Tax laws.

(iv) To the extent permitted by state and local law, the principles and procedures of this section will also apply with respect to Section 338(h)(10) Election or equivalent or comparable provision under state or local law. Seller will make any election similar to a Section 338(h)(10) Election which is optional under any state or local law, and will cooperate and join in any election made by Target, Buyer or its Affiliates to effect such an election so as to treat the transaction as a sale of assets for state and local income Tax purposes.

(g) Tax Adjustment. If Buyer makes a Section 338(h)(10) Election, and if such Section 338(h)(10) Election causes Seller's after-Tax net proceeds from the sale of Target's stock to be less than the after-Tax net proceeds that Seller would have received had the Section 338(h)(10) Election not been made, taking into account all appropriate state, federal and local Tax implications (the "***Section 338(h)(10) Election Liability***"), then Buyer shall pay to Seller, in cash, an aggregate amount determined pursuant to the following (the "***Tax Adjustment***"):

(i) If the aggregate amount of the Section 338(h)(10) Election Liability is less than or equal to $125,000, then Buyer shall pay Seller the aggregate amount of the Section 338(h)(10) Election Liability.

The amount of the Tax Adjustment shall be paid to Seller prior to the date that any Tax return is required to be filed in which the Section 338(h)(10) Election would have an impact on a Seller's Tax liability. If a Tax impact would occur in multiple years, only the amount necessary to pay a Tax Adjustment for each year shall be paid in that year. In order to be entitled to a Tax Adjustment, Seller shall provide Buyer with a schedule, not later than 30 days before the due date of the Tax return with respect to which the Tax Adjustment is requested, computing the amount of the Tax Adjustment. The Tax Adjustment shall reflect the actual calculation of Seller's tax and shall not be based on assumed or hypothetical Tax rates. Buyer shall have the right to contest the calculation of any requested Tax Adjustment, and any conflict with respect to the calculation of a Tax Adjustment shall be resolved in accordance with the provisions of Section 2(e)(ii), except that the parties shall have 20 days in which to attempt to reach mutual agreement before referring the calculation to the Auditor.

(h) Tax Refund. Any Tax Refund pertaining to the pre-Closing Period (reduced by any Taxes imposed on the Target as a result of such refund) shall be for the account of, and paid over to the Seller.

SECTION 10. TERMINATION

(a) Termination of Agreement. Certain of the Parties may terminate this Agreement as provided below:

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

(ii) Buyer may terminate this Agreement by giving written notice to Seller on or before the 25th day following the date of this Agreement if Buyer is not satisfied with the results of its continuing business, legal, environmental, and accounting due diligence regarding Target;

(iii) Buyer may terminate this Agreement by giving written notice to Seller at any time prior to the Closing (A) in the event Seller has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has notified Seller of the breach, and the breach has continued without cure for a period of 10 days after the notice of breach or (B) if the Closing shall not have occurred on or before November 30, 2007, by reason of the failure of any condition precedent under Section 7(a) hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(iv) Seller may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (A) in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, any Seller has notified Buyer of the breach, and the breach has continued without cure for a period of 10 days after the notice of breach or (B) if the Closing shall not have occurred on or before November 30, 2007, by reason of the failure of any condition precedent under Section 7(b) hereof (unless the failure results primarily from Seller breaching any representation, warranty, or covenant contained in this Agreement).

(b) Effect of Termination. If any Party terminates this Agreement pursuant to Section 10(a) above, all rights and obligations of the Parties hereunder shall terminate without any Liability of any Party to any other Party (except for any Liability of any Party then in breach).

SECTION 11. MISCELLANEOUS

(a) Press Releases and Public Announcements; Confidentiality.

(i) No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of Buyer and Seller; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Parties prior to making the disclosure).

(ii) Each of the parties hereto will treat and hold as such all of the Confidential Information of the other parties, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to such other party or destroy, at the request and option of disclosing party, all tangible embodiments (and all copies) of the Confidential Information which are in his, her, or its possession. In the event that any party is requested or required pursuant to written or oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process to disclose any Confidential Information, such party will notify the disclosing party promptly of the request or requirement so that the disclosing party may seek an appropriate protective order or waive compliance with the provisions of this Section 11(a)(ii). If, in the absence of a protective order or the receipt of a waiver hereunder, any of receiving parties is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or party in a proceeding therein or else stand liable for contempt, such party may disclose the Confidential Information to the tribunal or such person involved in such action; provided, however, that the disclosing party shall use his, her, or its best efforts to obtain, at the reasonable request of the disclosing party, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the disclosing party shall designate. The foregoing provisions shall not apply to any Confidential Information that is generally available to the public immediately prior to the time of disclosure unless such Confidential Information is so available due to the actions of a party, nor shall the foregoing provisions apply to Buyer to the extent Buyer is required to disclose such information in order to comply with its disclosure obligations as a publicly-traded company under applicable federal securities laws and stock exchange rules and listing standards.

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof, including, but not limited to that certain letter of intent and term sheet dated as of July 16, 2007, as amended or extended, which letter of intent and term sheet are hereby terminated.

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

(e) Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

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

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) when delivered personally to the recipient, (ii) one business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (iii) one business day after being sent to the recipient by facsimile transmission or electronic mail, or (iv) four business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Buyer:	Ultralife Batteries, Inc. 2000 Technology Parkway Newark, NY 14513 Attention: General Counsel Facsimile: (315) 331-7048
With a copy to:	Harter Secrest & Emery LLP 1600 Bausch & Lomb Place Rochester, NY 14604 Attention: Jeffrey H. Bowen Facsimile: (585) 232-2152
If to Seller:	William Maher 525 Tallahassee Drive St. Petersburg, FL 33702 Facsimile:____________________

With a copy to: Johnson, Pope, Bokor, Ruppel & Burns, LLP
911 Chestnut Street
Clearwater, FL 33756
Attention: Michael G. Little
Facsimile: 727-462-0365

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

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

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Seller. No waiver by any Party of any provision of this Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such default, misrepresentation, or breach of warranty or covenant.

(j) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Expenses. Each of Buyer, Seller and Target will bear his or its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby; provided, however, that Seller shall also bear the costs and expenses of Target (including all of their legal fees and expenses) in connection with this Agreement and the transactions contemplated hereby in the event that the transactions contemplated by this Agreement are consummated.

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word “including” shall mean including without limitation. The Parties intend that each representation, warranty, and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty, or covenant.

(m) Incorporation of Exhibits, Annexes, and Schedules. The Exhibits, Annexes, and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Specific Performance. Each Party acknowledges and agrees that the other Parties would be damaged irreparably in the event any provision of this Agreement is not performed in accordance with its specific terms or otherwise is breached, so that a Party shall be entitled to injunctive relief to prevent breaches of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in addition to any other remedy to which such Party may be entitled, at law or in equity. In particular, the Parties acknowledge that the business of Target is unique and recognize and affirm that in the event Seller breaches this Agreement, money damages would be inadequate and Buyer would have no adequate remedy at law, so that Buyer shall have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and the other Parties' obligations hereunder not only by action for damages but also by action for specific performance, injunctive, and/or other equitable relief.

(o) Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court having jurisdiction in Wayne County, New York, in any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each Party also agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or at equity.

(p) Tax Disclosure Authorization. Notwithstanding anything herein to the contrary, the Parties (and each Affiliate and Person acting on behalf of any Party) agree that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all Persons, without limitation of any kind, the transaction's tax treatment and tax structure (as such terms are used in Code Sections 6011 and 6112 and regulations thereunder) contemplated by this agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such Person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure many not be made until the earlier of date of (A) public announcement of discussions relating to the transaction, (B) public announcement of the transaction, or (C) execution of an agreement to enter into the transaction. This authorization is not intended to permit disclosure of any other information including (without limitation) (A) any portion of any materials to the extent not related to the transaction's tax treatment or tax structure, (B) the identities of participants or potential participants, (C) the existence or status of any negotiations, (D) any pricing or financial information (except to the extent such pricing or financial information is related to the transaction's tax treatment or tax structure), or (E) any other term or detail not relevant to the transaction's tax treatment or the tax structure.

* * * * *

IN WITNESS WHEREOF, the Parties hereto have executed this Stock Purchase Agreement as of the date first above written.

BUYER:

Ultralife Batteries, Inc.

By: /s/ John D. Kavazanjian
John D. Kavazanjian
Chief Executive Officer

SELLER:

By: /s/ William Maher
William Maher, Individually

TARGET:

Stationary Power Services, Inc.

/s/ William Maher
William Maher
President

Exhibit 10.49

THE SECURITY REPRESENTED BY THIS INSTRUMENT WAS ORIGINALLY ISSUED ON NOVEMBER 16, 2007, AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE TRANSFER OF SUCH SECURITY IS SUBJECT TO THE CONDITIONS SPECIFIED IN THE STOCK PURCHASE AGREEMENT, DATED AS OF OCTOBER 30, 2007, AS AMENDED AND MODIFIED FROM TIME TO TIME, BY AND AMONG ULTRALIFE BATTERIES, INC. (THE "COMPANY"), WILLIAM MAHER AND STATIONARY POWER SERVICES, INC., AND THE COMPANY RESERVES THE RIGHT TO REFUSE THE TRANSFER OF SUCH SECURITY UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED WITH RESPECT TO SUCH TRANSFER. UPON WRITTEN REQUEST, A COPY OF SUCH CONDITIONS SHALL BE FURNISHED BY THE COMPANY TO THE HOLDER HEREOF WITHOUT CHARGE.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED OR SOLD EXCEPT: (i) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT (ii) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER THE ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, AND AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE.

THREE-YEAR SUBORDINATED CONVERTIBLE PROMISSORY NOTE

$4,000,000 **Newark, New York**

FOR VALUE RECEIVED, **ULTRALIFE BATTERIES, INC.**, a Delaware corporation with offices at 2000 Technology Parkway, Newark, New York 14513 (the "Company"*)*, hereby promises to pay to the order of **WILLIAM MAHER**, a natural person with an address of 525 Tallahassee Drive, St. Petersburg, FL 33702 or his registered assigns *(*"Holder"*)* the principal sum of $4,000,000, or such lesser principal amount to which this Note shall have been adjusted in accordance with the provisions of the Stock Purchase Agreement, together with interest thereon calculated from the date hereof, in accordance with the provisions of this Note.

This Note was issued pursuant to the Stock Purchase Agreement, dated as of October 30, 2007 (the "Purchase Agreement"), by and among the Company, Holder and Stationary Power Services, Inc. and the applicable provisions thereof are hereby incorporated herein in full by reference. The Purchase Agreement contains terms governing the rights of the Holder of this Note and the Holder is entitled to the benefits thereof. All capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Purchase Agreement.

1. ***Interest***. Except as otherwise expressly provided herein, interest shall accrue on the unpaid principal amount of this Note outstanding from the date hereof until such time as payment thereof is actually delivered to the Holder (including after acceleration, maturity, or judgment) at the rate of 5% per annum. All interest shall be calculated on the basis of actual days elapsed divided by a 365 day year.

After the occurrence of Event of Default, the Holder may, upon one day's written notice but without demand, declare all or any portion of the unpaid principal amount of this Note, any unpaid and accrued interest thereon and any applicable late fees, to be immediately due and payable and may otherwise take action to enforce this Note. Upon the occurrence of an Event of Default, at Holder's option interest on the outstanding principal hereunder shall accrue at a rate per annum from time to time equal to the rate of interest then in effect on this Note plus 5% per annum. Any increase in the interest rate shall be in addition to the Holder's other available remedies.

Holder does not intend or expect to pay, nor does Company intend or expect to charge, accept or collect any interest which shall be in excess of the highest lawful rate allowable under the laws of the State of New York or the United States of America, whichever is lower. Should any charges upon the earning of interest be in excess of the highest lawful rate allowable under the laws of the State of New York or the United States of America, whichever is lower, then any and all such excess is hereby waived and shall be applied against the remaining principal balance, if any, and thereafter refunded to Holder.

2. ***Payments.*** Interest shall be due and payable quarterly in arrears of each year that this Note is outstanding, commencing on January 1, 2008 and continuing on the first day of each calendar quarter thereafter until the principal hereof shall have become due and payable, and on the Maturity Date hereof.

If Holder has not received the full amount of any installment by the end of fifteen (15) calendar days from the date it is due, Company shall pay a late charge to Holder. The amount of the late charge will be five percent (5%) of the amount of the payment due. The late charge shall be due and payable immediately but shall be paid only once on each late payment.

All unpaid accrued interest and all outstanding principal shall be due and payable in full on the third anniversary of the Closing (the "Maturity Date").

3. ***Voluntary Prepayments*****.** This Note may be prepaid by the Company in whole or in part at any time after 60 days prior written notice to Holder (during which period Holder may exercise its conversion rights hereunder).

4. ***Conversion Rights*****.**

(a) The Holder may convert the outstanding principal amount of this Note (or a portion of such outstanding principal amount as provided in Section 4(c)) into fully paid and nonassessable shares of Common Stock of the Company (the "Conversion Shares") at any time prior to the time the outstanding principal amount of this Note is paid in full (subject to the notice periods and conversion rights related thereto described elsewhere in this Note), at the

Conversion Price (defined below) then in effect (collectively, the "Conversion Rights"). The initial per share conversion price (the "Conversion Price") shall be $15.00. The Conversion Price is subject to adjustment as provided in Section 5.

(b) The provisions of this Note that apply to conversion of the outstanding principal amount of this Note also apply to a partial conversion of this Note. The Holder is not entitled to any rights of a holder of Conversion Shares until the Holder has converted this Note (or a portion thereof) into Conversion Shares, and only to the extent that this Note is deemed to have been converted into Conversion Shares under this Section 4.

(c) To convert all or a portion of this Note, the Holder must (a) complete and sign a notice of election to convert substantially in the form of Exhibit I hereto (each, a "Conversion Notice"), (b) surrender the Note to the Company, and (c) furnish appropriate endorsements or transfer documents if required by the Company. The date on which the Holder satisfies all of such requirements is the conversion date (the "Conversion Date"). As soon as practicable, and in any event within 10 business days after the Conversion Date, the Company will deliver, or cause to be delivered, to the Holder a certificate for the number of whole Conversion Shares issuable upon such conversion and a check for any fractional Conversion Share determined pursuant to Section 4(d). The person in whose name the certificate for Conversion Shares is to be registered shall become the stockholder of record on the Conversion Date and, as of the Conversion Date, the rights of the Holder as to this Note shall cease as to the portion thereof so converted; provided, however, that no surrender of a Note on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person entitled to receive the Conversion Shares upon such conversion as the stockholder of record of such Conversion Shares on such date, but such surrender shall be effective to constitute the person entitled to receive such Conversion Shares as the stockholder of record thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided further that such conversion shall be at the Conversion Price in effect on the date that this Note shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed.

In the case of a partial conversion of this Note, upon such conversion, the Company shall execute and deliver to the Holder, at the expense of the Company, a new Note in an aggregate principal amount equal to the unconverted portion of the principal amount.

(d) No fractional Conversion Shares shall be issued upon exercise of the Conversion Rights. Instead of any fractional Conversion Share which would otherwise be issuable upon conversion of this Note, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Conversion Price at the close of business on the Conversion Date.

(e) The issuance of certificates for Conversion Shares upon exercise of any of the Conversion Rights shall be made without charge to the Holder for such certificates or for any tax in respect of the issuance of such certificates, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder; provided, however, that in the event that certificates for Conversion Shares are to be issued in a name or names other than the name of the Holder, such Note, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the Holder or his duly authorized attorney; and provided further, moreover, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name or names other than that of the Holder, and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

(f) The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of this Note, the full number of Conversion Shares then issuable upon the conversion in full of this Note. The Company hereby grants Holder piggyback registration rights as more particularly set forth in the Purchase Agreement and the Registration Rights Agreement entered into pursuant thereto.

(g) If the Company or an affiliate of the Company shall at any time after the date hereof and prior to the conversion of the Note in full issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the stockholders of the Company, the Holder of the unconverted portion of the Note shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the Conversion thereof, to receive such rights at the time such rights are distributed to the other stockholders of the Company, to be calculated on an as-converted basis.

5. *Adjustments to Conversion Rights*.

(a) *General*. In order to prevent dilution of the rights granted under this Note, the Conversion Price and the number of Conversion Shares shall be subject to adjustment from time to time as provided in this Section 5(a). It is the intention of the Company that the Conversion Price shall at all times be the lower of (i) the Conversion Price on the date of this Note and (ii) the Conversion Price determined by adjustment pursuant to the remainder of this Section 5(a). In the event that at any time the Common Stock of the Company shall be exchanged for, or changed into, a different kind and/or a number of shares of stock of the Company or of another corporation by reason of a merger, consolidation, sale of Stocks, recapitalization, reclassification, stock dividend, stock split-up or combination of shares or otherwise, then, until any further adjustment is required, there shall be issuable upon the conversion of the Note, in lieu of each share of Common Stock of the Company or of any other stock theretofore issued pursuant to the provisions of this Note, the kind and/or number of shares of stock for which each share of Common Stock of the Company or such other stock shall be so exchanged, or into which each share of Common Stock of the Company or such other stock shall be so changed and the Conversion Price shall be automatically adjusted to a new Conversion Price as nearly equivalent as practicable to the adjustment in shares of stock, if by reason of such merger, consolidation, recapitalization, reclassification or otherwise the number of issued and outstanding shares of Common Stock of the Company shall have been exchanged for or changed into such new shares on other than a one-to-one basis. No adjustment in the Conversion Price shall be made for cash dividends on the shares of Common Stock of the Company or any other stock issued upon any conversion of the Note.

(b) *Notices.* Immediately upon any adjustment of the Conversion Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

6. Company Right to Compel Conversion. Notwithstanding any other provisions of this Note, the Company shall have the right, at the Company's sole discretion, to compel the Holder to convert the Note at the Conversion Price at any time within five (5) business days after the average "Value Weighted Average Price" of the Company's Common Stock, as published by The NASDAQ Stock Market, for the trailing 30 days exceeds $17.00 per share and subject to the provision that the Conversion Shares are registered under the Act on a registration statement that has been declared effective by the SEC. In such event, the Company shall provide the Holder with written notice of conversion, setting forth the basis upon which the conditions to compel the conversion were satisfied. Thereafter, the Note shall only represent the right to receive the Conversion Shares and any accrued but unpaid interest. In the event the Company fails to provide the Holder with written notice of conversion within the five (5) business day period set forth in the first sentence of this Section 6, the Company shall be deemed to have waived its right to compel conversion of this Note at that time and shall be required to satisfy anew the conditions for a compelled conversion.

7. Subordination. The Holder agrees that the payment of the principal of and the interest on the Note is expressly subordinated to the payment of all Senior Indebtedness, to the extent and subject to the conditions set forth in this Section 7. As used herein, the term "Senior Indebtedness" shall mean the principal of, the interest on and the premium, if any, on all indebtedness of the Company for money borrowed by it from any financial institution including banks, savings institutions or insurance companies and similar institutional lenders, and all renewals, extensions and refundings of any such indebtedness, whether such indebtedness shall have been incurred prior to, on, or subsequent to the date hereof, unless by the terms of the instruments creating or evidencing any such indebtedness it is provided that such indebtedness is not to be considered Senior Indebtedness for the purpose of this Note.

(a) No interest or principal shall be paid on the Note without the consent of the holders of all outstanding Senior Indebtedness if, at the date fixed herein for such interest or principal payment, the Company shall be in default of payment of principal or interest upon such Senior Indebtedness. In the event any payment of interest or principal hereunder shall be prohibited pursuant to this Section 7(a), such payment shall be deemed to be deferred until the cure of all defaults in payment of principal or interest upon the Senior Indebtedness, and the payments hereon so deferred shall immediately become due and payable, with interest thereon, at the rate of 5% per annum, upon the cure of such defaults.

(b) In the event of any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors or in any other marshalling of the Stocks and liabilities of the Company the holders of all Senior Indebtedness shall first be entitled to receive payment in full of such Senior Indebtedness before the Holder shall be entitled to receive any payment upon the principal of, the interest on, or the premium, if any, on the indebtedness evidenced by the Note. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of Stocks of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled, except for the provisions of this Section 7, shall be made by the liquidating trustee or agent or such person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Holders of the Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures under which any instruments evidencing any such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to pay in full all such Senior Indebtedness remaining unpaid, after giving effect to all concurrent payments or distributions with respect to such Senior Indebtedness.

(c) In the event that, notwithstanding the provisions of Section 7(b), upon any such dissolution, or winding up, liquidation or reorganization, any payment or distribution of Stocks of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures referred to in Section 8(b), ratably as aforesaid, for the application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution with respect to such Senior Indebtedness.

(d) Subject to the payment in full of all Senior Indebtedness, the Holder to the extent permitted by law, shall be subrogated to the rights of each holder of Senior Indebtedness (to the extent of the payments or distributions made to such holder pursuant to the provisions of Sections 7(b) and 7(c)) to receive payments or distributions of Stocks of the Company applicable to the Senior Indebtedness until the principal of, the interest on, and the premium, if any, on this Note shall be paid in full, and each holder of Senior Indebtedness by accepting such payments or distributions shall be deemed to have agreed to said subrogation. No payments or distributions to the Senior Indebtedness pursuant to the provisions of Sections 7(b) and 7(c) shall, as between the Company, its creditors, other than the holders of the Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of the Note, the provisions of this Section 7 being, and being intended, solely for the purpose of defining the relative rights of the Holder, on the one hand, and the holders of the Senior Indebtedness, on the other hand; and nothing contained in this Section 7 or elsewhere in this Note is intended to or shall impair, as between the Company, the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, the obligations of the Company, which is unconditional and absolute, to pay to the Holder as and when the same shall become due and payable in accordance with the terms herein, or to affect the relative rights of the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, or to prevent the Holder from exercising all of the remedies otherwise permitted by applicable law upon default as provided for herein, subject to the rights, if any, under this Section 7 of the holders of the Senior Indebtedness in respect of any cash, property or securities of the Company received upon the exercise of any such remedy.

(e) In the event that this Note shall be declared due and payable before the Maturity Date because of the occurrence of a default hereunder, the Company will give prompt notice in writing of such happening to the holders of the Senior Indebtedness, and any and all Senior Indebtedness shall forthwith become immediately due and payable upon demand by the respective holders thereof regardless of the express maturity dates thereof.

8. *Events of Default.* In the event that there shall be any Event of Default hereunder (other than subsections (a)(1) and (a)(2))and such Event of Default shall remain uncorrected or unremedied for a period of more than 30 days after the Holder shall have given the Company notice received notice of such Event of Default, then the full unpaid principal amount of the Note, together with any accrued but unpaid interest, may, at the option of the Holder, become immediately due and payable without further notice by the Holder. An Event of Default described in subsections (a)(1) and (a)(2) shall be deemed to occur fifteen (15) days after the due date of such installment of interest or principal is due and payable.

(a) "Event of Default" as used in this Section 8 shall mean and refer to any of the following:

(i) The failure of the Company to pay any installment of interest or principal on the Note when and as the same shall become due and payable, whether at maturity, by call for redemption, by declaration or otherwise;

(ii) The failure of the Company, to pay any installment of interest or principal on Senior Indebtedness when and as the same shall become due and payable, unless such payment shall have been deferred or waived by the terms of the instruments evidencing such Senior Indebtedness or by the holder thereof;

(iii) The breach of any representation or warranty of the Company or the failure of the Company to observe and perform all of the covenants and agreements on the part of the Company contained herein or in the Stock Purchase Agreement;

(iv) The failure of any representation or warranty made by the Company in the Stock Purchase Agreement to be truthful, accurate or correct;

(v) The adjudication of the Company as a bankrupt by a court of competent jurisdiction or the entry by a court of competent jurisdiction of an order approving a petition seeking reorganization of the Company under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or any other jurisdiction;

(vi) The appointment by a court of competent jurisdiction of a trustee or receiver or receivers of the Company of all or any substantial part of its property upon the application of any creditor in any insolvency or bankruptcy proceeding or other creditor suit, unless such appointment or decree or order shall be stayed upon appeal or otherwise;

(vii) The filing by the Company of a petition involuntary bankruptcy or the making by the Company of an assignment for the benefit of its creditors or the consenting by the Company to the appointment of a receiver or receivers for all or any substantial portion of the property of the Company;

(viii) The filing by the Company of a petition or answer seeking reorganization under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or jurisdiction, or the filing by the Company of a petition to take advantage of any debtor's act.

(b) Upon the occurrence of an Event of Default which shall remain uncorrected or unremedied for a period of more than 30 days after notice has been given to the Company from the Holder, the Holder shall at all times have the right to institute any suit, action or proceeding, in equity or at law, for the enforcement of rights as provided for herein, or in aid of the exercise of any right or power granted herein. The remedies of the Holder, as provided herein shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of the Holder, and may be exercised as often as occasion therefor shall arise.

(c) The Note shall be the obligation of the Company solely and there shall be no recourse had for the payment thereof or interest thereon against any stockholder, officer or director of the Company, either directly or through the Company, by reason of any matter prior to the delivery of the Note, or against any present or future officer or director of the Company, all such liability being expressly released by the Holder and by any subsequent holders hereof by the acceptance hereof and as part of the consideration for the issuance thereof.

The Holder shall also have any other rights which the Holder may have been afforded under any contract or agreement at any time and any other rights which such holder may have pursuant to applicable law. The Company hereby waives diligence, presentment and protest and expressly agrees that this Note, or any payment hereunder, may be extended from time to time and that the Holder may accept security for this Note or release security for this Note, all without in any way affecting the liability of the Company hereunder.

9. ***Amendment and Waiver.*** Except as otherwise expressly provided herein, the provisions of this Note may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. ***Cancellation.*** After all principal and accrued interest at any time owed on this Note has been paid in full, this Note shall be surrendered to the Company for cancellation and shall not be reissued.

11. ***Payments.*** Unless otherwise expressly provided herein, all payments to be made to the Holders shall be made in the lawful money of the United States of America in immediately available funds which shall be delivered to the address designated by the Holder. Time is of the essence with respect to the terms, covenants and conditions contained herein.

12. ***Transfer of Note.*** This Note may be transferred only in accordance with the terms of the Stock Purchase Agreement, and the Company shall treat the Person to whom this Note is assigned in accordance therewith for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13. ***Business Days***. If any payment is due, or any time period for giving notice or taking action expires, on a day which is a Saturday, Sunday or legal holiday in the State of New York, the payment shall be due and payable on, and the time period shall automatically be extended to, the next business day immediately following such Saturday, Sunday or legal holiday, and interest shall continue to accrue at the required rate hereunder until any such payment is made.

14. ***Right of Offset.*** This Note is subject to the Buyer's rights of offset pursuant to the provisions of Section 2(e) and Section 8(f) of the Purchase Agreement.

15. ***Notices***. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Note shall be given in accordance with the Purchase Agreement.

16. ***New York Law.*** This Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the laws of such State.

17. ***Taxes***. Company shall pay all filing fees, recording costs, documentary stamp taxes, intangible or other similar taxes incurred in connection with this Note or security given for its performance. Company further agrees to pay all costs of collection, including reasonable attorneys' fees and litigation costs in case that sums due hereunder are not paid promptly when due, whether suit is brought or not.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has executed and delivered this Note on November 16, 2007.

ULTRALIFE BATTERIES, INC.

/s/ Robert W. Fishback

Robert W. Fishback
Vice President of Finance and
Chief Financial Officer

EXHIBIT I
FORM OF CONVERSION NOTICE

The undersigned hereby irrevocably elects to exercise its right, pursuant to the Subordinated Convertible Promissory Note dated November __________, 2007 (the “***Note***”) of Ultralife Batteries, Inc. (the “***Company***”) in the outstanding principal amount of $4,000,000, which Note is tendered herewith, to convert $____________________of the amount outstanding under the Note to____________________ shares of the common stock of the Company (the “***Shares***”), all in accordance with the terms of the Note. The undersigned requests that a Certificate for such Shares be registered in the name of ____________________, whose address is ____________________, and that such Certificate be delivered to ____________________, whose address is____________________, [and that a replacement Note in the principal amount of $__________, representing the balance of the principal amount outstanding thereunder after giving effect to this conversion, be issued in the amount of $____________________ and delivered to ____________________ _, whose address is____________________].

Dated:____________________

Signature: ____

(Signature must conform in all respects to name of holder as specified on the face of the Note.)

____

____
(Insert Taxpayer Identification, Social Security or Other Identifying Number of Holder)

Exhibit 10.50

STOCK PURCHASE AGREEMENT

AMONG

ULTRALIFE BATTERIES, INC.

AND

RESERVE POWER SYSTEMS, INC.

AND

WILLIAM MAHER AND EDWARD BELLAMY

OCTOBER 30, 2007

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Attachments to Stock Purchase Agreement

1. Annex I: Exceptions to Seller’s Representations and Warranties

2. Annex II: Exceptions to Buyer’s Representations and Warranties

3. Disclosure Schedule for Target

4. Exhibit A: Form of Registration Rights Agreement

5. Exhibit B: Financial Statements of Target

6. Exhibit C: Form of Post-Closing Agreement

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this “***Agreement***”) is entered into as of October 30, 2007, by and among Ultralife Batteries, Inc., a Delaware corporation (“***Buyer***”), Reserve Power Systems, Inc., a Florida corporation (“***Target***”), and William Maher and Edward Bellamy (“***Sellers***”). Buyer, Target and Sellers are referred to collectively herein as the “Parties.”

RECITALS

A. Sellers own all of the outstanding capital stock of Target.

B. This Agreement contemplates a transaction in which Buyer will purchase from Sellers, and Sellers will sell to Buyer, all of the outstanding capital stock of Target in return for certain consideration described below.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

SECTION 1. DEFINITIONS

“*Adverse Consequences*” means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, liens, actual losses, expenses, and fees, including court costs and attorneys’ fees and expenses.

“*Affiliate*” means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

“*Affiliated Group*” means any affiliated group within the meaning of Code Section 1504(a) or any similar group defined under a similar provision of state, local or foreign law.

“*Basis*” means any past or present fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction that forms or could form the basis for any specified consequence.

“*Buyer*” has the meaning set forth in the preface above.

“*Closing*” has the meaning set forth in Section 2(c) below.

“*Closing Date*” has the meaning set forth in Section 2(c) below.

“*COBRA*” means the requirements of Part 6 of Subtitle B of Title I of ERISA and Code Section 4980B and of any similar state law.

“*Code*” means the Internal Revenue Code of 1986, as amended.

"*Confidential Information*" means any information concerning the businesses and affairs of the Target, Seller or Buyer, as the context requires, that is not already generally available to the public.

"*Disclosure Schedule*" has the meaning set forth in Section 4 below.

"*Employee Benefit Plan*" has the meaning set forth in Section 4(x) below.

"*Employee Pension Benefit Plan*" has the meaning set forth in ERISA Section 3(2).

"*Employee Welfare Benefit Plan*" has the meaning set forth in ERISA Section 3(1).

"*Employment Agreement*" means the form of employment agreement attached as Exhibit C to this Agreement.

"*Encumbrance Documents*" has the meaning set forth in Section 4(l) below.

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

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

"*ERISA Affiliate*" means any Person that is a member of a "controlled group of corporations" with, or is under "common control" with, or is a member of the same "affiliated service group" with Target, as defined in Section 414 of the Code.

"*Estoppel Certificates*" has the meaning set forth in Section 7(a) below.

"*Fiduciary*" has the meaning set forth in ERISA Section 3(21).

"*Financial Statements*" has the meaning set forth in Section 4(g) below.

"*GAAP*" means United States generally accepted accounting principles as in effect from time to time, consistently applied.

"*Holdback Amount*" has the meaning set forth in Section (b)(ii) below.

"*Improvements*" has the meaning set forth in Section 4(l) below.

"*Indemnified Party*" has the meaning set forth in Section 8(d) below.

"*Indemnifying Party*" has the meaning set forth in Section 8(d) below.

"*Intellectual Property*" means all of the following in any jurisdiction throughout the world: (a) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof, (b) all trademarks, service marks, trade dress, logos, slogans, trade names, corporate names, Internet domain names, and rights in telephone numbers, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith, (c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (d) all mask works and all applications, registrations, and renewals in connection therewith, (e) all trade secrets and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), (f) all computer software (including source code, executable code, data, databases, and related documentation), (g) all advertising and promotional materials, (h) all other proprietary rights, and (i) all copies and tangible embodiments thereof (in whatever form or medium).

"*Knowledge*" means actual knowledge after reasonable investigation.

"*Lease Consents*" has the meaning set forth in Section 7(a) below.

"*Leased Real Property*" means all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures, or other interest in real property held by Target.

"*Leases*" means all leases, subleases, licenses, concessions and other agreements (written or oral), including all amendments, extensions, renewals, guaranties, and other agreements with respect thereto, pursuant to which Target holds any Leased Real Property, including the right to all security deposits and other amounts and instruments deposited by or on behalf of Target thereunder.

"*Liability*" means any liability or obligation of whatever kind or nature (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

"*Lien*" means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) liens for Taxes not yet due and payable and (b) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"*Material Adverse Effect*" or "*Material Adverse Change*" means any effect or change that would be materially adverse to the business, assets, condition (financial or otherwise), operating results, operations, or business prospects of Target, taken as a whole, or on the ability of Seller to consummate timely the transactions contemplated hereby (regardless of whether or not such adverse effect or change can be or has been cured at any time or whether Buyer has knowledge of such effect or change on the date hereof).

"*Measuring Periods*" means the following periods of time: (i) the period commencing on the Closing Date and ending on December 31, 2007; (ii) the period commencing on January 1, 2008 and ending on December 31, 2008; (iii) the period commencing on January 1, 2009 and ending on December 31, 2009; and (iv) the period commencing on January 1, 2010 and ending on December 31, 2010. Each of such Measuring Periods may be referred to individually as a "*Measuring Period*."

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

"*Most Recent Financial Statements*" has the meaning set forth in Section 4(g) below.

"*Most Recent Fiscal Month End*" has the meaning set forth in Section 4(g) below.

"*Most Recent Fiscal Year End*" has the meaning set forth in Section 4(g) below.

"*Multiemployer Plan*" has the meaning set forth in ERISA Section 3(37).

"*Non-Disturbance Agreements*" has the meaning set forth in Section 7(a) below.

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

"*Party*" has the meaning set forth in the preface above.

"*Permitted Encumbrances*" means with respect to each parcel of Real Property: (a) real estate taxes, assessments and other governmental levies, fees, or charges imposed with respect to such Real Property that are (i) not due and payable as of the Closing Date or (ii) that are being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (b) mechanics' liens and similar liens for labor, materials, or supplies provided with respect to such Real Property incurred in the Ordinary Course of Business for amounts that are (i) not due and payable as of the Closing Date or (ii) being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (c) zoning, building codes and other land use laws regulating the use or occupancy of such Real Property or the activities conducted thereon which are imposed by any governmental authority having jurisdiction over such Real Property and are not violated by the current use or occupancy of such Real Property or the operation of Target's business as currently conducted thereon; and (d) easements, covenants, conditions, restrictions, and other similar matters of record affecting title to such Real Property which do not or would not impair the use or occupancy of such Real Property in the operation of Target's business as currently conducted thereon.

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

"*Plan Amount*" has the meaning set forth in Section 2(b)(ii) below.

"*Post Closing Agreement*" means the form of confidentiality, non-solicitation, non-compete and non-disparagement agreement attached as Exhibit C to this Agreement.

"*Prohibited Transaction*" has the meaning set forth in ERISA Section 406 and Code Section 4975.

"*Purchase Price*" has the meaning set forth in Section 2(b) below.

"*Real Property*" has the meaning set forth in Section 4(l) below.

"*Real Property Laws*" has the meaning set forth in Section 4(l) below.

"*Registrable Securities*" means those Ultralife Shares issued to Sellers pursuant to Section 2(b)(i).

"*Registration Rights Agreement*" means the form of Registration Rights Agreement attached as Exhibit A to this Agreement.

"*Reportable Event*" has the meaning set forth in ERISA Section 4043.

"*Sales*" means revenues from sales of lead-acid batteries and associated hardware, determined in accordance with GAAP, that are achieved by Target in the ordinary course of business.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Securities Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*Sellers*" has the meaning set forth in the preface above.

"*Subsidiary*" means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons own a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity's gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term "Subsidiary" shall include all Subsidiaries of such Subsidiary.

"*Target*" has the meaning set forth in the preface above.

"*Target Share*" means any share of the common stock, par value $0.01 per share, of Target.

"*Tax*" or "*Taxes*" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the Tax liability of any other Person.

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

"*Third Party Claim*" has the meaning set forth in Section 8(d) below.

"*Treasury Regulations*" means the Treasury Regulations promulgated under the Code.

"*Ultralife Shares*" means shares of common stock, par value $0.10 per share, of Ultralife Batteries, Inc.

SECTION 2. PURCHASE AND SALE OF TARGET SHARES

(a) Basic Transaction. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Sellers, and Sellers agree to sell to Buyer, all of their Target Shares for the consideration specified below in this Section 2.

(b) Purchase Price; Payment. The aggregate consideration for the Target Shares shall consist of (i) a percentage payment calculated as a percentage of Target's Sales, as described in sub-section (ii) below; and (ii) a grant of Ultralife Shares as described in subsection (i) below (together, the "***Purchase Price***"). On the terms and subject to the conditions set forth herein, Buyer shall pay the Purchase Price to Sellers as follows:

(i) At Closing, Buyer shall deliver to each Seller a certificate representing 50,000 Ultralife Shares.

(ii) Following the Closing, if Target achieves certain Sales targets during the Measuring Periods, then Buyer shall deliver payments to Sellers as follows (the "***Holdback Amount***"):

(A) Buyer shall deliver the Holdback Amount to Sellers, calculated at the rate of 5% of Target's Sales, up to the operating plan amount set by Buyer in consultation with Sellers ("***Plan Amount***") for the remainder of the calendar year following the Closing and for each of the subsequent three calendar years.

(B) Buyer shall deliver the Holdback Amount to Sellers, calculated at the rate of 10% of the amount by which Target's Sales exceed the Plan Amount for any of the following calendar years: 2008, 2009 and 2010.

(C) The following illustrates how the Holdback Amounts are earned. If the Plan Amount is set at $5,000,000 for calendar year 2008 and Sales for 2008 are $6,000,000, the Holdback Amount for 2008 would be calculated on 5% of $5,000,000, plus 10% on $1,000,000 for a total of $350,000.

(D) Any payments of Holdback Amounts due from Buyer to Sellers hereunder shall be made by wire transfer of immediately available funds to such account or accounts as designated by Sellers within 60 days of the conclusion of the applicable Measuring Period, so long as no Seller has violated any terms of this Agreement or the Post-Closing Agreement. Buyer shall distribute any Holdback Amounts paid pursuant to this Section equally to each Seller.

(E) The following items shall be excluded from Sales for the purpose of calculating the Holdback Amount pursuant to this Section: (i) Sales made to Buyer or its Subsidiaries unless Buyer or any Buyer Subsidiary resells the products underlying such Sales to Target customers in which event the Sales by Buyer or any Buyer Subsidiary shall be included in Sales for purposes of calculating the Holdback Amount pursuant to this Section but shall **not** be included in sales for Stationary Power Systems, Inc. ("SPS") for purposes of Section 2(b) of that certain Stock Purchase Agreement dated of even date herewith with respect to Buyer's acquisition of SPS, and (ii) any Sale where the gross margin of such Sale is under 15% unless the average gross margin for all RPS Sales for that year equals or exceeds the lesser of the gross margin set forth in the applicable operating plan or 25%, unless otherwise agreed to by Buyer in its sole discretion.

(c) Closing. The closing of the transactions contemplated by this Agreement (the "***Closing***") shall take place at the offices of Harter Secrest & Emery LLP, in Rochester, New York, commencing at 10:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as Buyer and Sellers may mutually determine (the "***Closing Date***"); provided, however, that the Closing Date shall be no later than November 30, 2007.

(d) Deliveries at Closing. At the Closing, (i) Sellers will deliver to Buyer the various certificates, instruments, and documents referred to in Section 7(a) below, (ii) Buyer will deliver to Sellers the various certificates, instruments, and documents referred to in Section 7(b) below, (iii) Sellers will deliver to Buyer stock certificates representing all of their Target Shares, endorsed in blank or accompanied by duly executed assignment documents, and (iv) Buyer will deliver to Sellers the consideration specified in Section 2(b) above.

SECTION 3. TRANSACTION REPRESENTATIONS AND WARRANTIES

(a) Sellers' Representations and Warranties. Each Seller represents and warrants to Buyer, severally and not jointly, that the statements contained in this Section 3(a) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(a)) with respect to himself, except as set forth in Annex I attached hereto.

(i) *Authorization of Transaction*. Seller has full power and authority to execute and deliver this Agreement and to perform his obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Seller, enforceable in accordance with its terms and conditions. Seller need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery, and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Seller.

(ii) *Non-contravention*. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Seller is subject, (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Seller is a party or by which he is bound or to which any of his assets is subject, or (C) result in the imposition or creation of a Lien upon or with respect to the Target Shares.

(iii) *Brokers' Fees*. Seller has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(iv) *Target Shares*. Seller holds of record and owns beneficially the number of Target Shares set forth next to his name in Section 4(b) of the Disclosure Schedule, which constitute all of the issued and outstanding Target Shares, free and clear of any restrictions on transfer (other than any restrictions under the Securities Act and state securities laws), Taxes, Liens, options, warrants, purchase rights, contracts, commitments, equities, claims, and demands. Seller is not a party to any option, warrant, purchase right, or other contract or commitment that could require Seller to sell, transfer, or otherwise dispose of any capital stock of Target (other than this Agreement). Seller is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any capital stock of Target.

(v) *Investment Representations for Ultralife Shares*. Seller acknowledges that any Ultralife Shares acquired by Seller pursuant to this Agreement shall be acquired by Seller for his own account, for investment purposes only, and not with a view to or for distributing or reselling such securities or any part thereof or interest therein. Seller, either alone or together with his representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of any investment by him in Ultralife Shares, and has so evaluated the merits and risks of any such investment to his satisfaction. As of the Closing Date, Seller shall be able to bear the economic risk of an investment in the Ultralife Shares offered pursuant to this Agreement and shall be able to afford a complete loss of any such investment. Seller acknowledges that at the time Seller was offered the Ultralife Shares pursuant to this Agreement, Seller was and, at the date hereof, Seller is, and at the Closing Date Seller will be, an “accredited investor” as defined in Rule 501 under the Securities Act. Seller acknowledges that he has been afforded: (A) the opportunity to ask such questions as he has deemed necessary of, and to receive answers from, representatives of Buyer concerning the terms and conditions of the offer and sale of any Ultralife Shares offered pursuant to this Agreement, and the merits and risks of investing in such securities; (B) access to information about Buyer and Buyer’s financial condition, results of operations, business, properties, management and prospects sufficient to enable Seller to evaluate his investment; and (C) the opportunity to obtain such additional information that Buyer possesses or can acquire without unreasonable effort or expense that is reasonably necessary to permit Seller to make an informed investment decision with respect to any Ultralife Shares to be acquired by Seller pursuant to this Agreement. Seller understands and acknowledges that any Ultralife Shares acquired by Seller pursuant to this Agreement were offered and acquired by him without registration under the Securities Act in a private transaction pursuant to the exemption from registration under Section 5 of the Securities Act provided by Section 4(2) of the Securities Act and that such securities are and shall be “restricted securities” as defined in Rule 144 under the Securities Act and thus such securities shall not be freely transferable by Seller. Seller understands and acknowledges that except as set forth in Section 3(a)(vi) below, Buyer is not providing Seller with any registration rights in connection with any Ultralife Shares offered pursuant to this Agreement. Seller understands and acknowledges that Buyer shall rely on the accuracy and truthfulness of Seller’s representations herein in order to avail of the exemption from registration under Section 5 of the Securities Act provided by Section 4(2) of the Securities Act.

(vi) *Registration Rights.* Buyer hereby grants Sellers piggyback registration rights as they relate to any future Registration Statement and covenants to include, to the extent legally permissible and subject to any limitations imposed by the underwriter or placement agent, if applicable, Registrable Securities in such Registration Statement. If at any time prior to the removal of restrictive legends pursuant to Rule 144(k)(a), Buyer proposes to register shares of Common Stock under the Securities Act other than on Forms S-8, S-4 or any successor forms in connection with a public offering of such shares for cash (a “***Proposed Registration***”) and (b) a Registration Statement covering the resale of all of the Registrable Securities has not been effective and available for sale thereof by Sellers, Buyer shall at such time promptly give Sellers written notice of such Proposed Registration. Buyer shall use its best efforts to cause such Registration Statement to cover the resale of the Registrable Securities, which have not otherwise been registered or covered under a current effective Registration Statement, which Registration Statement shall state that in accordance with Rule 416 promulgated under the Securities Act, such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon stock splits, stock dividends or similar transactions. The Seller and the Buyer shall enter into a separate Registration Rights Agreement, in substantially the form attached hereto as Exhibit A, consistent with the provisions of this

Section 3(a)(vi), which Registration Rights Agreement shall contain customary representations and warranties and provisions regarding indemnification and contribution.

(b) Buyer's Representations and Warranties. Buyer represents and warrants to Sellers that the statements contained in this Section 3(b) are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 3(b)), except as set forth in Annex II attached hereto.

(i) *Organization of Buyer*. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware.

(ii) *Authorization of Transaction*. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by this Agreement. The execution, delivery, and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

(iii) *Non-contravention*. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject.

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

(v) *Investment*. Buyer is not acquiring the Target Shares with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act.

(vi) *Access to Information*. Buyer has such knowledge of the business and financial affairs of the Target and possesses a sufficient degree of sophistication, knowledge and experience in financial and business matters such that Buyer is capable of evaluating the information provided to Buyer by Sellers and Target about Target's business, including Target's assets and liabilities, and the economic risks of acquiring the Target Shares. Buyer acknowledges and agrees that Target and Sellers make no further representations or warranties to Buyer regarding the Target or the Target Shares, other than as set forth in this Agreement. Specifically, Buyer acknowledges and agrees, that Target and Sellers give no assurances, representations or warranties as to the continued viability of the Target as a going concern or otherwise or its future profitability after Buyer's purchase.

(vii) *Litigation; Judgments*. There are no pending or threatened, suits, actions, grievances or proceedings against or relating to Buyer, the business or any property or asset of the business of Buyer that individually or in the aggregate could reasonably be expected to have a Material Adverse Effect on Buyer's ability to consummate the transactions contemplated by this Agreement. There is no unsatisfied or outstanding judgment, decree, injunction, rule or order of any governmental entity or arbitrator which (i) could reasonably be expected to have a Material Adverse Effect on Buyer or the business of Buyer or (ii) seeks to enjoin or prohibit the consummation of the transactions contemplated by this Agreement.

(viii) *Ultralife Shares*. The Ultralife Shares, when issued pursuant to Section 2(b)(i), will be duly authorized, validly issued, fully paid and non assessable shares of common stock of Buyer. Upon delivery of such shares, Sellers will receive good and unencumbered title to such shares, free and clear of all liens, restrictions, charges, encumbrances and other security interests of any kind or nature whatsoever, except for any restrictions existing under applicable securities laws and the restrictions imposed by this Agreement.

(ix) *Reports and Financial Statements*. As of their respective dates, the periodic reports (the "***Reports***") filed by Buyer with the Securities and Exchange Commission (the "***Commission***") under the Securities Exchange Act of 1934, as amended (the "***Exchange Act***") complied or will comply in all material respects with the then applicable published rules and regulations of the Commission with respect thereto (including, without limitation, rules related to the financial statements included therein) at the date of their issuance and did not or will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Buyer has filed all reports and filings with the SEC required pursuant to the Securities Act or 1933 or the Exchange Act on a timely basis. Each such report or filing is true, correct and complete in all material respects and 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 they were made, not misleading.

SECTION 4. TARGET REPRESENTATIONS AND WARRANTIES

Sellers jointly and severally represent and warrant to Buyer that the statements contained in this Section 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Section 4), except as set forth in the disclosure schedule delivered by Sellers to Buyer on the date hereof and initialed by the Parties (the "***Disclosure Schedule***"). Nothing in the Disclosure Schedule shall be deemed adequate to disclose an exception to a representation or warranty made herein, however, unless the Disclosure Schedule identifies the exception with particularity and describes the relevant facts in detail. Without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item shall not be deemed adequate to disclose an exception to a representation or warranty made herein (unless the representation or warranty has to do with the existence of the document or other item itself). The Disclosure Schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this Section 4.

(a) Organization, Qualification, and Corporate Power. Target is a corporation duly organized, validly existing, and in good standing under the laws of the State of Florida. Target is duly authorized to conduct business and is in good standing under the laws of each jurisdiction where such qualification is required. Target has full corporate power and authority and all licenses, permits, and authorizations necessary to carry on the businesses in which it is engaged and in which it presently proposes to engage and to own and use the properties owned and used by it. Section 4(a) of the Disclosure Schedule lists the directors and officers of Target. Sellers have delivered to Buyer correct and complete copies of the charter and bylaws of Target (as amended to date). The minute books (containing the records of meetings of the stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock record books of Target are correct and complete. Target is not in default under or in violation of any provision of its charter or bylaws.

(b) Capitalization. The entire authorized capital stock of Target consists of __________Target Shares, of which __________ Target Shares are issued and outstanding and no Target Shares are held in treasury. All of the issued and outstanding Target Shares have been duly authorized, are validly issued, fully paid, and non-assessable, and are held of record by the respective Seller as set forth in Section 4(b) of the Disclosure Schedule. There are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require Target to issue, sell, or otherwise cause to become outstanding any of its capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to Target. There are no voting trusts, proxies, or other agreements or understandings with respect to the voting of the capital stock of Target.

(c) Non-contravention. Except as set forth on Section 4(c) of the Disclosure Schedule, neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Target is subject or any provision of the charter or bylaws of Target or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Target is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Lien upon any of its assets). Target does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement.

(d) Brokers' Fees. Target has no Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(e) Title to Assets. Except as set forth on Section 4(e) of the Disclosure Schedule, Target has good and marketable title to, or a valid leasehold interest in, the properties and assets used by Target, located on its premises, or shown on the Most Recent Balance Sheet or acquired after the date thereof, free and clear of all Liens, except for properties and assets disposed of in the Ordinary Course of Business since the date of the Most Recent Balance Sheet.

(f) Subsidiaries. Target has no Subsidiaries.

(g) Financial Statements. Attached hereto as Exhibit B are the following financial statements (collectively the "***Financial Statements***"): (i) an audited balance sheet and statements of income, changes in stockholders' equity, and cash flow as of and for the fiscal year ended December 31, 2006 (the "***Most Recent Fiscal Year End***") for Target; and (ii) an unaudited balance sheet and statements of income, changes in stockholders' equity, and cash flow (the "***Most Recent Financial Statements***") as of and for the six months ended June 30, 2007 (the "***Most Recent Fiscal Month End***") for Target. The Financial Statements have been prepared from Target's books and records, are true, correct and complete in all material respects, are consistent with Target's books and records applied on a consistent basis throughout the periods covered thereby, present fairly the financial condition of Target as of such dates and the results of operations of Target for such periods, are correct and complete, and are consistent with the books and records of Target (which books and records are correct and complete).

(h) Events Subsequent to Most Recent Fiscal Year End. Except as set forth on Section 4(h) of the Disclosure Schedule, since the Most Recent Fiscal Year End, there has not been any Material Adverse Change. Without limiting the generality of the foregoing, since that date:

(i) Target has not sold, leased, transferred, or assigned any of its assets, tangible or intangible, other than for a fair consideration in the Ordinary Course of Business;

(ii) Target has not entered into any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) either involving more than $10,000 or outside the Ordinary Course of Business;

(iii) no party (including Target) has accelerated, terminated, modified, or cancelled any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) involving more than $10,000 to which Target is a party or by which Target is bound;

(iv) Target has not imposed any Liens upon any of its assets, tangible or intangible;

(v) Except as set forth on Section 4(h)(v) of the Disclosure Schedule, Target has not made any capital expenditure (or series of related capital expenditures) either involving more than $10,000 or outside the Ordinary Course of Business;

(vi) Target has not made any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person (or series of related capital investments, loans, and acquisitions) either involving more than $10,000 or outside the Ordinary Course of Business;

(vii) Except as set forth on Section 4(h)(vii) of the Disclosure Schedule, Target has not issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligation either involving more than $5,000 singly or $10,000 in the aggregate;

(viii) Target has not delayed or postponed the payment of accounts payable and other Liabilities outside the Ordinary Course of Business;

(ix) Target has not cancelled, compromised, waived, or released any right or claim (or series of related rights and claims) either involving more than $10,000 or outside the Ordinary Course of Business;

(x) Target has not transferred, assigned, or granted any license or sublicense of any rights under or with respect to any Intellectual Property;

(xi) there has been no change made or authorized in the charter or bylaws of Target;

(xii) Except as set forth on Section 4(h)(xii) of the Disclosure Schedule, Target has not issued, sold, or otherwise disposed of any of its capital stock, or granted any options, warrants, or other rights to purchase or obtain (including upon conversion, exchange, or exercise) any of its capital stock;

(xiii) Target has not declared, set aside, or paid any dividend or made any distribution with respect to its capital stock (whether in cash or in kind) or redeemed, purchased, or otherwise acquired any of its capital stock;

(xiv) Target has not experienced any damage, destruction, or loss (whether or not covered by insurance) to its property;

(xv) Target has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees outside the Ordinary Course of Business;

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

(xvii) Target has not granted any increase in the base compensation of any of its directors, officers, and employees outside the Ordinary Course of Business;

(xviii) Target has not adopted, amended, modified, or terminated any bonus, profit sharing, incentive, severance, or other plan, contract, or commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Employee Benefit Plan);

(xix) Target has not made any other change in employment terms for any of its directors, officers, and employees outside the Ordinary Course of Business;

(xx) Target has not made or pledged to make any charitable or other capital contribution outside the Ordinary Course of Business;

(xxi) there has not been any other material occurrence, event, incident, action, failure to act, or transaction outside the Ordinary Course of Business involving Target;

(xxii) Target has not discharged a material Liability or Lien outside the Ordinary Course of Business;

(xxiii) Target has not made any loans or advances of money;

(xxiv) Target has not disclosed any Confidential Information; and

(xxv) Target has not committed to any of the foregoing.

(i) Undisclosed Liabilities. Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability), except for (i) Liabilities set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) and (ii) Liabilities which have arisen after the Most Recent Fiscal Month End in the Ordinary Course of Business (none of which results from, arises out of, relates to, is in the nature of, or was caused by any breach of contract, breach of warranty, tort, infringement, or violation of law).

(j) Legal Compliance. Target and its predecessors and Affiliates, if any, have complied with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder and including the Foreign Corrupt Practices Act, 15 U.S.C. 78dd-1 et seq.) of federal, state, local, and foreign governments (and all agencies thereof), and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against any of them alleging any failure so to comply except where the failure to comply would not have a Material Adverse Effect..

(k) Tax Matters.

(i) Target (and any predecessor of Target) has been a validly electing S corporation within the meaning of Code Section 1361 and Section 1362 at all times during its existence and Target will be an S corporation up to and including the Closing Date.

(ii) Target has no potential liability for any Tax under Code Section 1374. Target has not, in the past 10 years, (A) acquired assets from another corporation in a transaction in which Target’s Tax basis for the acquired assets was determined, in whole or in part, by reference to the Tax basis of the acquired assets (or any other property) in the hands of the transferor or (B) acquired the stock of any corporation that is a qualified subchapter S subsidiary.

(iii) Target has filed all Tax Returns that it was required to file under applicable laws and regulations. All such Tax Returns were correct and complete in all respects and have been prepared in substantial compliance with all applicable laws and regulations. All Taxes due and owing by Target (whether or not shown on any Tax Return) have been paid. Target currently is not the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by an authority in a jurisdiction where Target does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of Target.

(iv) Target has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(v) No Seller or director or officer (or employee responsible for Tax matters) of Target expects any authority to assess any additional Taxes for any period for which Tax Returns have been filed. No foreign, federal, state, or local tax audits or administrative or judicial Tax proceedings are pending or being conducted with respect to Target. Target has not received from any foreign, federal, state, or local taxing authority (including jurisdictions where Target has not filed Tax Returns) any (i) notice indicating an intent to open an audit or other review, (ii) request for information related to Tax matters, or (iii) notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against Target; Disclosure Schedule lists all federal, state, local, and foreign income Tax Returns filed with respect to Target for taxable periods ended on or after December 31, 2003, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. Sellers have delivered to Buyer correct and complete copies of all federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by Target filed or received since December 31, 2003.

(vi) Target has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(vii) Target is not a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of (i) any “excess parachute payment” within the meaning of Code Section 280G (or any corresponding provision of state, local or foreign Tax law) and (ii) any amount that will not be fully deductible as a result of Code 162(m) (or any corresponding provision of state, local or foreign Tax law). Target has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). Target has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662. Target is not a party to or bound by any Tax allocation or sharing agreement. Target (A) has not been a member of an Affiliated Group filing a consolidated federal income Tax Return (other than a group the common parent of which was Target) or (B) has no Liability for the Taxes of any Person (other than Target) under Reg. Section 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(viii) The unpaid Taxes of Target (A) did not, as of the Most Recent Fiscal Month End, exceed the reserve for Tax Liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) and (B) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target in filing their Tax Returns. Since the date of the Most Recent Balance Sheet, Target has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the Ordinary Course of Business consistent with past custom and practice.

(ix) Target will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (A) change in method of accounting for a taxable period ending on or prior to the Closing Date; (B) "closing agreement" as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) executed on or prior to the Closing Date; (C) intercompany transactions or any excess loss account described in Treasury Regulations under Code Section 1502 (or any corresponding or similar provision of state, local or foreign income Tax law); (D) installment sale or open transaction disposition made on or prior to the Closing Date; or (E) prepaid amount received on or prior to the Closing Date.

(x) Target 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 Code Section 355 or Section 361.

(xi) Target has not, since October 3, 2004, (A) granted to any person an interest in a nonqualified deferred compensation plan (as defined in Code Section 409A) which interest has been or, upon the lapse of a substantial risk of forfeiture with respect to such interest, will be subject to the Tax imposed by Code Section 409A, or (B) modified the terms of any nonqualified deferred compensation plan in a manner that could cause an interest previously granted under such plan to become subject to the Tax imposed by Code Section 409A. No person has a right to be indemnified by Target for any Tax imposed by Code Section 409A.

(l) Real Property.

(i) Except as set forth on Section 4(l)(i) of the Disclosure Schedule, Target does not own any Real Property.

(ii) Section 4(l)(ii) of the Disclosure Schedule sets forth the address of each parcel of Leased Real Property, and a true and complete list of all Leases for each such Leased Real Property (including the date and name of the parties to such Lease document). Target has delivered to Buyer a true and complete copy of each such Lease document, and in the case of any oral Lease, a written summary of the material terms of such Lease. Except as set forth in Section 4(l)(ii) of the Disclosure Schedule, with respect to each of the Leases:

(A) such Lease is legal, valid, binding, enforceable and in full force and effect;

(B) the transaction contemplated by this Agreement does not require the consent of any other party to such Lease (except for those Leases for which Lease Consents (as hereinafter defined) are obtained), will not result in a breach of or default under such Lease, and will not otherwise cause such Lease to cease to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Closing;

(C) Target's possession and quiet enjoyment of the Leased Real Property under such Lease has not been disturbed and there are no disputes with respect to such Lease;

(D) neither Target nor any other party to the Lease is in breach or default under such Lease, and no event has occurred or circumstance exists which, with the delivery of notice, the passage of time or both, would constitute such a breach or default, or permit the termination, modification or acceleration of rent under such Lease;

(E) no security deposit or portion thereof deposited with respect to such Lease has been applied in respect of a breach or default under such Lease which has not been redeposited in full;

(F) Target neither owes or will owe in the future any brokerage commissions or finder's fees with respect to such Lease;

(G) the other party to such Lease is not an Affiliate of, and otherwise does not have any economic interest in, Target;

(H) Target has not subleased, licensed or otherwise granted any Person the right to use or occupy such Leased Real Property or any portion thereof;

(I) Target has not collaterally assigned or granted any other Lien in such Lease or any interest therein; and

(J) there are no Liens on the estate or interest created by such Lease.

(iii) The Leased Real Property identified in Section 4(l)(ii) of the Disclosure Schedule (collectively, the "***Real Property***"), comprises all of the real property used or intended to be used in, or otherwise related to, Target's business; and Target is not a party to any agreement or option to purchase any real property or interest therein.

(iv) All buildings, structures, fixtures, building systems and equipment, and all components thereof, including the roof, foundation, load-bearing walls and other structural elements thereof, heating, ventilation, air conditioning, mechanical, electrical, plumbing and other building systems, environmental control, remediation and abatement systems, sewer, storm and waste water systems, irrigation and other water distribution systems, parking facilities, fire protection, security and surveillance systems, and telecommunications, computer, wiring and cable installations, included in the Real Property (the "***Improvements***") are in good condition and repair and sufficient for the operation of Target's business. There are no structural deficiencies or latent defects affecting any of the Improvements and there are no facts or conditions affecting any of the Improvements which would, individually or in the aggregate, interfere in any respect with the use or occupancy of the Improvements or any portion thereof in the operation of Target's business as currently conducted thereon.

(v) There is no condemnation, expropriation or other proceeding in eminent domain, pending or threatened, affecting any parcel of Real Property or any portion thereof or interest therein. There is no injunction, decree, order, writ or judgment outstanding, nor any claims, litigation, administrative actions or similar proceedings, pending or threatened, relating to the ownership, lease, use or occupancy of the Real Property or any portion thereof, or the operation of Target's business as currently conducted thereon.

(vi) The Real Property is in compliance with all applicable building, zoning, subdivision, health and safety and other land use laws, including the Americans with Disabilities Act of 1990, as amended, and all insurance requirements affecting the Real Property (collectively, the "***Real Property Laws***"), and the current use and occupancy of the Real Property and operation of Target's business thereon does not violate any Real Property Laws. Target has not received any notice of violation of any Real Property Law and there is no basis for the issuance of any such notice or the taking of any action for such violation. There is no pending or anticipated change in any Real Property Law that will materially impair the ownership, lease, use or occupancy of any Real Property or any portion thereof in the continued operation of Target's business as currently conducted thereon.

(vii) Each parcel of Real Property has direct vehicular and pedestrian access to a public street adjoining the Real Property, or has vehicular and pedestrian access to a public street via an insurable, permanent, irrevocable and appurtenant easement benefiting such parcel of Real Property, and such access is not dependent on any land or other real property interest which is not included in the Real Property. None of the Improvements or any portion thereof is dependent for its access, use or operation on any land, building, improvement or other real property interest which is not included in the Real Property.

(viii) All water, oil, gas, electrical, steam, compressed air, telecommunications, sewer, storm and waste water systems and other utility services or systems for the Real Property have been installed and are operational and sufficient for the operation of Target's business as currently conducted thereon. Each such utility service enters the Real Property from an adjoining public street or valid private easement in favor of the supplier of such utility service or appurtenant to such Real Property, and is not dependent for its access, use or operation on any land, building, improvement or other real property interest which is not included in the Real Property.

(ix) All certificates of occupancy, permits, licenses, franchises, approvals and authorizations (collectively, the "***Real Property Permits***") of all governmental authorities, boards of fire underwriters, associations or any other entity having jurisdiction over the Real Property which are required or appropriate to use or occupy the Real Property or operate Target's business as currently conducted thereon, have been issued and are in full force and effect. Section 4(l)(ix) of the Disclosure Schedule lists all material Real Property Permits held by Target with respect to each parcel of Real Property. Target has delivered to Buyer a true and complete copy of all Real Property Permits. Target has not received any notice from any governmental authority or other entity having jurisdiction over the Real Property threatening a suspension, revocation, modification or cancellation of any Real Property Permit and there is no basis for the issuance of any such notice or the taking of any such action. The Real Property Permits are transferable to Buyer without the consent or approval of the issuing governmental authority or entity, no disclosure, filing or other action by Target is required in connection with such transfer, and Buyer shall not be required to assume any additional liabilities or obligations under the Real Property Permits as a result of such transfer.

(x) The classification of each parcel of Real Property under applicable zoning laws, ordinances and regulations permits the use and occupancy of such parcel and the operation of Target's business as currently conducted thereon, and permits the Improvements located thereon as currently constructed, used and occupied. There are sufficient parking spaces, loading docks and other facilities at such parcel to comply with such zoning laws, ordinances and regulations. Target's use or occupancy of the Real Property or any portion thereof or the operation of Target's business as currently conducted thereon is not dependent on a "permitted non-conforming use" or "permitted non-conforming structure" or similar variance, exemption or approval from any governmental authority.

(xi) The current use and occupancy of the Real Property and the operation of Target's business as currently conducted thereon does not violate any easement, covenant, condition, restriction or similar provision in any instrument of record or other unrecorded agreement affecting such Real Property (the "***Encumbrance Documents***"). Neither Sellers nor Target has received any notice of violation of any Encumbrance Documents, and there is no basis for the issuance of any such notice or the taking of any action for such violation.

(xii) None of the Improvements encroach on any land which is not included in the Real Property or on any easement affecting such Real Property, or violate any building lines or set-back lines, and there are no encroachments onto any of the Real Property, or any portion thereof, which encroachment would interfere with the use or occupancy of such Real Property or the continued operation of Target's business as currently conducted thereon.

(xiii) Each parcel of Real Property is a separate lot for real estate tax and assessment purposes, and no other real property is included in such tax parcel. There are no Taxes, assessments, fees, charges or similar costs or expenses imposed by any governmental authority, association or other entity having jurisdiction over the Real Property (collectively, the "***Real Estate Impositions***") with respect to any Real Property or portion thereof which are delinquent. There is no pending or threatened increase or special assessment or reassessment of any Real Estate Impositions for such parcel.

(xiv) None of the Real Property or any portion thereof is located in a flood hazard area (as defined by the Federal Emergency Management Agency).

(m) Intellectual Property.

(i) Target owns and possesses or has the right to use pursuant to a valid and enforceable, written license, sublicense, agreement, or permission all Intellectual Property necessary or desirable for the operation of the businesses of Target as presently conducted and as presently proposed to be conducted. Each item of Intellectual Property owned or used by Target immediately prior to the Closing hereunder will be owned or available for use by Target on identical terms and conditions immediately subsequent to the Closing hereunder. Target has taken all necessary and desirable action to maintain and protect each item of Intellectual Property that Target owns or uses.

(ii) Target has not interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties, and none of Sellers and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target has ever received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that Target must license or refrain from using any Intellectual Property rights of any third party). To the Knowledge of any Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of Target.

(iii) Section 4(m)(iii) of the Disclosure Schedule identifies each patent or registration that has been issued to Target with respect to any of its Intellectual Property, identifies each pending patent application or application for registration which Target has made with respect to any of its Intellectual Property, and identifies each license, sublicense, agreement, or other permission which Target has granted to any third party with respect to any of its Intellectual Property (together with any exceptions). Sellers have delivered to Buyer correct and complete copies of all such patents, registrations, applications, licenses, sublicenses, agreements, and permissions (as amended to date). Section 4(m)(iii) of the Disclosure Schedule also identifies each material unregistered trademark, service mark, trade name, corporate name or Internet domain name, computer software item (other than commercially available off-the-shelf software purchased or licensed for less than a total cost of $1,000 in the aggregate) and each material unregistered copyright used by Target in connection with any of its businesses. With respect to each item of Intellectual Property required to be identified in Section 4(m)(iii) of the Disclosure Schedule:

(A) Target owns and possesses all right, title, and interest in and to the item, free and clear of any Lien, license, or other restriction or limitation regarding use or disclosure;

(B) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(C) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of any Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, is threatened which challenges the legality, validity, enforceability, use, or ownership of the item, and there are no grounds for the same;

(D) Target has never agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the item; and

(E) no loss or expiration of the item is threatened, pending, or reasonably foreseeable, except for patents expiring at the end of their statutory terms (and not as a result of any act or omission by Sellers or Target, including without limitation, a failure by Sellers or Target to pay any required maintenance fees).

(iv) Section 4(m)(iv) of the Disclosure Schedule identifies each item of Intellectual Property that any third party owns and that Target uses pursuant to license, sublicense, agreement, or permission. Sellers have delivered to Buyer correct and complete copies of all such licenses, sublicenses, agreements, and permissions (as amended to date). With respect to each item of Intellectual Property required to be identified in Section 4(m)(iv) of the Disclosure Schedule:

(A) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect;

(B) the license, sublicense, agreement, or permission will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following consummation of the transactions contemplated hereby;

(C) no party to the license, sublicense, agreement, or permission is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(D) no party to the license, sublicense, agreement, or permission has repudiated any provision thereof;

(E) with respect to each sublicense, the representations and warranties set forth in subsections (A) through (D) above are true and correct with respect to the underlying license;

(F) the underlying item of Intellectual Property is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(G) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of any Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target, is threatened that challenges the legality, validity, or enforceability of the underlying item of Intellectual Property, and there are no grounds for the same; and

(H) Target has not granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission.

(v) To the Knowledge of any Seller and the directors and officers (and employees with responsibility for Intellectual Property matters) of Target: (A) Target has not in the past nor will interfere with, infringe upon, misappropriate, or otherwise come into conflict with, any Intellectual Property rights of third parties as a result of the continued operation of its businesses as presently conducted; (B) there are no facts that indicate a likelihood of any of the foregoing; and (C) no notices regarding any of the foregoing (including, without limitation, any demands or offers to license any Intellectual Property from any third party) have been received.

(vi) Sellers have taken all necessary and desirable action to maintain and protect all of the Intellectual Property of Target and will continue to maintain and protect all of the Intellectual Property of Target prior to Closing so as not to adversely affect the validity or enforceability thereof. To the Knowledge of any Seller, the owners of any of the Intellectual Property licensed to Target have taken all necessary and desirable action to maintain and protect the Intellectual Property covered by such license.

(vii) Sellers have complied in all material respects with and are presently in compliance in all material respects with all foreign, federal, state, local, governmental (including, but not limited to, the Federal Trade Commission and State Attorneys General), administrative or regulatory laws, regulations, guidelines and rules applicable to any Intellectual Property and Sellers shall take all steps necessary to ensure such compliance until Closing.

(n) Tangible Assets. Target owns or leases all buildings, machinery, equipment, and other tangible assets necessary for the conduct of their businesses as presently conducted and as presently proposed to be conducted. Each such tangible asset is free from defects (patent and latent), has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear), and is suitable for the purposes for which it presently is used and presently is proposed to be used.

(o) Inventory. The inventory of Target consists of raw materials and supplies, manufactured and purchased parts, goods in process, and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, and none of which is slow-moving, obsolete, damaged, or defective, subject only to the reserve for inventory writedown set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target.

(p) Contracts. Section 4(p) of the Disclosure Schedule lists the following contracts and other agreements to which Target is a party:

(i) any agreement (or group of related agreements) for the lease of personal property to or from any Person regardless of amount;

(ii) any agreement (or group of related agreements) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one year, result in a loss to Target, or involve consideration in excess of $10,000;

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

(iv) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation;

(v) any agreement concerning confidentiality or non-competition;

(vi) any agreement with any Seller and any of Sellers' Affiliates (other than Target);

(vii) any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other plan or arrangement for the benefit of its current or former directors, officers, and employees;

(viii) any collective bargaining agreement;

(ix) any agreement for the employment of any individual on a full-time, part-time, consulting, or other basis providing annual compensation in excess of $10,000 or providing severance benefits;

(x) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees outside the Ordinary Course of Business;

(xi) any agreement under which the consequences of a default or termination could have a Material Adverse Effect;

(xii) any agreement under which it has granted any Person any registration rights (including, without limitation, demand and piggyback registration rights);

(xiii) any agreement under which Target has advanced or loaned any other Person any amounts; or

(xiv) any other agreement (or group of related agreements) the performance of which involves consideration in excess of $10,000.

Sellers have delivered to Buyer a correct and complete copy of each written agreement (as amended to date) listed in Section 4(p) of the Disclosure Schedule and a written summary setting forth the terms and conditions of each oral agreement referred to in Section 4(p) of the Disclosure Schedule. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect; (B) the agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby; (C) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under the agreement; and (D) no party has repudiated any provision of the agreement.

(q) Notes and Accounts Receivable. All notes and accounts receivable of Target are reflected properly on their books and records, are valid receivables subject to no setoffs or counterclaims, are current and collectible, and will be collected in accordance with their terms at their recorded amounts, subject only to the reserve for bad debts set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target. All accounts receivable collected by Buyer shall be applied on a first in, first out basis. Buyer shall continue Target's customary collection practices following Closing and shall provide Sellers with all normal and customary information relating to the accounts receivable that were in existence on the Closing Date, including all normal aging reports, following the Closing. Any accounts receivable determined by Buyer to be uncollectible shall be reassigned to Sellers, subject, however, to Buyer's indemnification rights hereunder.

(r) Powers of Attorney. There are no outstanding powers of attorney executed on behalf of Target.

(s) Insurance. Section 4(s) of the Disclosure Schedule sets forth the following information with respect to each insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) to which Target has been a party, a named insured, or otherwise the beneficiary of coverage at any time within the past 10 years:

(i) the name, address, and telephone number of the agent;

(ii) the name of the insurer, the name of the policyholder, and the name of each covered insured;

(iii) the policy number and the period of coverage;

(iv) the scope (including an indication of whether the coverage was on a claims made, occurrence, or other basis) and amount (including a description of how deductibles and ceilings are calculated and operate) of coverage; and

(v) a description of any retroactive premium adjustments or other loss-sharing arrangements.

With respect to each such insurance policy: (A) the policy is legal, valid, binding, enforceable, and in full force and effect; (B) the policy will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transaction contemplated hereby; (C) neither Target nor any other party to the policy is in breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination, modification, or acceleration, under the policy; and (D) no party to the policy has repudiated any provision thereof. Target has been covered during the past 10 years by insurance in scope and amount customary and reasonable for the businesses in which they have engaged during the aforementioned period. Section 4(s) of the Disclosure Schedule describes any self-insurance arrangements affecting Target.

(t) Litigation. Section 4(t) of the Disclosure Schedule sets forth each instance in which Target (i) is subject to any outstanding injunction, judgment, order, decree, ruling, or charge or (ii) is a party or, to the Knowledge of any Seller and the directors and officers (and employees with responsibility for litigation matters) of Target, is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator. None of the actions, suits, proceedings, hearings, and investigations set forth in Section 4(t) of the Disclosure Schedule could result in any Material Adverse Change. None of Seller and the directors and officers (and employees with responsibility for litigation matters) of

Target has any reason to believe that any such action, suit, proceeding, hearing, or investigation may be brought or threatened against Target or that there is any Basis for the foregoing.

(u) Product Warranty. Each product manufactured, sold, leased, or delivered by Target has been in conformity with all applicable contractual commitments and all express and implied warranties, and Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability) for replacement or repair thereof or other damages in connection therewith, subject only to the reserve for product warranty claims set forth on the face of the Most Recent Balance Sheet (rather than in any notes thereto) as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Target. Section 4(u) of the Disclosure Schedule includes copies of the standard terms and conditions of sale or lease for Target (containing applicable guaranty, warranty, and indemnity provisions). No product manufactured, sold, leased, or delivered by Target is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease set forth in Section 4(u) of the Disclosure Schedule.

(v) Product Liability. Target has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against any of them giving rise to any Liability) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by Target.

(w) Employees. Except as set forth on Section 4(w) of the Disclosure Schedule, to the Knowledge of Sellers and the directors and officers (and employees with responsibility for employment matters) of Target, no executive, key employee, or group of employees has any plans to terminate employment with Target. Target is not a party to or bound by any collective bargaining agreement, nor has Target experienced any strikes, grievances, claims of unfair labor practices, or other collective bargaining disputes. Target has not committed any unfair labor practice. None of Sellers and the directors and officers (and employees with responsibility for employment matters) of Target has any Knowledge of any organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of Target.

(x) Employee Benefits. Target does not have any employee benefit plans and collective bargaining, employment or severance agreements or other similar arrangements which Target, or any ERISA Affiliate, has ever sponsored, maintained, or to which contributions are made or have ever been made, or for which obligations have been incurred, for the benefit of employees or former employees of Target or an ERISA Affiliate, including, without limitation, (1) any "employee benefit plan" (within the meaning of Section 3(3) of ERISA), (2) any profit-sharing, deferred compensation, bonus, stock option, stock purchase, pension, retainer, consulting, retirement, severance, welfare or incentive plan, agreement or arrangement, (3) any plan, agreement or arrangement providing for "fringe benefits" or perquisites to employees, officers, directors or agents, including but not limited to benefits relating to automobiles, clubs, vacation, child care, parenting, sabbatical, sick leave, tuition reimbursement, medical, dental, hospitalization, life insurance, disability insurance and other types of insurance, and (4) any employment agreement. The plans, agreements and arrangements described in this Section 4(x) are referred to herein as "***Employee Benefit Plans***."

(y) Guaranties. Target is not a guarantor or otherwise is liable for any Liability or obligation (including indebtedness) of any other Person.

(z) Environmental, Health, and Safety Matters.

(i) Target and its predecessors and Affiliates have complied and are in compliance with all Environmental, Health, and Safety Requirements.

(ii) Without limiting the generality of the foregoing, Target and its Affiliates have obtained and complied with, and are in compliance with, all permits, licenses and other authorizations that are required pursuant to Environmental, Health, and Safety Requirements for the occupation of their facilities and the operation of their business; a list of all such permits, licenses and other authorizations is set forth on Section 4(z) of the Disclosure Schedule.

(iii) Neither Target nor, to its Knowledge, its predecessors or Affiliates has received any written or oral notice, report or other information regarding any actual or alleged violation of Environmental, Health, and Safety Requirements, or any Liabilities or potential Liabilities, including any investigatory, remedial or corrective obligations, relating to any of them or its facilities arising under Environmental, Health, and Safety Requirements.

(iv) To knowledge of Target, none of the following exists at any property or facility owned or operated by Target: (1) underground storage tanks, (2) asbestos-containing material in any form or condition, (3) materials or equipment containing polychlorinated biphenyls, or (4) landfills, surface impoundments, or disposal areas.

(v) Neither Target nor, to its Knowledge, its predecessors or Affiliates have treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled, or released any substance, including without limitation any hazardous substance, or owned or operated any property or facility (and no such property or facility is contaminated by any such substance) in a manner that has given or would give rise to Liabilities, including any Liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney fees, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("***CERCLA***"), the Solid Waste Disposal Act, as amended ("***SWDA***") or any other Environmental, Health, and Safety Requirements.

(vi) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of government agencies or third parties, pursuant to any of the so-called "transaction-triggered" or "responsible property transfer" Environmental, Health, and Safety Requirements.

(vii) Neither Target nor, to its Knowledge, its predecessors or Affiliates has, either expressly or by operation of law, assumed or undertaken any Liability, including without limitation any obligation for corrective or remedial action, of any other Person relating to Environmental, Health, and Safety Requirements.

(viii) No facts, events or conditions relating to the past or present facilities, properties or operations of Target or, to its Knowledge, its predecessors or Affiliates will prevent, hinder or limit continued compliance with Environmental, Health, and Safety Requirements, give rise to any investigatory, remedial or corrective obligations pursuant to Environmental, Health, and Safety Requirements, or give rise to any other Liabilities pursuant to Environmental, Health, and Safety Requirements, including without limitation any relating to onsite or offsite releases or threatened releases of hazardous materials, substances or wastes, personal injury, property damage or natural resources damage.

(aa) Certain Business Relationships with Target. None of Sellers, their Affiliates, Sellers' directors, officers, employees and stockholders and Target's directors, officers, employees, and stockholders has been involved in any business arrangement or relationship with Target within the past 12 months, and none of Sellers, their Affiliates, Sellers' directors, officers, employees and stockholders and Target's directors, officers, employees, and stockholders owns any asset, tangible or intangible, which is used in the business of Target.

(bb) Customers and Suppliers.

(i) Section 4(bb) of the Disclosure Schedule lists the 10 largest customers of Target for each of the two most recent fiscal years and sets forth opposite the name of each such customer the percentage of consolidated net sales attributable to such customer. Section 4(bb) of the Disclosure Schedule also lists any additional current customers that Target anticipates shall be among the 10 largest customers for the current fiscal year.

(ii) Since the date of the Most Recent Balance Sheet, no supplier of Target has indicated that it shall stop, or decrease the rate of, supplying materials, products or services to Target, and no customer listed on Section 4(bb) of the Disclosure Schedule has indicated that it shall stop, or decrease the rate of, buying materials, products or services from Target.

(cc) Disclosure. The representations and warranties contained in this Section 4 do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information contained in this Section 4 not misleading.

SECTION 5. PRE-CLOSING COVENANTS

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

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

(b) Notices and Consents. Sellers will cause Target to give any notices to third parties, and will cause Target to use its best efforts to obtain any third party consents referred to in Section 4(c) above, the Lease Consents, and the items set forth on Section 5(b) of the Disclosure Schedule. Each of the Parties will (and Sellers will cause Target to) give any notices to, make any filings with, and use its best efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above.

(c) Operation of Business. Sellers will not cause or permit Target to engage in any practice, take any action, or enter into any transaction outside the Ordinary Course of Business. Without limiting the generality of the foregoing, Sellers will not cause or permit Target to (i) declare, set aside, or pay any dividend or make any distribution whatsoever with respect to its capital stock (whether in cash or in kind) or redeem, purchase, or otherwise acquire any of its capital stock except distributions to Sellers in an amount approved by Buyer calculated to cover Sellers' income tax liability resulting from the Sellers' allocable shares of Target's earnings through the Closing Date, or (ii) otherwise engage in any practice, take any action, or enter into any transaction of the sort described in Section 4(h) above.

(d) Preservation of Business. Sellers will cause Target to keep its business and properties substantially intact, including its present operations, physical facilities, working conditions, insurance policies, and relationships with lessors, licensors, suppliers, customers, and employees.

(e) Full Access. Sellers will permit, and Sellers will cause Target to permit, representatives of Buyer (including legal counsel and accountants) to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Target, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents of or pertaining to Target.

(f) Notice of Developments. Sellers will give prompt written notice to Buyer of any material adverse development causing a breach of any of the representations and warranties in Section 4 above. Each Party will give prompt written notice to the others of any material adverse development causing a breach of any of his or its own representations and warranties in Section 3 above. No disclosure by any Party pursuant to this Section 5(f), however, shall be deemed to amend or supplement Annex I, Annex II, or the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

(g) Exclusivity. Sellers will not (and Sellers will not cause or permit Target to) (i) solicit, initiate, or encourage the submission of any proposal or offer from any Person relating to the acquisition of any capital stock or other voting securities, or any substantial portion of the assets, of Target (including any acquisition structured as a merger, consolidation, or share exchange) or (ii) participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing. Neither Seller will vote his Target Shares in favor of any such acquisition. Sellers will notify Buyer immediately if any Person makes any proposal, offer, inquiry, or contact with respect to any of the foregoing.

(h) [INTENTIONALLY OMITTED]

(i) Leases. Except to the extent necessary to satisfy the Closing conditions set forth in Section 7 below, Sellers will not cause or permit any of Target's Leases to be amended, modified, extended, renewed or terminated, nor shall Target enter into any new lease, sublease, license or other agreement for the use or occupancy of any real property, without the prior written consent of Buyer.

(j) Tax Matters. Without the prior written consent of Buyer, Target shall not make or change any election, change an annual accounting period, adopt or change any accounting method, file any amended Tax Return, enter into any closing agreement, settle any Tax claim or assessment relating to Target, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to Target, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of increasing the Tax liability of Target for any period ending after the Closing Date or decreasing any Tax attribute of Target existing on the Closing Date.

(k) S Corporation Status. Target and Sellers shall not revoke Target's election to be taxed as an S corporation within the meaning of Code Section 1361 and Section 1362. Target and Sellers shall not take or allow any action, other than the sale of Target's stock pursuant to this Agreement, which would result in the termination of Target's status as a validly electing S corporation within the meaning of Code Section 1361 and Section 1362.

(l) Employee Benefits and Welfare Matters. [INTENTIONALLY OMITTED]

SECTION 6. POST-CLOSING COVENANTS

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

(a) General. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Section 8 below). Sellers acknowledge and agree that from and after the Closing Buyer will be entitled to possession of all documents, books, records (including Tax records), agreements, and financial data of any sort relating to Target.

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

(c) Transition. Sellers will not take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of Target from maintaining the same business relationships with Target after the Closing as it maintained with Target prior to the Closing. Sellers shall refer all customer inquiries relating to the businesses of Target to Buyer from and after the Closing.

(d) Confidentiality. Each of the parties hereto will treat and hold as such all of the Confidential Information of the other parties, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to such other party or destroy, at the request and option of disclosing party, all tangible embodiments (and all copies) of the Confidential Information which are in his, her, or its possession. In the event that any party is requested or required pursuant to written or oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process to disclose any Confidential Information, such party will notify the disclosing party promptly of the request or requirement so that the disclosing party may seek an appropriate protective order or waive compliance with the provisions of this Section 6(d). If, in the absence of a protective order or the receipt of a waiver hereunder, any of receiving parties is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or party in a proceeding therein or else stand liable for contempt, such party may disclose the Confidential Information to the tribunal or such person involved in such action; provided, however, that the disclosing party shall use his, her, or its best efforts to obtain, at the reasonable request of the disclosing party, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the disclosing party shall designate. The foregoing provisions shall not apply to any Confidential Information that is generally available to the public immediately prior to the time of disclosure unless such Confidential Information is so available due to the actions of a Party, nor shall the foregoing provisions apply to Buyer to the extent Buyer is required to disclose such information in order to comply with its disclosure obligations as a publicly-traded company under applicable federal securities laws and stock exchange rules and listing standards.

(e) Release of Target by Sellers. Effective at and (only) upon Closing, Sellers (the "***Releasing Party***") hereby irrevocably and unconditionally releases and forever discharges the Target and its respective successors and assigns (the "***Released Parties***") from any and all claims, charges, complaints, causes of action, damages, agreements and liabilities of any kind or nature whatsoever, including any claim by Sellers against the Target for indemnification or for advances with respect to actions or omissions (or claims or allegations thereof) of Sellers prior to the Closing in their capacities as shareholders, officers, directors or employees of the Target ("***Released Claims***"), whether known or unknown and whether at law or in equity, arising from conduct occurring on or prior to the Closing Date, including without limitation any Released Claims relating to or arising out of any Seller's ownership of securities of Target; provided that (i) nothing contained herein shall release Released Parties from any of their post-Closing obligations and liabilities to Releasing Party created under this Agreement or constitute a waiver of any claims that Releasing Party may bring or have for indemnification by the Released Parties under Section 8, and (ii) this release shall only relate to those claims arising from conduct or omissions occurring on or before the Closing.

SECTION 7. CONDITIONS TO OBLIGATION TO CLOSE

(a) Conditions to Buyer's Obligation. Buyer's obligation to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(a) and Section 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Effect," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Sellers shall have performed and complied with all of their covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Effect," in which case Sellers shall have performed and complied with all of such covenants in all respects through the Closing;

(iii) Target shall have procured all of the third party consents specified in Section 5(b) above;

(iv) no action, suit, or proceeding shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by this Agreement, (B) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, (C) affect adversely the right of Buyer to own the Target Shares and to control Target, or (D) affect adversely the right of Target to own its assets and to operate its businesses (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(v) Sellers shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7(a)(i)-(iv) is satisfied in all respects;

(vi) the Parties shall have received all other authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above;

(vii) Buyer shall have received the resignations, effective as of the Closing, of each director and officer of Target other than those whom Buyer shall have specified in writing at least five business days prior to the Closing;

(viii) Buyer shall have obtained on terms and conditions satisfactory to it any debt or equity financing it needs in order to consummate the transactions contemplated hereby and fund the working capital requirements of Target after the Closing;

(ix) all actions to be taken by the Sellers in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby shall be satisfactory in form and substance to Buyer;

(x) Target shall have obtained and delivered to Buyer a written consent for the assignment of each of the Leases, and, if requested by Buyer's lender, a waiver of landlord liens, collateral assignment of lease or leasehold mortgage from the landlord or other party whose consent thereto is required under such Lease (the "***Lease Consents***"), in form and substance satisfactory to Buyer and Buyer's lender;

(xi) [INTENTIONALLY OMITTED]

(xii) [INTENTIONALLY OMITTED]

(xiii) no damage or destruction or other change has occurred with respect to any of the Real Property or any portion thereof that, individually or in the aggregate, would materially impair the use or occupancy of the Real Property or the operation of Target's business as currently conducted thereon;

(xiv) [INTENTIONALLY OMITTED]

(xv) Sellers shall have delivered to Buyer copies of the certificate of incorporation of Target certified on or soon before the Closing Date by the Secretary of State (or comparable officer) of the jurisdiction of Target's incorporation;

(xvi) Sellers shall have delivered to Buyer copies of the certificate of good standing of Target issued on or soon before the Closing Date by the Secretary of State (or comparable officer) of the jurisdiction of Target's organization and of each jurisdiction in which Target is qualified to do business;

(xvii) Sellers shall have delivered to Buyer a certificate of the secretary or an assistant secretary of Target, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to (i) no amendments to the Certificate of Incorporation of Target since the date specified in clause (xv) above; (ii) the bylaws of Target; and (iii) any resolutions of the board of directors of Target relating to this Agreement and the transactions contemplated hereby;

(xviii) Sellers shall have entered into a confidentiality, non-solicitation, non-compete and non-disparagement agreement ("***Post-Closing Agreement***") with Target on terms satisfactory to Buyer, and such agreement shall be in full force and effect as of the Closing.

(xix) Any amounts owed by Target to Sellers shall have been paid in full and, at the request of Buyer, Sellers shall deliver to Target a release to such effect in form and substance satisfactory to Buyer.

(xx) Buyer shall have obtained the approval of its lenders of this Agreement and the transactions contemplated thereby and there shall be no payment default under Buyer's loan agreements with its lenders unless waived by Buyer's lenders;

(xxi) Buyer shall have obtained the approval of its board of directors of this Agreement and the transactions contemplated thereby;

(xxii) Target and Sellers shall have delivered to Buyer signed copies of the applicable forms and attachments thereto required in connection with the Section 338(h)(10) Election pursuant to Section 9(f) below;

(xxiii) Buyer shall have received from Bonadio and Company, LLP audited Financial Statements of Target for the year ended December 31, 2006;

(xxiv) Sellers and Buyer shall have entered into the Registration Rights Agreement; and

(xxv) Buyer's acquisition of Stationary Power Services, Inc. shall have been completed as of the Closing Date.

Buyer may waive any condition specified in this Section 7(a) if it executes a writing so stating at or prior to the Closing.

(b) Conditions to Sellers' Obligation. The obligation of Sellers to consummate the transactions to be performed by them in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in Section 3(b) above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Effect," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Effect," in which case Buyer shall have performed and complied with all of such covenants in all respects through the Closing;

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

(iv) Buyer shall have delivered to Sellers a certificate to the effect that each of the conditions specified above in Section 7(b)(i)-(iii) is satisfied in all respects;

(v) the Parties shall have received all authorizations, consents, and approvals of governments and governmental agencies referred to in Section 3(a)(ii), Section 3(b)(ii), and Section 4(c) above;

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

(vii) Buyer and Sellers shall have entered into the Registration Rights Agreement.

Sellers may waive any condition specified in this Section 7(b) if it executes a writing so stating at or prior to closing.

SECTION 8. REMEDIES FOR BREACHES OF THIS AGREEMENT

(a) Survival of Representations and Warranties.

(i) All of the representations and warranties of the Parties contained in Section 3 of this Agreement shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

(ii) Except for those representations and warranties of the Parties contained in Sections 4(a)-(f) (inclusive), (j), (k) and (z) of this Agreement, all of the representations and warranties of the Parties contained in Section 4 of this Agreement, shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect for a period of two years from the Closing Date. This provision shall not extinguish claims that are made within two years of the Closing Date but that remain unresolved on or after the date that is two years after the Closing Date.

(iii) All of the representations and warranties of the Parties contained in Sections 4(a)-(f) (inclusive), (j), (k) and (z) of this Agreement shall survive the Closing hereunder (even if the damaged Party knew or had reason to know of any misrepresentation or breach of warranty or covenant at the time of Closing) and continue in full force and effect until the expiration of any applicable statutes of limitations (after giving effect to any extensions or waivers) plus 60 days.

(b) Indemnification Provisions for Buyer's Benefit.

(i) In the event Sellers breach (or in the event any third party alleges facts that, if true, would mean Sellers have breached) any of their representations, warranties, and covenants contained herein (other than the covenants in Section 2(a) above and the representations and warranties in Section 3(a) above) and, provided that Buyer makes a written claim for indemnification against Sellers pursuant to Section 11(g) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Sellers shall be obligated to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer (including any Adverse Consequences Buyer may suffer after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach).

(ii) In the event any Seller breaches (or in the event any third party alleges facts that, if true, would mean any Seller breached) any of his covenants in Section 2(a) above or any of his representations and warranties in Section 3(a) above, and provided that Buyer makes a written claim for indemnification against such Seller pursuant to Section 11(g) below within the survival period (if there is an applicable survival period pursuant to Section 8(a) above), then such Seller shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer (including any Adverse Consequences Buyer may suffer after the end of any applicable survival period) resulting from arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach).

(iii) Sellers shall indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any occurrence or circumstance related to Target or its business that first arose, in whole or in part, on or before the Closing Date.

(iv) NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO EVENT SHALL THE AGGREGATE LIABILITY OF ANY SELLER TO BUYER UNDER THIS SECTION 8(B) EXCEED THE PURCHASE PRICE.

(c) Indemnification Provisions for Sellers' Benefit.

(i) In the event Buyer breaches (or in the event any third party alleges facts that, if true, would mean Buyer has breached) any of its representations, warranties, and covenants contained herein and, provided that any Seller makes a written claim for indemnification against Buyer pursuant to Section 11(g) below within such survival period (if there is an applicable survival period pursuant to Section 8(a) above), then Buyer shall indemnify the Seller(s) from and against the entirety of any Adverse Consequences suffered (including any Adverse Consequences suffered after the end of any applicable survival period) resulting from, arising out of, relating to, in the nature of, or caused by the breach (or the alleged breach).

(ii) Buyer shall indemnify Sellers from and against the entirety of any Adverse Consequences Sellers may suffer resulting from, arising out of, relating to, in the nature of, or caused by any occurrence or circumstance related to Target or its business that first arose, in whole or in part, after the Closing Date.

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "***Indemnified Party***") with respect to any matter (a "***Third Party Claim***") which may give rise to a claim for indemnification against any other Party (the "***Indemnifying Party***") under this Section 8, then the Indemnified Party shall promptly notify each Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(ii) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party so long as (A) the Indemnifying Party notifies the Indemnified Party in writing within 15 days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (B) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (C) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (D) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice materially adverse to the continuing business interests or the reputation of the Indemnified Party, and (E) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(iii) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with Section 8(d)(ii) above, (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (B) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably), and (C) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Party (not to be withheld unreasonably).

(iv) In the event any of the conditions in Section 8(d)(ii) above is or becomes unsatisfied, however, (A) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (B) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (C) the Indemnifying Parties will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Section 8.

(e) Determination of Adverse Consequences. All indemnification payments under this Section 8 and Section 9(a) shall be deemed adjustments to the Purchase Price.

(f) Setoff against Holdback Amounts; Priority. Any indemnification to which Buyer is entitled under this Agreement as a result of any Adverse Consequences Buyer may suffer may, at Buyer's election, be satisfied by Buyer setting off such indemnification amounts against any Holdback Amount due Seller's hereunder, and Buyer shall seek to satisfy such indemnification amounts against such Holdback Amounts due to Sellers prior to and before seeking to satisfy such indemnification amounts against other assets of the Sellers. The exercise by Buyer of such right of setoff shall not preclude Buyer from pursuing other remedies available to Buyer against Sellers.

(g) Other Indemnification Provisions. Buyer and Sellers acknowledge and agree that the foregoing indemnification provisions in this Section 8 shall be the exclusive remedy of Buyer and Sellers with respect to Target, Sellers, and the transactions contemplated by this Agreement. The party entitled to indemnification hereunder shall take all reasonable steps to mitigate all damages, upon and after becoming aware of any event that could reasonably be expected to give rise to any such losses that are indemnifiable hereunder. No party shall be entitled to indemnification to the extent of any insurance, or any tax deduction or benefit actually realized, refund or credit, or any other benefits actually realized resulting from or which may be claimed as a result of the facts and circumstances relating to any indemnifiable claim. If any damages are covered by insurance, the party seeking indemnity hereunder shall use all reasonable efforts to recover the amount of such losses from the insurer of such insurance, which such recovery shall reduce the amount of such losses to be indemnified. To the extent either party discharges any claims for indemnification hereunder, that party shall be segregated to all rights of the other parties against third parties. Each Seller hereby agrees that he will not make any claim for indemnification against Target by reason of the fact that he was a director, officer, employee, or agent of any such entity or was serving at the request of any such entity as a partner, trustee, director, officer, employee, or agent of another entity (whether such claim is for judgments, damages, penalties, fines, costs, amounts paid in settlement, losses, expenses, or otherwise and whether such claim is pursuant to any statute, charter document, bylaw, agreement, or otherwise) with respect to any action, suit, proceeding, complaint, claim, or demand brought by Buyer against Sellers (whether such action, suit, proceeding, complaint, claim, or demand is pursuant to this Agreement, applicable law, or otherwise).

SECTION 9. TAX MATTERS

The following provisions shall govern the allocation of responsibility as between Buyer and Sellers for certain tax matters following the Closing Date:

(a) Tax Indemnification. Sellers shall indemnify Target, Buyer, and each Buyer Affiliate and hold them harmless from and against without duplication, any loss, claim, liability, expense, or other damage attributable to (i) all Taxes (or the non-payment thereof) of Target for all Taxable periods ending on or before the Closing Date and the portion through the end of the Closing Date for any Taxable period that includes (but does not end on) the Closing Date ("***Pre-Closing Tax Period***"), (ii) all Taxes of any member of an affiliated, consolidated, combined or unitary group of which Target (or any predecessor of Target) is or was a member on or prior to the Closing Date, including pursuant to Treasury Regulation Section 1.1502-6 or any analogous or similar state, local, or foreign law or regulation, and (iii) any and all Taxes of any person (other than Target) imposed on Target as a transferee or successor, by contract or pursuant to any law, rule, or regulation, which Taxes relate to an event or transaction occurring before the Closing.

(i) **Responsibility for Filing Tax Returns**. Buyer acknowledges that the Target will no longer be eligible for S corporation status after the Closing Date. Accordingly, a final Form 1120S for the Target will be required to be prepared for the period January 1, 2007 through the end of the Closing Date. Such income tax return will be provided by the Sellers allocating income and expenses to this period according to the closing of the books method, in accordance with Section 1377(a)(2) of the Code. At their expense, Sellers shall prepare or caused to be prepared and file or caused to be filed all Tax Returns for Target for periods ending on or before the Closing Date. Sellers shall permit Buyer to review and comment on each such Tax Return described in the preceding sentence prior to filing. Buyer shall have the right to contest the contents of all such Tax Returns, and any conflict between Sellers, on the one hand, and Buyer, on the other, with respect thereto shall be resolved by submitting the disagreement to BDO Seidman LLP ("***Auditor***") for computation, verification or resolution in accordance with the provisions of this Agreement. Buyer and Sellers shall make readily available to the Auditor all relevant books and records (including work papers of a party's independent public accountants) as the Auditor reasonably requests. The Auditor's computation or verification of the Tax Returns or resolution of such disputed item or items thereof (as the case may be), which Buyer and Sellers will instruct the Auditor to deliver to them within 30 days after submission to the Auditor, will be final and binding upon the parties for all purposes relating to this Section 9, and the Auditor' fees and expenses therefor will be borne by the non-prevailing party or, in the event that each party prevails on some of the issues in dispute, will be shared proportionately, as determined by the Auditor.

(b) Cooperation on Tax Matters.

(i) Buyer, Target, and Sellers shall cooperate fully, as and to the extent reasonably requested by the other Party, in connection with the filing of Tax Returns pursuant to Section 9(c) and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other Party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Target and Sellers agree (A) to retain all books and records with respect to Tax matters pertinent to Target relating to any taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by Buyer or Sellers, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other Party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other Party so requests, Target or Sellers, as the case may be, shall allow the other Party to take possession of such books and records.

(ii) Buyer and Sellers further agree, upon request, to use their best efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(iii) Buyer and Sellers further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Code Section 6043 and all Treasury Regulations promulgated thereunder.

(iv) Buyer shall not without the prior written consent of Sellers file, or cause to be filed, any amended Tax Return or claim for Tax Refund, with respect to the Target for pre-Closing Tax Period, to the extent any such filing may adversely affect the liability of the Sellers, unless advised in writing that such filing is required by law.

(c) Tax Sharing Agreements. All Tax sharing agreements or similar agreements with respect to or involving Target shall be terminated as of the Closing Date and, after the Closing Date, Target shall not be bound thereby or have any liability thereunder.

(d) Certain Taxes and Fees. All transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with consummation of the transactions contemplated by this Agreement shall be paid by Sellers when due, and Sellers will, at their own expense, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges, and, if required by applicable law, Buyer will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

(e) Section 338(h)(10) Election.

(i) At Buyer's request, Target and Sellers shall join with Buyer in making an election under Sections 338(h)(10) of the Code and the Treasury Regulations, including Treasury Regulation Section 1.338(h)(10)-1T(c)(1), and any corresponding or similar elections under state, local or foreign Tax Law (collectively, a "***Section 338(h)(10) Election***") with respect to the purchase and sale of the Target Shares. In such case, Target and Sellers shall include any income, gain, loss, deduction, or other Tax item resulting from the Section 338(h)(10) Election on their Tax Returns to the extent required by applicable law.

(ii) Buyer shall be responsible for the preparation and filing of all forms and documents required in connection with the Section 338(h)(10) Election. Seller shall execute and deliver to Buyer such documents or forms as are reasonably requested and are required by any law, rule or regulation to complete properly the Section 338(h)(10) Election no later than 60 days after the Closing. For the purposes of executing the Section 338 Election, on or prior to the Closing Date, Sellers and Buyer will execute two copies of the applicable Internal Revenue Service form and all attachments required to be filed therewith pursuant to applicable Treasury Regulations.

(iii) Buyer, not less than 30 days prior to the date the forms required under Section 338(h)(10) of the Code are required to be filed, will provide Sellers with a valuation statement reflecting, as of the Closing Date, the fair market values of all of the assets and the liabilities and obligations of the Target. Buyer and Sellers will file, and will cause their Affiliates to file, all Tax Returns and statements, forms and schedules in connection therewith in a manner consistent with such valuation and will take no position contrary thereto unless required to do so by applicable Tax laws.

(iv) To the extent permitted by state and local law, the principles and procedures of this section will also apply with respect to Section 338(h)(10) Election or equivalent or comparable provision under state or local law. Sellers will make any election similar to a Section 338(h)(10) Election which is optional under any state or local law, and will cooperate and join in any election made by Target, Buyer or its Affiliates to effect such an election so as to treat the transaction as a sale of assets for state and local income Tax purposes.

(f) Tax Adjustment. If Buyer makes a Section 338(h)(10) Election, and if such Section 338(h)(10) Election causes Sellers' after-Tax net proceeds from the sale of Target's stock to be less than the after-Tax net proceeds that Sellers would have received had the Section 338(h)(10) Election not been made, taking into account all appropriate state, federal and local Tax implications (the "***Section 338(h)(10) Election Liability***"), then Buyer shall pay to Sellers, in cash, an aggregate amount determined pursuant to the following scale (the "***Tax Adjustment***"):

(i) If the aggregate amount of the Section 338(h)(10) Election Liability is less than or equal to $25,000, then Buyer shall pay Sellers the aggregate amount of the Section 338(h)(10) Election Liability.

The amount of the Tax Adjustment shall be paid to each eligible Seller prior to the date that any Tax return is required to be filed in which the Section 338(h)(10) Election would have an impact on a Seller's Tax liability. If a Tax impact would occur in multiple years, only the amount necessary to pay a Tax Adjustment for each year shall be paid in that year. In order to be entitled to a Tax Adjustment each Seller shall provide Buyer with a schedule, not later than 30 days before the due date of the Tax return with respect to which the Tax Adjustment is requested, computing the amount of the Tax Adjustment. The Tax Adjustment shall reflect the actual calculation of each Seller's tax and shall not be based on assumed or hypothetical Tax rates. Buyer shall have the right to contest the calculation of any requested Tax Adjustment, and any conflict with respect to the calculation of a Tax Adjustment shall be resolved in accordance with the provisions of Section 9(a)(ii).

(g) Tax Refund. Any Tax Refund pertaining to the pre-Closing Period (reduced by any Taxes imposed on the Target as a result of such refund) shall be for the account of, and paid over to the Seller.

SECTION 10. TERMINATION

(a) Termination of Agreement. Certain of the Parties may terminate this Agreement as provided below:

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

(ii) Buyer may terminate this Agreement by giving written notice to Sellers on or before the 25th day following the date of this Agreement if Buyer is not satisfied with the results of its continuing business, legal, environmental, and accounting due diligence regarding Target;

(iii) Buyer may terminate this Agreement by giving written notice to Sellers at any time prior to the Closing (A) in the event any Seller has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has notified the Seller of the breach, and the breach has continued without cure for a period of 10 days after the notice of breach or (B) if the Closing shall not have occurred on or before November 30, 2007, by reason of the failure of any condition precedent under Section 7(a) hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(iv) Sellers may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (A) in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Sellers have notified Buyer of the breach, and the breach has continued without cure for a period of 10 days after the notice of breach or (B) if the Closing shall not have occurred on or before November 30, 2007, by reason of the failure of any condition precedent under Section 7(b) hereof (unless the failure results primarily from Sellers breaching any representation, warranty, or covenant contained in this Agreement).

(b) Effect of Termination. If any Party terminates this Agreement pursuant to Section 10(a) above, all rights and obligations of the Parties hereunder shall terminate without any Liability of any Party to any other Party (except for any Liability of any Party then in breach).

SECTION 11. MISCELLANEOUS

(a) Press Releases and Public Announcements; Confidentiality.

(i) No Party shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of Buyer and Sellers; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Parties prior to making the disclosure).

(ii) Each of the parties hereto will treat and hold as such all of the Confidential Information of the other parties, refrain from using any of the Confidential Information except in connection with this Agreement, and deliver promptly to such other party or destroy, at the request and option of disclosing party, all tangible embodiments (and all copies) of the Confidential Information which are in his, her, or its possession. In the event that any party is requested or required pursuant to written or oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process to disclose any Confidential Information, such party will notify the disclosing party promptly of the request or requirement so that the disclosing party may seek an appropriate protective order or waive compliance with the provisions of this Section 11(a)(ii). If, in the absence of a protective order or the receipt of a waiver hereunder, any of receiving parties is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or party in a proceeding therein or else stand liable for contempt, such party may disclose the Confidential Information to the tribunal or such person involved in such action; provided, however, that the disclosing party shall use his, her, or its best efforts to obtain, at the reasonable request of the disclosing party, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the disclosing party shall designate. The foregoing provisions shall not apply to any Confidential Information that is generally available to the public immediately prior to the time of disclosure unless such Confidential Information is so available due to the actions of a Party, nor shall the foregoing provisions apply to Buyer to the extent Buyer is required to disclose such information in order to comply with its disclosure obligations as a publicly-traded company under applicable federal securities laws and stock exchange rules and listing standards.

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof, including, but not limited to that certain letter of intent and term sheet dated as of June 4, 2007, as amended or extended, which letter of intent and term sheet are hereby terminated.

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

(e) Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

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

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) when delivered personally to the recipient, (ii) one business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (iii) one business day after being sent to the recipient by facsimile transmission or electronic mail, or (iv) four business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Buyer:	Ultralife Batteries, Inc. 2000 Technology Parkway Newark, NY 14513 Attention: General Counsel Facsimile: (315) 331-7048
With a copy to:	Harter Secrest & Emery LLP 1600 Bausch & Lomb Place Rochester, NY 14604 Attention: Jeffrey H. Bowen Facsimile: (585) 232-2152
If to Sellers:	William Maher 525 Tallahassee Drive St. Petersburg, FL 33702 Facsimile:
	Edward Bellamy 4902 113th Avenue North Clearwater, FL 33760
With a copy to:	Johnson, Pope, Bokor, Ruppel & Burns, LLP 911 Chestnut Street Clearwater, FL 33756 Attention: Michael G. Little Facsimile: 727-462-0365

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

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

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Sellers. No waiver by any Party of any provision of this Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such default, misrepresentation, or breach of warranty or covenant.

(j) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Expenses. Each of Buyer, Sellers and Target will bear his or its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby; provided, however, that Sellers shall also bear the costs and expenses of Target (including all of their legal fees and expenses) in connection with this Agreement and the transactions contemplated hereby in the event that the transactions contemplated by this Agreement are consummated.

(l) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. The Parties intend that each representation, warranty, and covenant contained herein shall have independent significance. If any Party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not breached shall not detract from or mitigate the fact that the Party is in breach of the first representation, warranty, or covenant.

(m) Incorporation of Exhibits, Annexes, and Schedules. The Exhibits, Annexes, and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Specific Performance. Each Party acknowledges and agrees that the other Parties would be damaged irreparably in the event any provision of this Agreement is not performed in accordance with its specific terms or otherwise is breached, so that a Party shall be entitled to injunctive relief to prevent breaches of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in addition to any other remedy to which such Party may be entitled, at law or in equity. In particular, the Parties acknowledge that the business of Target is unique and recognize and affirm that in the event Sellers breach this Agreement, money damages would be inadequate and Buyer would have no adequate remedy at law, so that Buyer shall have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and the other Parties' obligations hereunder not only by action for damages but also by action for specific performance, injunctive, and/or other equitable relief.

(o) Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court having jurisdiction in Wayne County, New York, in any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each Party also agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or at equity.

(p) Tax Disclosure Authorization. Notwithstanding anything herein to the contrary, the Parties (and each Affiliate and Person acting on behalf of any Party) agree that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all Persons, without limitation of any kind, the transaction's tax treatment and tax structure (as such terms are used in Code Sections 6011 and 6112 and regulations thereunder) contemplated by this agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such Person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure may not be made until the earlier of date of (A) public announcement of discussions relating to the transaction, (B) public announcement of the transaction, or (C) execution of an agreement to enter into the transaction. This authorization is not intended to permit disclosure of any other information including (without limitation) (A) any portion of any materials to the extent not related to the transaction's tax treatment or tax structure, (B) the identities of participants or potential participants, (C) the existence or status of any negotiations, (D) any pricing or financial information (except to the extent such pricing or financial information is related to the transaction's tax treatment or tax structure), or (E) any other term or detail not relevant to the transaction's tax treatment or the tax structure.

* * * * *

IN WITNESS WHEREOF, the Parties hereto have executed this Stock Purchase Agreement as of the date first above written.

BUYER:

Ultralife Batteries, Inc.

/s/ John D. Kavazanjian
John D. Kavazanjian
Chief Executive Officer

SELLERS:

/s/ William Maher
William Maher, Individually

/s/ Edward Bellamy
Edward Bellamy, Individually

TARGET:

Reserve Power Systems, Inc.

/s/ William Maher
William Maher
President

Exhibit 21

SUBSIDIARIES

We have a 100% ownership interest in Ultralife Batteries (UK) Ltd., incorporated in the United Kingdom.

We have a 100% ownership in ABLE New Energy Co., Limited, incorporated in Hong Kong, which has a 100% ownership in ABLE New Energy Co., Ltd, incorporated in the People's Republic of China.

We have a 100% ownership in McDowell Research Co., Inc., incorporated in Delaware.

We have a 100% ownership in RedBlack Communications, Inc. (formerly Innovative Solutions Consulting, Inc.), incorporated in Maryland.

We have a 100% ownership in Stationary Power Services, Inc., incorporated in Florida.

We have a 100% ownership in Reserve Power Systems, Inc., incorporated in Florida.

We have a 51% ownership in Ultralife Batteries India Private Limited, incorporated in India.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-67808, 333-90984, 333-110426 and 333-136742) and Forms S-8 (Nos. 333-31930, 333-60984, 333-114271, 333-117662, 333-136737 and 333-136738) of Ultralife Batteries, Inc. of our reports dated March 19, 2008 relating to the 2007 consolidated financial statements and schedule, and the effectiveness of internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO Seidman, LLP

Troy, Michigan
March 19, 2008

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-3 (Nos. 333-67808, 333-90984, 333-110426 and 333-136742) and Forms S-8 (Nos. 333-31930, 333-60984, 333-114271, 333-117662, 333-136737 and 333-136738) of Ultralife Batteries, Inc. of our report dated March 22, 2006 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Rochester, New York
March 18, 2008

Exhibit 31.1

I, John D. Kavazanjian, certify that:

1. I have reviewed this annual report on Form 10-K of Ultralife Batteries, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2008

/s/ John D. Kavazanjian
John D. Kavazanjian,
President and Chief Executive Officer

Exhibit 31.2

I, Robert W. Fishback, certify that:

1. I have reviewed this annual report on Form 10-K of Ultralife Batteries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 19, 2008

/s/ Robert W. Fishback
Robert W. Fishback,
Vice President - Finance and
Chief Financial Officer

Exhibit 32.1

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”), John D. Kavazanjian and Robert W. Fishback, the President and Chief Executive Officer and Vice President-Finance and Chief Financial Officer, respectively, of Ultralife Batteries, Inc., certify that (i) the Annual Report on Form 10-K for the year ended December 31, 2007 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 Batteries, Inc.

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

Date: March 19, 2008

/s/ John D. Kavazanjian

John D. Kavazanjian
President and Chief Executive Officer

Date: March 19, 2008

/s/ Robert W. Fishback

Robert W. Fishback
Vice President-Finance and
Chief Financial Officer