

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2014.

Commission file number: 0-23336

AROTECH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-4302784

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

1229 Oak Valley Drive, Ann Arbor, Michigan

(Address of principal executive offices)

48108

(Zip Code)

(800) 281-0356

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Smaller reporting company:

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the issuer's common stock as of August 5, 2014 was 24,299,056.

SEC 1296 (01-12)

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PART I**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****CONDENSED CONSOLIDATED BALANCE SHEETS
(U.S. Dollars)**

	June 30, 2014	December 31, 2013
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 972,330	\$ 5,821,325
Restricted collateral deposits	248,750	498,495
Trade receivables	12,923,663	12,362,871
Unbilled receivables	20,839,514	8,463,920
Other accounts receivable and prepaid expenses	2,163,141	1,379,621
Inventories	9,560,468	10,074,766
<i>Total current assets</i>	<u>46,707,866</u>	<u>38,600,998</u>
LONG TERM ASSETS:		
Israeli statutory/contractual severance pay fund	5,083,747	4,968,811
Other long term receivables	90,545	73,979
Property and equipment, net	6,150,807	4,926,949
Other intangible assets, net	13,259,677	1,059,151
Goodwill	46,193,681	31,024,754
<i>Total long term assets</i>	<u>70,778,457</u>	<u>42,053,644</u>
<i>Total assets</i>	<u>\$ 117,486,323</u>	<u>\$ 80,654,642</u>

The accompanying notes are an integral part of the Interim Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
(U.S. Dollars, except share data)

	June 30, 2014	December 31, 2013
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 4,221,685	\$ 5,107,208
Other accounts payable and accrued expenses	7,851,450	6,012,041
Current portion of long term debt	4,339,876	95,382
Short term bank credit	5,095,924	–
Deferred revenues	5,564,856	7,020,079
<i>Total current liabilities</i>	<u>27,073,791</u>	<u>18,234,710</u>
LONG TERM LIABILITIES:		
Accrued Israeli statutory/contractual severance pay	7,385,375	7,020,060
Long term portion of debt	19,443,050	1,830,348
Deferred tax liability	5,817,065	5,518,521
Other long-term liabilities	2,418,549	74,027
<i>Total long-term liabilities</i>	<u>35,064,039</u>	<u>14,442,956</u>
<i>Total liabilities</i>	<u>62,137,830</u>	<u>32,677,666</u>
STOCKHOLDERS' EQUITY:		
Share capital –		
Common stock – \$0.01 par value each;		
Authorized: 50,000,000 shares as of June 30, 2014 and December 31, 2013; Issued and outstanding: 21,010,056 shares		
and 20,163,163 shares as of June 30, 2014 and December 31, 2013, respectively	210,101	201,632
Preferred shares – \$0.01 par value each;		
Authorized: 1,000,000 shares as of June 30, 2014 and December 31, 2013; No shares issued or outstanding as of June 30,		
2014 and December 31, 2013	–	–
Additional paid-in capital	234,382,503	229,917,341
Accumulated deficit	(180,299,795)	(183,096,572)
Notes receivable from stockholders	(908,054)	(908,054)
Accumulated other comprehensive income	1,963,738	1,862,629
<i>Total stockholders' equity</i>	<u>55,348,493</u>	<u>47,976,976</u>
<i>Total liabilities and stockholders' equity</i>	<u>\$ 117,486,323</u>	<u>\$ 80,654,642</u>

The accompanying notes are an integral part of the Interim Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(U.S. Dollars, except share data)

	Six months ended June 30,		Three months ended June 30,	
	2014	2013	2014	2013
Revenues	\$ 50,211,986	\$ 44,449,973	\$ 27,829,186	\$ 22,396,842
Cost of revenues	32,906,461	32,865,162	17,863,150	16,088,195
Research and development expenses	1,931,958	1,128,170	936,445	594,785
Selling and marketing expenses	2,977,553	2,620,258	1,545,785	1,383,252
General and administrative expenses	7,806,266	4,854,058	4,267,593	2,466,247
Amortization of intangible assets	961,183	550,112	887,064	273,618
Total operating costs and expenses	<u>46,583,421</u>	<u>42,017,760</u>	<u>25,500,037</u>	<u>20,806,097</u>
Operating income	<u>3,628,565</u>	<u>2,432,213</u>	<u>2,329,149</u>	<u>1,590,745</u>
Other income, net	229,421	268,682	197,308	267,449
Financial expense, net	(682,648)	(302,879)	(563,647)	(113,742)
Total other income (expense)	<u>(453,227)</u>	<u>(34,197)</u>	<u>(366,339)</u>	<u>153,707</u>
Income from continuing operations before income tax expense	<u>3,175,338</u>	<u>2,398,016</u>	<u>1,962,810</u>	<u>1,744,452</u>
Income tax expense	378,561	428,902	180,125	254,125
Income from continuing operations	2,796,777	1,969,114	1,782,685	1,490,327
Loss from discontinued operations, net of income tax	-	(87,930)	-	(13,187)
Net income	<u>2,796,777</u>	<u>1,881,184</u>	<u>1,782,685</u>	<u>1,477,140</u>
Other comprehensive income, net of \$0 income tax				
Foreign currency translation adjustment	101,109	269,923	147,192	58,247
Comprehensive income	<u>\$ 2,897,886</u>	<u>\$ 2,151,107</u>	<u>\$ 1,929,877</u>	<u>\$ 1,535,387</u>
Income (loss) per share of common stock:				
Basic – continuing operations	\$ 0.14	\$ 0.13	\$ 0.09	\$ 0.10
Basic – discontinued operations	\$ -	\$ (0.01)	\$ -	\$ -
Basic net income per share	<u>\$ 0.14</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>
Diluted – continuing operations	\$ 0.14	\$ 0.12	\$ 0.09	\$ 0.09
Diluted – discontinued operations	\$ -	\$ (0.01)	\$ -	\$ -
Diluted net income per share	<u>\$ 0.14</u>	<u>\$ 0.11</u>	<u>\$ 0.09</u>	<u>\$ 0.09</u>
Weighted average number of shares used in computing basic net income/loss per share	<u>19,892,242</u>	<u>15,472,667</u>	<u>20,311,830</u>	<u>15,554,199</u>
Weighted average number of shares used in computing diluted net income/loss per share	<u>20,494,982</u>	<u>16,075,407</u>	<u>20,914,570</u>	<u>16,146,939</u>

The accompanying notes are an integral part of the Interim Condensed Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(U.S. Dollars)

	Six months ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,796,777	\$ 1,881,184
<i>Adjustments required to reconcile net income to net cash provided by (used in) operating activities:</i>		
Depreciation	694,342	582,905
Amortization of intangible assets	961,183	550,112
Stock based compensation	257,631	167,215
Deferred tax provision	298,544	299,250
<i>Changes in operating assets and liabilities:</i>		
Trade receivables	2,142,182	(9,988,376)
Unbilled receivables	(2,564,763)	4,794,812
Other accounts receivable and prepaid expenses	(492,154)	160,764
Inventories	1,061,142	229,754
Severance pay (required Israeli statutory/contractual), net	250,379	75,170
Trade payables	(3,694,029)	(567,882)
Other accounts payable and accrued expenses	(992,180)	(342,702)
Deferred revenues	(1,455,223)	3,630,085
Discontinued operations	-	(284,934)
<i>Net cash provided by (used in) operating activities</i>	<u>(736,169)</u>	<u>1,187,357</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of UEC ⁽¹⁾	(29,113,655)	-
Decrease (increase) in restricted collateral deposits	249,745	(305,125)
Purchase of property and equipment	(907,879)	(1,271,714)
Additions to capitalized software	(61,710)	(3,675)
Discontinued operations	-	44,827
<i>Net cash provided by (used in) investing activities</i>	<u>\$ (29,833,499)</u>	<u>\$ (1,535,687)</u>

The accompanying notes are an integral part of the Interim Condensed Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(U.S. Dollars)

	Six months ended June 30,	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long term debt	\$ (642,804)	\$ (836,756)
Proceeds from long term debt	22,500,000	–
Changes in short term bank credit	3,825,614	427,391
Discontinued operations	–	(40,374)
<i>Net cash provided by (used in) financing activities</i>	<u>25,682,810</u>	<u>(449,739)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,886,858)	(798,069)
CASH DIFFERENCES DUE TO EXCHANGE RATE CHANGES	37,863	111,469
NET CHANGE IN CASH AND EQUIVALENTS – DISCONTINUED OPERATIONS	–	59,268
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>5,821,325</u>	<u>1,580,627</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 972,330</u>	<u>\$ 953,295</u>
SUPPLEMENTARY INFORMATION ON NON-CASH TRANSACTIONS:		
Common stock issued in acquisition of UEC	\$ 4,216,000	\$ –
Interest paid during the period	\$ 265,084	\$ 217,649
Taxes paid on income during the period	\$ 51,098	\$ 95,900

(1) On April 1, 2014, the Company acquired all of the outstanding membership interests of UEC Electronics, LLC (“UEC”). The cash portion of the transaction is summarized as follows:

New long term debt	\$ 22,500,000
Cash	5,500,000
Net working capital adjustment (paid in May 2014)	1,206,245
Cash acquired	(92,590)
Total	<u>\$ 29,113,655</u>

The accompanying notes are an integral part of the Interim Condensed Consolidated Financial Statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: BASIS OF PRESENTATION

a. Company:

Arotech Corporation (“Arotech”) and its wholly-owned subsidiaries (the “Company”) provide advanced battery and simulation solutions, including innovative energy management and power distribution technologies, turnkey interactive multimedia simulators/trainers, and world-class product design and manufacturing services for the aerospace, defense, law enforcement and homeland security markets. The Company operates primarily through its wholly-owned subsidiaries FAAC Incorporated (“FAAC”), based in Ann Arbor, Michigan with locations in Royal Oak, Michigan and Orlando, Florida; Electric Fuel Battery Corporation (“EFB”), based in Auburn, Alabama; Epsilon-Electric Fuel Ltd. (“Epsilon-EFL”), based in Dimona, Israel with a location in Beit Shemesh, Israel; and UEC Electronics, LLC (“UEC”), based in Hanahan, South Carolina (see also Note 2). EFB, Epsilon-EFL and UEC form the Company’s Battery and Power Systems Division. IES Interactive Training (MILO Range) and Realtime Technologies were merged with FAAC in 2007 and 2010, respectively, to create Arotech’s Training and Simulation Division. Pursuant to a management decision in the fourth quarter of 2011 and sale in 2012, the Company’s Armor Division, consisting of M.D.T. Protective Industries, Ltd., based in Lod, Israel, and MDT Armor Corporation, based in Auburn, Alabama, along with the trade name of Armour of America Incorporated, are reflected as discontinued operations.

b. Basis of presentation:

The accompanying interim condensed consolidated financial statements have been prepared by Arotech Corporation in accordance with generally accepted accounting principles for interim financial information, with the instructions to Form 10-Q and with Article 10 of Regulation S-X, and include the accounts of Arotech Corporation and its subsidiaries. Certain information and footnote disclosures, normally included in complete financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted. In the opinion of the Company, the unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of its financial position at June 30, 2014, its operating results for the six- and three month periods ended June 30, 2014 and 2013, and its cash flows for the six month periods ended June 30, 2014 and 2013.

The results of operations for the six- and three months ended June 30, 2014 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year ending December 31, 2014.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

c. Accounting for stock-based compensation:

For the six months ended June 30, 2014 and 2013 the compensation expense recorded related to restricted stock units and restricted shares was \$258,000 and \$167,000, respectively. The remaining total compensation cost related to share awards not yet recognized in the statements of comprehensive income as of June 30, 2014 was \$342,000. The weighted average period over which this compensation cost is expected to be recognized is approximately one and one-half years. Income tax expense was not impacted since the Company is in a net operating loss position. There were no new options issued in the first six months of 2014 and there are no outstanding issued options. The Company’s directors received their annual restricted stock grants on April 1, 2014 in accordance with the terms of the directors’ stock compensation plan.

d. Reclassification:

Certain comparative data in these financial statements may have been reclassified to conform to the current year’s presentation.

e. Anti-dilutive shares for EPS calculation

All contingent restricted stock shares have been excluded from the calculation of the basic net income per common share because all such securities are anti-dilutive for the periods presented and the Company has excluded any restricted stock or restricted stock units that will never vest under the current program. The total weighted average number of shares related to the outstanding contingent shares excluded from the calculations of basic net income per share for the three and six-month periods ended June 30, 2014 and 2013 were 602,740 and 614,754, respectively.

f. Contingencies

The Company is from time to time involved in legal proceedings and other claims. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. The Company has not made any material changes in the accounting methodology used to establish its self-insured liabilities during the past three fiscal years.

A determination of the amount of reserves required, if any, for any contingencies is made after careful analysis of each individual issue. The required reserves may change due to future developments in each matter or changes in approach, such as a change in the settlement strategy in dealing with any contingencies, which may result in higher net loss.

g. Certain relationships and related transactions

Officer loans: On February 9, 2000, one of the Company's officers exercised 9,404 stock options. This officer paid the exercise price of the stock options and certain taxes that the Company paid on his behalf by giving the Company a non-recourse promissory note due in 2025 in the amount of \$329,163, bearing annual interest at 1% over the then-current federal funds rate announced from time to time by the Wall Street Journal, secured by the shares of the Company's common stock acquired through the exercise of the options and certain compensation due to this officer upon termination. As of June 30, 2014, the aggregate amount outstanding pursuant to this promissory note was \$452,995.

Consulting agreement with Sampen Corporation: The Company has an amended and restated consulting agreement with Sampen Corporation that it executed in May 2013. Sampen is a New York corporation owned by members of the immediate family of one of the Company's officers, and this officer is an employee of both the Company and of Sampen. The term of this consulting agreement is until December 31, 2015.

Pursuant to the terms of the Company's agreement with Sampen, Sampen provides one of its employees to the Company for such employee to serve as (i) until September 30, 2014, the Company's President, and (ii) from October 1, 2014, as the Company's President and Chief Executive Officer. The Company pays Sampen \$8,960 per month, plus an annual bonus, on a sliding scale, in an amount equal to a minimum of 25% of Sampen's annual base compensation then in effect if the results the Company actually attains for the year in question are 100% or more of the amount the Company budgeted at the beginning of the year, up to a maximum of 75% of Sampen's annual base compensation then in effect if the results the Company actually attains for the year in question are 120% or more of the amount the Company budgeted at the beginning of the year. The Company also pays Sampen, to cover the cost of the Company's use of Sampen's offices as an ancillary New York office and the attendant expenses and insurance costs, an amount equal to 16% of each monthly payment of base compensation.

h. Change in SEC filing status

On June 30, 2014, the Company exceeded the \$75.0 million public float threshold to trigger accelerated filer status with the SEC beginning in 2015. Consequently, as of January 1, 2015 the Company will no longer be a Smaller Reporting Company (SRC) and the Company's auditors will accordingly have to provide an auditor attestation on the Company's internal controls to be included in the Company's Form 10-K for the year ending December 31, 2014. Such Form 10-K will continue to provide scaled SRC-level disclosures; the accelerated filer disclosures will commence in the Company's Form 10-Q for the quarter ending March 31, 2015.

i. Discontinued operations

In December 2011, the Company's Board of Directors approved management's plan to sell the Armor Division. On March 8, 2012, the Company signed a non-binding letter of intent to sell the division to an Israeli public company. The sale of the assets was completed in June 2012 at a cash purchase price of \$50,000. Unless otherwise indicated, discontinued operations are not included in the Company's reported results.

The revenues and expenses of the discontinued operation are shown below.

REVENUES AND EXPENSES – DISCONTINUED	Six months ended June 30,	
	2014	2013
Revenues	\$ –	\$ 1,977
Cost of revenues, exclusive of amortization of intangibles	–	(2,252)
Selling and marketing expenses	–	1,330
General and administrative expenses	–	104,984
Total operating costs and expenses	–	104,062
Operating loss	–	(102,085)
Other income	–	55,971
Financial income, net	–	(40,816)
Total other income (expense)	–	15,155
Loss before income tax	–	(86,930)
Income tax expense	–	1,000
Net loss	\$ –	\$ (87,930)

NOTE 2: ACQUISITION OF UEC

In April 2014, the Company entered into a stock purchase agreement pursuant to the terms of which the Company purchased all of the outstanding membership interests of UEC Electronics, LLC ("UEC") from the seller of UEC, a company owned by UEC's two top managers (the "Acquisition"). UEC develops and manufactures electronic components and subsystems primarily for military, aerospace and industrial customers. The Company's management considered the purchase of UEC to be an accretive addition to the Battery and Power Systems Division.

The Acquisition was accounted for under the acquisition method accounting. Accordingly, all assets and liabilities acquired, along with the potential \$5.5 million earn out (with an estimated fair value of \$4.5 million at the acquisition date) were recorded at their estimated fair market values as of the date of acquisition. The liability for the earn out was recorded in other accounts payable and accrued expenses (\$2.2 million) and other long-term liabilities (\$2.3 million). The results of UEC's operations have been included in the consolidated financial statements commencing on the date of acquisition. The total consideration of \$36.7 million for the membership interests purchased consisted of (i) cash in the amount of \$28,000,000, and (ii) 775,000 shares of the Company's common stock, valued at \$4,216,000.

Based upon an outside valuation of tangible and intangible assets acquired, the Company has allocated the total cost of the Acquisition to UEC's net assets as follows (unaudited):

Tangible assets acquired	\$ 14,471,492
Less: Net working capital adjustment	(1,206,245)
Intangible assets	
Customer relationships	7,400,000
Contracts in place (backlog)	2,100,000
Technology	1,700,000
IPR&D	1,500,000
Management contract	400,000
Goodwill	15,105,680
Total asset value	41,470,927
Less: liabilities assumed	(4,754,927)
Net fair value of assets acquired	<u>\$ 36,716,000</u>

These fair value measurements are provisional based on third-party valuations that are currently under review and are subject to refinement for up to one year after the acquisition date based on additional information that may be obtained by the Company that existed as of the acquisition date.

Intangible assets in the amount of \$13.1 million have a weighted-average useful life of approximately five years.

In accordance with FASB ASC 350, "Goodwill and Other Intangible Assets," goodwill arising from acquisitions will not be amortized. In lieu of amortization, the Company is required to perform an annual impairment test. If the Company determines, through the impairment review process, that goodwill has been impaired, it will record the impairment charge in its statement of operations. The Company will also assess the impairment of goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The Company's condensed consolidated statements of comprehensive income include \$11.6 million of revenue and \$2.4 million of net income that was contributed by UEC in the first quarter of combined operation.

See Note 3 for pro forma financial information.

NOTE 3: PRO FORMA FINANCIAL INFORMATION

In April 2014, the Company acquired UEC, as more fully described in "Note 2 – Acquisition of UEC," above (the "Acquisition"). The following summary pro forma information includes the effects of the Acquisition on the operating results of the Company. The pro forma data for the six months ended June 30, 2014 and 2013 are presented as if the Acquisition had been completed on January 1, 2013. This pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the Acquisition taken place at the beginning of the period, nor do they purport to be indicative of the results of operations that will be obtained in the future.

PRO-FORMA FINANCIAL INFORMATION

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total revenues	\$ 27,829,186	\$ 30,263,940	\$ 62,706,523	\$ 57,857,804
Income – continuing operations before income tax	2,013,100	2,016,478	5,857,416	832,510
Net income	\$ 2,705,577	\$ 1,749,166	\$ 5,478,855	\$ 315,678
Basic net income per share	\$ 0.13	\$ 0.11	\$ 0.27	\$ 0.02
Diluted net income per share	\$ 0.13	\$ 0.10	\$ 0.26	\$ 0.02
Weighted average number of shares used in computing basic net income per share	20,311,830	16,329,199	20,667,242	16,247,667
Weighted average number of shares used in computing diluted net income per share	20,914,570	16,921,939	21,239,982	16,850,407

Pro forma results presented above reflect: (1) amortization relating to fair value estimates of intangible assets; (2) elimination of UEC expenses that were not part of the transaction; and (3) incremental interest expense on new long term debt incurred in connection with the transaction as though the transaction occurred as of January 1, 2013.

Additionally, acquisition related expenses of approximately \$940,000 recognized as general and administrative expenses in the three and six months ended June 30, 2014 are reflected in the pro forma results above as though they were recognized during the three months ended March 31, 2013 and have been removed from the pro forma results for the three and six months ended June 30, 2014.

NOTE 4: INVENTORIES

Inventories are stated at the lower of cost or market value. Cost is determined using the average cost method or the FIFO method. The Company periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume. Based on these evaluations, provisions are made in each period to write down inventory to its net realizable value. Inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and for market prices lower than cost. Inventories in continuing business segments decreased, from December 31, 2013, \$169,000 in the Training and Simulation Division and \$345,000 in the Battery and Power Systems Division for the product required to fulfill the current backlog. Inventories are composed of the following:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Raw and packaging materials	\$ 7,177,613	\$ 6,761,876
Work in progress	1,015,881	666,386
Finished products	1,366,974	2,646,504
Total:	<u>\$ 9,560,468</u>	<u>\$ 10,074,766</u>

NOTE 5: IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services. ASU 2014-09 is effective for public entities for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted and entities have the choice to apply ASU 2014-09 either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying ASU 2014-09 at the date of initial application and not adjusting comparative information. The Company is currently evaluating the requirements of ASU 2014-09 and has not yet determined its impact on the Company's consolidated financial statements.

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)." ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. ASU 2014-08 also requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. We have determined that the adoption of these changes will need to be considered in the Company's financial condition or results of operations in the event the Company initiates any of the transactions described above.

For information about previous new accounting pronouncements and the potential impact on the Company's Consolidated Financial Statements, see Note 2 of the Notes to Consolidated Financial Statements in the Company's 2013 Form 10-K.

NOTE 6: SEGMENT INFORMATION

a. The Company and its subsidiaries operate primarily in two continuing business segments and follow the requirements of FASB ASC 280-10. Additionally, the two segments are also treated by the Company as reporting units for goodwill impairment testing purposes under FASB ASC 350-20-35. The goodwill amounts associated with each of these reporting units was determined and valued when the specific businesses in the reportable segment were purchased.

The Company's reportable operating segments have been determined in accordance with the Company's internal management structure, which is organized based on operating activities. The accounting policies of the operating segments are the same as those used by the Company in the preparation of its annual financial statements. The Company evaluates performance based upon two primary factors, one is the segment's operating income and the other is the segment's contribution to the Company's future strategic growth.

b. The following is information about reported segment revenues, income (losses) and total assets for the six and three months ended June 30, 2014 and 2013:

	Training and Simulation Division	Battery and Power Systems Division	Corporate Expenses	Discontinued	Total Company
Six months ended June 30, 2014					
Revenues from outside customers	\$ 28,877,453	\$ 21,334,533	\$ –	\$ –	\$ 50,211,986
Depreciation and amortization expense ⁽¹⁾	(367,015)	(1,278,072)	(10,438)	–	(1,655,525)
Direct expenses ⁽²⁾	(22,739,239)	(17,736,091)	(4,223,145)	–	(44,698,475)
Segment net income (loss)	\$ 5,771,199	\$ 2,320,370	\$ (4,233,583)	\$ –	\$ 3,857,986
Financial income (expense)	(17,445)	(12,932)	(652,271)	–	(682,648)
Income tax expense	(65,511)	(13,800)	(299,250)	–	(378,561)
Net income (loss)	<u>\$ 5,688,243</u>	<u>\$ 2,293,638</u>	<u>\$ (5,185,104)</u>	<u>\$ –</u>	<u>\$ 2,796,777</u>
Segment assets ⁽³⁾	<u>\$ 48,016,363</u>	<u>\$ 69,050,430</u>	<u>\$ 419,530</u>	<u>\$ –</u>	<u>\$ 117,486,323</u>
Additions to long-lived assets	<u>\$ 518,571</u>	<u>\$ 29,664,064</u>	<u>\$ 2,956</u>	<u>\$ –</u>	<u>\$ 30,185,591</u>
Six months ended June 30, 2013					
Revenues from outside customers	\$ 30,474,108	\$ 13,975,865	\$ –	\$ –	\$ 44,449,973
Depreciation and amortization expense ⁽¹⁾	(485,079)	(633,918)	(14,020)	–	(1,133,017)
Direct expenses ⁽²⁾	(25,574,613)	(12,698,023)	(2,343,425)	–	(40,616,061)
Segment net income (loss)	\$ 4,414,416	\$ 643,924	\$ (2,357,445)	\$ –	\$ 2,700,895
Financial expense	(17,585)	(34,978)	(250,316)	–	(302,879)
Income tax expense	(55,652)	(74,000)	(299,250)	–	(428,902)
Net income (loss) continuing operations	\$ 4,341,179	\$ 534,946	\$ (2,907,011)	\$ –	\$ 1,969,114
Net loss discontinued operations	–	–	–	(87,930)	(87,930)
Net income (loss)	<u>\$ 4,341,179</u>	<u>\$ 534,946</u>	<u>\$ (2,907,011)</u>	<u>\$ (87,930)</u>	<u>\$ 1,881,184</u>
Segment assets ⁽³⁾	<u>\$ 54,349,090</u>	<u>\$ 28,270,758</u>	<u>\$ 130,158</u>	<u>\$ 77,761</u>	<u>\$ 82,827,767</u>
Additions to long-lived assets	<u>\$ 114,661</u>	<u>\$ 1,160,728</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,275,389</u>

	<u>Training and Simulation Division</u>	<u>Battery and Power Systems Division</u>	<u>Corporate Expenses</u>	<u>Discontinued</u>	<u>Total Company</u>
Three months ended June 30, 2014					
Revenues from outside customers	\$ 13,195,615	\$ 14,633,571	\$ –	\$ –	\$ 27,829,186
Depreciation and amortization expense ⁽¹⁾	(187,773)	(1,085,878)	(4,001)	–	(1,277,652)
Direct expenses ⁽²⁾	(10,055,402)	(11,900,786)	(2,068,889)	–	(24,025,077)
Segment net income (loss)	\$ 2,952,440	\$ 1,646,907	\$ (2,072,890)	\$ –	\$ 2,526,457
Financial income (expense)	(10,033)	48,787	(602,401)	–	(563,647)
Income tax expense	(30,500)	–	(149,625)	–	(180,125)
Net income (loss)	<u>\$ 2,911,907</u>	<u>\$ 1,695,694</u>	<u>\$ (2,824,916)</u>	<u>\$ –</u>	<u>\$ 1,782,685</u>
Three months ended June 30, 2013					
Revenues from outside customers	\$ 14,794,917	\$ 7,601,925	\$ –	\$ –	\$ 22,396,842
Depreciation and amortization expense ⁽¹⁾	(241,084)	(314,176)	(6,501)	–	(561,761)
Direct expenses ⁽²⁾	(12,148,150)	(6,600,975)	(1,227,762)	–	(19,976,887)
Segment net income (loss)	\$ 2,405,683	\$ 686,774	\$ (1,234,263)	\$ –	\$ 1,858,194
Financial income (expense)	(10,646)	26,463	(129,559)	–	(113,742)
Income tax expense	(30,500)	(74,000)	(149,625)	–	(254,125)
Net income (loss) continuing operations	\$ 2,364,537	\$ 639,237	\$ (1,513,447)	\$ –	\$ 1,490,327
Net loss discontinued operations	–	–	–	(13,187)	(13,187)
Net income (loss)	<u>\$ 2,364,537</u>	<u>\$ 639,237</u>	<u>\$ (1,513,447)</u>	<u>\$ (13,187)</u>	<u>\$ 1,477,140</u>

⁽¹⁾ Includes depreciation of property and equipment and amortization expenses of intangible assets.

⁽²⁾ Including, *inter alia*, sales and marketing, general and administrative.

⁽³⁾ Out of those amounts, goodwill in the Company's Training and Simulation and Battery and Power Systems Divisions totaled \$24,435,641 and \$21,758,040, respectively, as of June 30, 2014 and \$24,435,641 and \$6,321,396, respectively, as of June 30, 2013.

NOTE 7: FAIR VALUE MEASUREMENT

The carrying value of short term assets and liabilities in the accompanying condensed consolidated balance sheets for cash and cash equivalents, restricted collateral deposits, trade receivables, unbilled receivables, inventories, prepaid and other assets, trade payables, accrued expenses, deferred revenues and other liabilities as of June 30, 2014 and December 31, 2013, approximate fair value because of the short maturity of these instruments. The carrying amounts of long term debt approximates the estimated fair values at June 30, 2014, based upon the Company's ability to acquire similar debt at similar maturities

NOTE 8: BANK FINANCING

The Company's FAAC subsidiary has a \$15.0 million line of credit (the "Line of Credit") with Fifth Third Bank (the "Bank") at a rate of LIBOR plus 3.75%, secured by the assets and receivables of FAAC and by the assets and receivables of the Company and of the Company's subsidiary EFB. Additionally, the Company and EFB are guarantors of the Line of Credit.

On April 1, 2014, pursuant to an Amended and Restated Credit Agreement (the "Amended Credit Agreement"), the parties to the original credit agreement (the "Original Credit Agreement") agreed to amend the Line of Credit to add two term loans to it: an \$18.0 million 61-month senior term loan at a 2014 interest rate of 3.75% over LIBOR, and a \$4.5 million 61-month B term loan at a 2014 interest rate of 5.5% over LIBOR. Pursuant to a joinder agreement that took effect upon the Company's acquisition of UEC (the "Joinder Agreement"), UEC became a party to the Amended Credit Agreement as a co-borrower with FAAC, and provided a guaranty and security substantially identical to that granted by the Company and EFB. The Company, FAAC and EFB also entered into a patent and trademark security agreement with the Bank; upon effectiveness of the Joinder Agreement, UEC executed a substantially identical agreement.

Certain covenants contained in the Original Credit Agreement have been modified in the Amended Credit Agreement. Commencing with the fiscal quarter ending September 30, 2014, the Company's "Fixed Charge Coverage Ratio," determined on a combined basis with UEC and otherwise computed in the same manner as under the Original Credit Agreement, has been raised to 1.25 to 1 from 1.10 to 1. "Net Advances to Affiliates" as defined in the Original Credit Agreement are now defined with reference to FAAC or UEC, as the case may be, and may not increase by more than \$5,500,000 on a combined basis for both borrowers in any calendar year over a "Base Amount" to be determined by mutual agreement of FAAC and the Bank.

In addition, two new covenants have been added in the Amended Credit Agreement. First, UEC's earnings before interest, taxes, depreciation and amortization with certain add-backs ("EBITDA"), computed on a stand-alone basis, may not be less than \$4,500,000 for any trailing twelve-month period ending at the end of a fiscal quarter (a "Test Period") beginning with the Test Period ending September 30, 2014 and each succeeding fiscal quarter thereafter. Second, the ratio of "Combined Funded Indebtedness" (defined as all indebtedness (a) in respect of money borrowed, (b) evidenced by a note, debenture or other like written obligation to pay money, (c) in respect of rent or hire of property under leases or lease arrangements which under GAAP are required to be capitalized or (d) in respect of obligations under conditional sales or other title retention agreements, all as determined on a combined basis for FAAC and UEC) to "Combined Adjusted EBITDA" (defined as EBITDA of FAAC and UEC computed on a combined basis) may not exceed (a) 2.25 to 1.0 for the Test Period ending September 30, 2014 or any Test Period ending as of the end of any fiscal quarter thereafter prior to the fiscal quarter ending March 31, 2015 or (b) 2.00 to 1.0 for the Test Period ending March 31, 2015 or any Test Period ending as of the end of any fiscal quarter thereafter.

Pursuant to the requirements of the Amended Credit Agreement, the Company was required to deliver an Interest Rate Swap agreement fixing the interest rate of 1.37% on approximately \$9.0 million of the outstanding term loans associated with the acquisition of UEC. Accordingly, in April 2014, the Company entered into an interest rate swap for a notional amount of \$9 million. The expiration date of this interest rate swap is April 1, 2019. The unrealized \$85,000 expense to date associated with this derivative has been charged to Financial Expenses and will be adjusted through Financial Expense and other accounts payable and accrued expenses as the swap matures.

NOTE 9: SUBSEQUENT EVENT - COMMON STOCK OFFERING

In July 2014, the Company sold 2,860,000 shares of common stock in a public offering for an aggregate of \$10.0 million (before underwriting discounts, commission and expenses of the offering). The following day, the Company sold an additional 429,000 shares in this public offering for an aggregate of \$1.5 million (before underwriting discounts, commission and expenses of the offering).

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

This report contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve inherent risks and uncertainties. When used in this discussion, the words "believes," "anticipated," "expects," "estimates" and similar expressions are intended to identify such forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth elsewhere in this report. Please see "Risk Factors" in our Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission.

Arotech™ is a trademark and Electric Fuel® is a registered trademark of Arotech Corporation. All company and product names mentioned may be trademarks or registered trademarks of their respective holders. Unless the context requires otherwise, all references to us refer collectively to Arotech Corporation and its subsidiaries.

We make available through our internet website free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to such reports and other filings made by us with the SEC, as soon as practicable after we electronically file such reports and filings with the SEC. Our website address is www.arotech.com. The information contained in this website is not incorporated by reference in this report.

The following discussion and analysis should be read in conjunction with the interim financial statements and notes thereto appearing elsewhere in this Quarterly Report. We have rounded amounts reported here to the nearest thousand, unless such amounts are more than 1.0 million, in which event we have rounded such amounts to the nearest hundred thousand.

Executive Summary

We are a defense and security products and services company, engaged in two business areas: interactive simulation for military, law enforcement and commercial markets; and batteries and charging systems for the military. We operate in two business units:

- we develop, manufacture and market advanced high-tech multimedia and interactive digital solutions for use-of-force training and driving training of military, law enforcement, security and other personnel (our **Training and Simulation Division**); and
- we provide advanced battery solutions, innovative energy management and power distribution technologies and world-class product design and manufacturing services for the aerospace, defense, law enforcement and homeland security markets, and we manufacture and sell lithium and Zinc-Air batteries, for defense and security products, including our Soldier Wearable Integrated Power Equipment System (SWIPES)™ power hubs, and other military applications (our **Battery and Power Systems Division**).

Between 2002 and December 2011, we were also engaged in the production of armored vehicles and aviation armor, through our Armor Division. In December 2011, our Board of Directors approved management's plan to sell our Armor Division in order to focus on the more profitable and growth-oriented aspects of our business. We completed the sale of our Armor Division in June 2012.

Our results for the first three months of 2014 do not include the results of UEC Electronics, LLC, a South Carolina limited liability company that we purchased on April 1, 2014. See "Recent Developments – Acquisition of UEC Electronics, LLC," below.

Overview of Results of Operations*Acquisitions*

In the acquisition of subsidiaries, part of the purchase price is allocated to intangible assets and goodwill. Amortization of definite-lived intangible assets related to acquisition of subsidiaries is recorded based on the estimated expected life of the assets. Accordingly, for a period of time following an acquisition, we incur a non-cash charge related to amortization of definite-lived intangible assets in the amount of a fraction (based on the useful life of the definite-lived intangible assets) of the amount recorded as intangible assets. Such amortization charges continued during the first six months of 2014. We are required to review long-lived intangible assets and goodwill for impairment at least annually or whenever events or changes in circumstances indicate that carrying amount of the assets may not be recoverable. If we determine, through the impairment review process, that the carrying amount of these assets has been impaired, we must record the impairment charge in our statement of comprehensive income.

We incurred non-cash charges for amortization of intangible assets in the first six months of 2014 and 2013 in the amount of \$961,183 and \$550,112, respectively.

Restricted Shares, Restricted Stock Units and Options

In accordance with FASB ASC 505-50, we incurred, for the six months ended June 30, 2014 and 2013, compensation expense related to restricted stock units and restricted shares of approximately \$258,000 and \$167,000, respectively. Our directors received their annual restricted stock grants on April 1, 2014 in accordance with the terms of the directors' stock compensation plan.

Overview of Operating Performance and Backlog

Overall, our income from continuing operations before income tax expense for the six months ended June 30, 2014 was \$3.2 million on revenues of \$50.2 million, compared to \$2.4 million on revenues of \$44.4 million during the six months ended June 30, 2013. As of June 30, 2014, our overall backlog totaled \$74.1 million compared to \$65.7 million in the second quarter of 2013.

In our Training and Simulation Division, revenues decreased from approximately \$30.5 million in the first six months of 2013 to \$28.9 million in the first six months of 2014. As of June 30, 2014, our backlog for our Training and Simulation Division totaled \$52.4 million compared to \$51.1 million in the second quarter of 2013.

In our Battery and Power Systems Division, revenues increased from approximately \$14.0 million in the first six months of 2013 to approximately \$21.3 million in the first six months of 2014. As of June 30, 2014, our backlog for our Battery and Power Systems Division totaled \$21.7 million, including backlog related to our UEC acquisition, compared to \$14.6 million in the second quarter of 2013, which does not include any acquisition-related backlog.

The table below details the percentage of total recognized revenue by type of arrangement for the six months ended June 30, 2014 and 2013:

Type of Revenue	Six months ended June 30,	
	2014	2013
Sale of products	94.5%	93.8%
Maintenance and support agreements	3.3%	3.0%
Long term research and development contracts	2.2%	3.2%
Total	100.0%	100.0%

Recent Developments*Common Stock Offering*

In July 2014, we sold 2,860,000 shares of our common stock in a public offering for an aggregate of \$10.0 million (before underwriting discounts, commission and expenses of the offering). The following day, we sold an additional 429,000 shares in this public offering for an aggregate of \$1.5 million (before underwriting discounts, commission and expenses of the offering).

Acquisition of UEC Electronics, LLC

On April 1, 2014, we entered into and consummated a Membership Interest Purchase Agreement (the “Agreement”) to purchase all of the membership interests of UEC Electronics, LLC, a South Carolina limited liability company (“UEC”), from the seller of UEC (the “Seller”), a company principally owned by UEC’s two top managers (together with the Seller, the “Sellers”). UEC management will stay with UEC and will continue to manage UEC as a wholly-owned subsidiary of ours. We considered the purchase of UEC to be an accretive addition to our Battery and Power Systems Division.

UEC develops and manufactures electronic components and subsystems primarily for military, aerospace and industrial customers. UEC specializes in core, proprietary engineering capabilities in highly-demanded solution areas, including: (i) hybrid power generation systems, (ii) smart power subsystems for military vehicles and dismounted applications, and (iii) aircraft and missile systems support for cutting-edge weapons and communications technologies.

The initial acquisition price of UEC was \$28 million plus 775,000 shares of our common stock, as well as a potential earn-out of up to \$5.5 million over the next two calendar years, which earn-out is payable in cash or shares of our common stock at our option. The liability for the earn out was recorded in other accounts payable and accrued expenses (\$2.2 million) and other long-term liabilities (\$2.3 million). On April 1, 2014, the closing price of our common stock on the Nasdaq Global Market was \$5.44 per share, causing the common stock issued in the acquisition to be valued for accounting purposes at \$4.2 million, subject to potential reduction to reflect the fact that the stock being issued in the acquisition is unregistered and not freely tradable. The source of the cash used was \$22.5 provided by the financing transaction described below and \$5.5 million of our working capital. The amount of consideration was determined based upon arm’s-length negotiations between ourselves and the Sellers.

Our condensed consolidated statements of comprehensive income include \$11.6 million of revenue and \$2.4 million of net income that was contributed by UEC in the first quarter of combined operation.

Bank Financing

Our FAAC subsidiary has a \$15.0 million line of credit (the “Line of Credit”) with Fifth Third Bank (the “Bank”) at a rate of LIBOR plus 3.5%, secured by the assets and receivables of FAAC and by the assets and receivables of us and of our subsidiary EFB. Additionally, we and EFB are guarantors of the Line of Credit.

On April 1, 2014, pursuant to an Amended and Restated Credit Agreement (the “Amended Credit Agreement”), the parties to the original credit agreement (the “Original Credit Agreement”) agreed to amend the Line of Credit to add two term loans to it: an \$18.0 million 61-month senior term loan at a 2014 interest rate of 3.75% over LIBOR, and a \$4.5 million 61-month B term loan at a 2014 interest rate of 5.5% over LIBOR. Pursuant to a joinder agreement that took effect upon our acquisition of UEC (the “Joinder Agreement”), UEC became a party to the Amended Credit Agreement as a co-borrower with FAAC, and provided a guaranty and security substantially identical to that granted by us and EFB. We, FAAC, and EFB also entered into a patent and trademark security agreement with the Bank; upon effectiveness of the Joinder Agreement, UEC executed a substantially identical agreement.

Certain covenants contained in the Original Credit Agreement have been modified in the Amended Credit Agreement. Commencing with the fiscal quarter ending September 30, 2014, our “Fixed Charge Coverage Ratio,” determined on a combined basis with UEC and otherwise computed in the same manner as under the Original Credit Agreement, has been raised to 1.25 to 1 from 1.10 to 1. “Net Advances to Affiliates” as defined in the Original Credit Agreement are now defined with reference to FAAC or UEC, as the case may be, and may not increase by more than \$5,500,000 on a combined basis for both borrowers in any calendar year over a “Base Amount” to be determined by mutual agreement of FAAC and the bank.

In addition, two new covenants have been added in the Amended Credit Agreement. First, UEC’s earnings before interest, taxes, depreciation and amortization with certain add-backs (“EBITDA”), computed on a stand-alone basis, may not be less than \$4,500,000 for any trailing twelve-month period ending at the end of a fiscal quarter (a “Test Period”) beginning with the Test Period ending September 30, 2014 and each succeeding fiscal quarter thereafter. Second, the ratio of “Combined Funded Indebtedness” (defined as all indebtedness (a) in respect of money borrowed, (b) evidenced by a note, debenture or other like written obligation to pay money, (c) in respect of rent or hire of property under leases or lease arrangements which under GAAP are required to be capitalized or (d) in respect of obligations under conditional sales or other title retention agreements, all as determined on a combined basis for FAAC and UEC) to “Combined Adjusted EBITDA” (defined as EBITDA of FAAC and UEC computed on a combined basis) may not exceed (a) 2.25 to 1.0 for the Test Period ending September 30, 2014 or any Test Period ending as of the end of any fiscal quarter thereafter prior to the fiscal quarter ending March 31, 2015 or (b) 2.00 to 1.0 for the Test Period ending March 31, 2015 or any Test Period ending as of the end of any fiscal quarter thereafter.

Pursuant to the requirements of the Amended Credit Agreement, we were required to deliver an Interest Rate Swap agreement fixing the interest rate of 1.37% on approximately \$9.0 million of the outstanding term loans associated with the acquisition of UEC. Accordingly, in April 2014, we entered into an interest rate swap for a notional amount of \$9.0 million. The expiration date of this interest rate swap is April 1, 2019. The unrealized \$85,000 expense to date associated with this derivative has been charged to Financial Expenses and will be adjusted through Financial Expense as the swap matures.

Functional Currency

We consider the United States dollar to be the currency of the primary economic environment in which we and EFL operate and, therefore, both we and EFL have adopted and are using the United States dollar as our functional currency. Transactions and balances originally denominated in U.S. dollars are presented at the original amounts. Gains and losses arising from non-dollar transactions and balances are included in net income.

The majority of financial transactions of Epsilon is in New Israeli Shekels (“NIS”) and a substantial portion of Epsilon’s costs is incurred in NIS. Management believes that the NIS is the functional currency of Epsilon. Accordingly, the financial statements of Epsilon have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of comprehensive income amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive income/loss in stockholders’ equity.

Results of Operations

Preliminary Note

Results for the three and six months ended June 30, 2014 include the results of UEC for such period as a result of our acquisition of this company on April 1, 2014. The results of UEC were not included in our operating results for the three and six months ended June 30, 2013. Accordingly, the following period-to-period comparisons should not necessarily be relied upon as indications of future performance.

Three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Revenues. Revenues for the three months ended June 30, 2014 totaled \$27.8 million, compared to \$22.4 million in the comparable period in 2013, an increase of \$5.4 million, or 24.3%. In the second quarter of 2014, revenues were \$13.2 million for the Training and Simulation Division (compared to \$14.8 million in the second quarter of 2013, a decrease of \$1.6 million, or 10.8%, due primarily to the wind down of the first phase of our VCTS program (revenues generated by the second phase of our VCTS program are anticipated to commence in the third quarter of 2014)); and \$14.6 million for the Battery and Power Systems Division (compared to \$7.6 million in the second quarter of 2013, an increase of \$7.0 million, or 92.5%, due primarily to revenue generated by our new UEC subsidiary, offset by reduced revenue in our other U.S. subsidiary).

Cost of revenues. Cost of revenues totaled \$17.9 million during the second quarter of 2014, compared to \$16.1 million in the second quarter of 2013, an increase of \$1.8 million, or 11.0%, due primarily to the product mix of the reporting units, which included products sold at a higher margin. Cost of revenues was \$7.5 million for the Training and Simulation Division (compared to \$10.0 million in the second quarter of 2013, a decrease of \$2.5 million, or 24.9%, also due primarily to the product mix); and \$10.4 million for the Battery and Power Systems Division (compared to \$6.1 million in the second quarter of 2013, an increase of \$4.3 million, or 70.1%, due primarily to the increased revenue associated with our new UEC subsidiary, offset by the reduced product sales in our other U.S. subsidiary).

Research and development expenses. Research and development expenses for the second quarter of 2014 were \$936,000, compared to \$595,000 during the second quarter of 2013, an increase of \$342,000, or 57.4%, due primarily to continuing research on training systems and battery technologies for new products.

Selling and marketing expenses. Selling and marketing expenses for the second quarter of 2014 were \$1.5 million, compared to \$1.4 million in the second quarter of 2013, an increase of \$163,000, or 11.8%, due primarily to increased trade show representation and the sales efforts of both divisions, including additional expenses related to our addition of a new subsidiary.

General and administrative expenses. General and administrative expenses for the second quarter of 2014 were \$4.3 million, compared to \$2.5 million in the second quarter of 2013, an increase of \$1.8 million, or 73.0%, due primarily to \$600,000 in one-time, acquisition-related expenses, along with the additional, normally occurring expenses related to our addition of a new subsidiary.

Amortization of intangible assets. Amortization of intangible assets totaled \$887,000 in the second quarter of 2014, compared to \$274,000 in the second quarter of 2013, an increase of \$613,000, or 224.2%, due primarily to the additional \$811,000 in amortization expenses relating to our acquisition of UEC, offset by fully amortized acquisition related intangibles recorded in 2013 relating to other subsidiaries in our Battery and Power Systems Division.

Other income. Other income totaled \$197,000 in the second quarter of 2014, compared to other income of \$269,000 in the second quarter of 2013, a decrease of \$70,000, due primarily to the reduction in insurance proceeds (related to a fire in our offices in 2012) received in our Battery and Power Systems Division in 2013.

Financial expense, net. Financial expense totaled \$564,000 in the second quarter of 2014, compared to financial expense of \$114,000 in the second quarter of 2013, an increase of \$450,000, due primarily to increased long term debt interest relating to our acquisition of UEC.

Income taxes. We recorded \$180,000 in tax expense in the second quarter of 2014, compared to \$254,000 in tax expense in the second quarter of 2013, a decrease of \$74,000, or 29.1%. This expense mainly concerns "naked" credits ("naked" credits occur when deferred tax liabilities that are created by indefinite-lived assets such as goodwill cannot be used as a source of taxable income to support the realization of deferred tax assets). This amount includes the required adjustment of taxes due to the deduction of goodwill "naked" credits for U.S. federal taxes, which totaled \$150,000 and \$150,000 in non-cash expenses in the second quarter of 2014 and 2013, respectively.

Net income. Due to the factors cited above, we went from a net income of \$1.5 million in the second quarter of 2013 to a net income of \$1.8 million in the second quarter of 2014, an improvement of \$292,000.

Six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Revenues. Revenues for the six months ended June 30, 2014 totaled \$50.2 million, compared to \$44.4 million in the comparable period in 2013, an increase of \$5.8 million, or 13.0%. In the first six months of 2014, revenues were \$28.9 million for the Training and Simulation Division (compared to \$30.5 million in the first six months of 2013, a decrease of \$1.6 million, or 5.2%, due primarily to the wind down of the first phase of our VCTS program (revenues generated by the second phase of our VCTS program are anticipated to commence in the third quarter of 2014); and \$21.3 million for the Battery and Power Systems Division (compared to \$14.0 million in the first six months of 2013, an increase of \$7.3 million, or 52.7%, due primarily to revenue generated by our new UEC subsidiary, offset by reduced revenue in our other U.S. subsidiary).

Cost of revenues. Cost of revenues totaled \$32.9 million during the first six months of 2014, compared to \$32.9 million in the first six months of 2013, an increase of \$41,000, or 0.1%, due primarily to the product mix of the reporting units, which included products sold at a higher margin. Cost of revenues were \$17.7 million for the Training and Simulation Division (compared to \$21.4 million in the first six months of 2013, a decrease of \$3.7 million, or 17.6%, due primarily to the product mix) and \$15.3 million for the Battery and Power Systems Division (compared to \$11.4 million in the first six months of 2013, an increase of \$3.8 million, or 33.3%, due primarily to revenue generated by our new UEC subsidiary, offset by reduced revenue in our other U.S. subsidiary).

Research and development expenses. Research and development expenses for the first six months of 2014 were \$1.9 million, compared to \$1.1 million during the first six months of 2013, an increase of \$804,000, or 71.2%, due primarily to continuing research on training systems and battery technologies for new products.

Selling and marketing expenses. Selling and marketing expenses for the first six months of 2014 were \$3.0 million, compared to \$2.6 million in the first six months of 2013, an increase of \$357,000, or 13.6%, due primarily to increased trade show representation and the sales efforts of both divisions, including additional expenses related to our addition of a new subsidiary.

General and administrative expenses. General and administrative expenses for the first six months of 2014 were \$7.8 million, compared to \$4.9 million in the first six months of 2013, an increase of \$3.0 million, or 60.8%, due primarily to \$1.1 million in one-time, acquisition related expenses, along with increased corporate salary and benefits expenses and the additional, normally occurring expenses related to our addition of a new subsidiary.

Amortization of intangible assets. Amortization of intangible assets totaled \$961,000 in the first six months of 2014, compared to \$550,000 in the first six months of 2013, an increase of \$411,000, or 74.7%, due primarily to the additional \$811,000 in amortization expenses relating to our acquisition of UEC, offset by fully amortized acquisition related intangibles recorded in 2013 relating to other subsidiaries in our Simulation and Battery and Power Systems Divisions.

Other income. Other income totaled \$229,000 in the first six months of 2014, compared to other income of \$269,000 in the first six months of 2013, a decrease of \$39,000, due primarily to a reduction in insurance proceeds (related to a fire in our offices in 2012) received in our Battery and Power Systems Division in 2013.

Financial expense, net. Financial expense totaled \$683,000 in the first six months of 2014, compared to financial expense of \$303,000 in the first six months of 2013, an increase of \$380,000, due primarily to increased long term interest and bank financing fees relating to our acquisition of UEC, offset by a decrease in corporate interest and bank charges in the first quarter of 2014.

Income taxes. We recorded \$379,000 in tax expense in the first six months of 2014, compared to \$429,000 in tax expense in the first six months of 2013, a decrease of \$50,000, or 11.7%, mainly concerning “naked” credits (“naked” credits occur when deferred tax liabilities that are created by indefinite-lived assets such as goodwill cannot be used as a source of taxable income to support the realization of deferred tax assets). This amount includes the required adjustment of taxes due to the deduction of goodwill “naked” credits for U.S. federal taxes, which totaled \$299,000 and \$299,000, respectively, in non-cash expenses in the first six months of 2014 and 2013.

Net income. Due to the factors cited above, we went from a net income of \$2.0 million in the first six months of 2013 to a net income of \$2.8 million in the first six months of 2014, an improvement of \$828,000.

Liquidity and Capital Resources

As of June 30, 2014, we had \$972,000 in cash and \$249,000 in restricted collateral deposits, as compared to December 31, 2013, when we had \$5.8 million in cash and \$498,000 in restricted collateral deposits. We also had \$7.6 million in available, unused bank lines of credit with our main bank as of June 30, 2014, under a \$15.0 million credit facility under our FAAC subsidiary, described below.

We and FAAC maintain a \$15.0 million credit facility with FAAC’s primary bank that is secured by Arotech’s assets and the assets of our other domestic subsidiaries and guaranteed by Arotech and our other domestic subsidiaries, at a rate of 3.5% over LIBOR. As discussed under “Recent Developments,” above, we renegotiated the credit facility with our primary bank. These changes were effective April 1, 2014. The updated credit facility expires May 31, 2016. Additionally, on April 1, 2014 we added two term loans to the credit facility: an \$18.0 million 61-month senior term loan at a 2014 interest rate of 3.75% over LIBOR, and a \$4.5 million 61-month B term loan at a 2014 interest rate of 5.5% over LIBOR.

The credit agreement with FAAC’s primary bank contains certain financial covenants. Commencing with the fiscal quarter ending September 30, 2014, our “Fixed Charge Coverage Ratio,” determined on a combined basis with UEC and otherwise computed in the same manner as under the Original Credit Agreement, has been raised to 1.25 to 1 from 1.10 to 1. “Net Advances to Affiliates” as defined in the Original Credit Agreement are now defined with reference to FAAC or UEC, as the case may be, and may not increase by more than \$5,500,000 on a combined basis for both borrowers in any calendar year over a “Base Amount” to be determined by mutual agreement of FAAC and the bank.

In addition, UEC's earnings before interest, taxes, depreciation and amortization with certain add-backs ("EBITDA"), computed on a stand-alone basis, may not be less than \$4,500,000 for any trailing twelve-month period ending at the end of a fiscal quarter (a "Test Period") beginning with the Test Period ending September 30, 2014 and each succeeding fiscal quarter thereafter. Second, the ratio of "Combined Funded Indebtedness" (defined as all indebtedness (a) in respect of money borrowed, (b) evidenced by a note, debenture or other like written obligation to pay money, (c) in respect of rent or hire of property under leases or lease arrangements which under GAAP are required to be capitalized or (d) in respect of obligations under conditional sales or other title retention agreements, all as determined on a combined basis for FAAC and UEC) to "Combined Adjusted EBITDA" (defined as EBITDA of FAAC and UEC computed on a combined basis) may not exceed (a) 2.25 to 1.0 for the Test Period ending September 30, 2014 or any Test Period ending as of the end of any fiscal quarter thereafter prior to the fiscal quarter ending June 30, 2015 or (b) 2.00 to 1.0 for the Test Period ending June 30, 2015 or any Test Period ending as of the end of any fiscal quarter thereafter.

Pursuant to the requirements of the Amended Credit Agreement, we were required to deliver an Interest Rate Swap agreement fixing the interest rate of 1.37% on approximately \$9.0 million of the outstanding term loans associated with the acquisition of UEC. Accordingly, in April 2014, we entered into an interest rate swap for a notional amount of \$9.0 million. The expiration date of this interest rate swap is April 1, 2019. The unrealized \$85,000 expense to date associated with this derivative has been charged to Financial Expenses and will be adjusted through Financial Expense as the swap matures.

We used available funds in the six months ended June 30, 2014 primarily for working capital needs, the acquisition of UEC and investment in fixed assets. We purchased approximately \$908,000 of fixed assets during the six months ended June 30, 2014 along with \$1.0 million in net fixed assets purchased in the acquisition of UEC. Our net fixed assets amounted to \$6.2 million at quarter end.

Net cash provided by (used in) operating activities for the six months ended June 30, 2014 and 2013 was \$(736,000) and \$1.2 million, respectively, a net change of \$1.9 million. This difference was due primarily an increase in net income of \$916,000 plus a change of \$612,000 in non-cash charges offset by \$(3.5) million in working capital needs for 2014 versus the same period in 2013.

Net cash used in investing activities for the six months ended June 30, 2014 and 2013 was \$29.8 million and \$1.5 million, respectively, a net change of \$28.3 million. This difference was due to the \$29.1 million acquisition of our UEC subsidiary along with the purchase of \$908,000 of fixed assets in our other subsidiaries. Net cash provided by (used in) financing activities for the six months ended June 30, 2014 and 2013 was \$25.7 million and \$(450,000), respectively, a net change of \$26.1 million. The increase in 2014 of cash provided by financing activities was due to the \$22.5 million in new long term debt associated with the acquisition of UEC and additional short term bank credit of \$3.4 million, offset by the repayment of \$643,000 in long term debt.

As of June 30, 2014, we had approximately \$5.1 million in short-term bank debt under our credit facility and \$23.8 million in long-term loans outstanding, which included \$4.3 million in current debt and \$19.5 million in long term debt. This is in comparison to December 31, 2013 when we had no short-term bank debt under our credit facility and \$1.9 million in long-term loans outstanding which included \$95,000 in current debt and \$1.8 million in long term debt.

Subject to all of the reservations regarding "forward-looking statements" set forth above, we believe that our present cash position, anticipated cash flows from operations and lines of credit should be sufficient to satisfy our current estimated cash requirements through the remainder of the year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Exchange Rate Risk

Since a significant part of our sales and expenses are denominated in U.S. dollars, we have experienced only minor foreign exchange gains and losses to date, and do not expect to incur significant gains and losses in 2014. Certain of our research, development and production activities are carried out by our Israeli subsidiary, Epsilon-EFL, at its facility in Beit Shemesh, and accordingly we have sales and expenses in NIS. Additionally, our Epsilon-EFL subsidiary operates primarily in NIS. However, the majority of our sales are made outside Israel in U.S. dollars, and a substantial portion of our costs are incurred in U.S. dollars. Therefore, our functional currency is the U.S. dollar.

While we conduct our business primarily in U.S. dollars, some of our agreements are denominated in foreign currencies, which could have an adverse effect on the revenues that we incur in foreign currencies. We do not hold or issue derivative financial instruments for trading or speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1A. RISK FACTORS.

For information regarding our risk factors, please refer to Exhibit 99.3 to our Current Report on Form 8-K filed on April 1, 2014. We do not believe that there have been any material changes in the risk factors disclosed therein, except that in the risk factor entitled “*A significant portion of our operations takes place in Israel, and we could be adversely affected by the economic, political and military conditions in that region*” the fourth paragraph is being revised to read as follows:

Israel withdrew unilaterally from the Gaza Strip and certain areas in northern Samaria in 2005. Thereafter Hamas, an Islamist terrorist group responsible for many attacks, including missile strikes against Israeli civilian targets, won the majority of the seats in the Parliament of the Palestinian Authority in January 2006 and took control of the entire Gaza Strip, by force, in June 2007. Since then, Hamas and other Palestinian movements have launched thousands of missiles from the Gaza strip into civilian targets in southern Israel. In late 2008, a sharp increase in rocket fire from Gaza on Israel’s western Negev region, extending as far as 25 miles into Israeli territory and disrupting most day-to-day civilian activity in the proximity of the border with the Gaza Strip, prompted the Israeli government to launch military operations against Hamas that lasted approximately three weeks. Israel declared a unilateral ceasefire in January 2009, which substantially diminished the frequency of, but did not eliminate, Hamas rocket attacks against Israeli cities. In November 2012, following an increase in rocket attacks and hostile activity originating from the Gaza Strip, the Israeli government launched an air attack on Hamas. Rockets were fired into Israel extending as far as Tel Aviv and Jerusalem. After seven days, a ceasefire was agreed to by Israel and Hamas. This was followed by a period of relative calm that continued until July 2014, when rocket attacks resumed, and Israel began experiencing another round of armed conflict with Hamas in the Gaza Strip, with missiles reaching throughout Israel and Israeli ground forces engaged in operations within the Gaza Strip. The landing of one rocket about a mile from Israel’s primary international airport on July 22, 2014 caused the Federal Aviation Administration to prohibit landings of U.S.-based carriers into Ben Gurion International Airport for a period of approximately 48 hours.

ITEM 6. EXHIBITS.

The following documents are filed as exhibits to this report:

<u>Exhibit Number</u>	<u>Description</u>
10.1	Real Estate Lease dated October 7, between UEC Electronics, LLC and UEC Properties LLC, in respect of 5914-18 Howard Street, Hanahan, South Carolina
10.2	Real Estate Lease dated October 7, 2011 between UEC Electronics, LLC and Small Brothers, LLC in respect of 2261 Technical Parkway, North Charleston, South Carolina
10.3	Real Estate Lease dated January 30, 2012 between UEC Electronics, LLC and David A. Molony in respect of 2230 Technical Parkway, North Charleston, South Carolina
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Dated: August 14, 2014

AROTECH CORPORATION

By: /s/ Robert S. Ehrlich
Name: Robert S. Ehrlich
Title: Chairman and CEO
(Principal Executive Officer)

By: /s/ Thomas J. Paup
Name: Thomas J. Paup
Title: Senior Vice President – Finance and CFO
(Principal Financial Officer)

Commercial Lease Agreement

This Commercial Lease Agreement ("Lease") is made and effective January 01, 2010 by and between UEC Properties, LLC ("Landlord") and UEC Electronic, LLC ("Tenant").

Landlord is the owner of land and improvements commonly known and numbered as 5914 and 5918 Howard Street, Hanahan, S.C. 29410 and legally described as follows (the "Buildings"): Letters A thru F-A, Book M, Page 155, Berkely County, South Carolina .

Landlord makes available for lease; the buildings, parking and exterior grounds designated as building 1 & 2 at 5914 and 5918 Howard Street, Hanahan, S.C. 29410 (the "Leased Premises").

Landlord desires to lease the Leased Premises to Tenant, and Tenant desires to lease the Leased Premises from Landlord for the term, at the rental and upon the covenants, conditions and provisions herein set forth.

THEREFORE, in consideration of the mutual promises herein, contained and other good and valuable consideration, it is agreed:

1. Term.

A. Landlord hereby leases the Leased Premises to Tenant, and Tenant hereby leases the same from Landlord, for an "Initial Term" beginning 1/01/2010 and ending 12/31/2014. Landlord shall use its best efforts to give Tenant possession as nearly as possible at the beginning of the Lease term. If Landlord is unable to timely provide the Leased Premises, rent shall abate for the period of delay. Tenant shall make no other claim against Landlord for any such delay.

B. Tenant may renew the Lease for one extended term of 3 years. Tenant shall exercise such renewal option, if at all, by giving written notice to Landlord not less than ninety (90) days prior to the expiration of the Initial Term. The renewal term shall be at the rental set forth below and otherwise upon the same covenants, conditions and provisions as provided in this Lease.

2. Rental.

A. Tenant shall pay to Landlord during;

- the initial Term rental of \$259,700 per year for year 2010, payable in installments of \$21,642 per month,
- during the following 1 year Term rental of \$270,088 per year for year 2011, payable in installments of \$22,507 per month,
- during the following 1 year Term rental of \$280,892 per year for year 2012, payable in installments of \$23,408 per month,
- during the following 1 year Term rental of \$292,127 per year for years 2013, payable in installments of \$24,344 per month,
- during the following 1 year Term rental of \$303,812 per year for years 2014, payable in installments of \$25,318 per month.
- Subsequent years Term rental will be at the 2014 rate plus a 4% annual increase until amended by mutual agreement between the Landlord and the Tenant.

Each installment payment shall be due in advance on the first day of each calendar month during the lease term to Landlord at 5914 Howard Street, Hanahan, S.C.29410 or at such other place designated by written notice from Landlord or Tenant. The rental payment amount for any partial calendar months included in the lease term shall be prorated on a daily basis.

3. Use

(reserved)

4. Sublease and Assignment.

Tenant shall have the right without Landlord's consent, to assign this Lease to a corporation with which Tenant may merge or consolidate , to any subsidiary of Tenant, to any corporation under common control with Tenant, or to a purchaser of substantially all of Tenant's assets . Except as set forth above, Tenant shall not sublease all or any part of the Leased Premises, or assign this Lease in whole or in part without Landlord's consent, such consent not to be unreasonably withheld or delayed.

5. Repairs.

During the Lease term, Tenant shall make, at Tenant's expense, all necessary repairs to the Leased Premises. Repairs shall include such items as routine repairs of floors, walls , ceilings, and other parts of the Leased Premises damaged or worn through normal occupancy, except for major mechanical systems or the roof, subject to the obligations of the parties otherwise set forth in this Lease.

6. Alterations and Improvements.

Tenant, at Tenant's expense, shall have the right following Landlord's consent to remodel, redecorate, and make additions, improvements and replacements of and to all or any part of the Leased Premises from time to time as Tenant may deem desirable, provided the same are made in a workmanlike manner and utilizing good quality materials. Tenant shall have the right to place and install personal property, trade fixtures, equipment and other temporary installations in and upon the Leased Premises, and fasten the same to the premises. All personal property, equipment, machinery, trade fixtures and temporary installations, whether acquired by Tenant at the commencement of the Lease term or placed or installed on the Leased Premises by Tenant thereafter, shall remain Tenant's property free and clear of any claim by Landlord. Tenant shall have the right to remove the same at any time during the term of this Lease provided that all damage to the Leased Premises caused by such removal shall be repaired by Tenant at Tenant's expense.

7. Property Taxes.

Tenant shall pay, prior to delinquency, all general real estate taxes and installments of special assessments coming due during the Lease term on the Leased Premises, and all personal property taxes with respect to Tenant's personal property, if any, on the Leased Premises.

8. Insurance.

A. If the Leased Premises or any other part of the Building is damaged by fire or other casualty resulting from any act or negligence of Tenant or any of Tenant's agents, employees or invitees, rent shall not be diminished or abated while such damages are under repair, and Tenant shall be responsible for the costs of repair not covered by insurance.

B. Landlord shall maintain fire and extended coverage insurance on the Building and the Leased Premises in such amounts as Landlord shall deem appropriate. Tenant shall be responsible, at its expense, for fire and extended coverage insurance on all of its personal property, including removable trade fixtures, located in the Leased Premises.

C. Tenant and Landlord shall, each at its own expense, maintain a policy or policies of comprehensive general liability insurance with respect to the respective activities of each in the Building with the premiums thereon fully paid on or before due date, issued by and binding upon some insurance company approved by Landlord, such insurance to afford minimum protection of not less than \$1,000,000 combined single limit coverage of bodily injury, property damage or combination thereof. Landlord shall be listed as an additional insured on Tenant's policy or policies of comprehensive general liability insurance, and Tenant shall provide Landlord with current

Certificates of Insurance evidencing Tenant's compliance with this Paragraph. Tenant shall obtain the agreement of Tenant's insurers to notify Landlord that a policy is due to expire at least (10) days prior to such expiration. Landlord shall not be required to maintain insurance against thefts within the Leased Premises or the Building.

9. Utilities.

Tenant shall pay all charges for water, sewer, gas, electricity, telephone and other services and utilities used by Tenant on the Leased Premises during the term of this Lease unless otherwise expressly agreed in writing by Landlord. Tenant shall pay such amounts within fifteen (15) days of invoice. Tenant acknowledges that the Leased Premises are designed to provide standard office use electrical facilities and standard office lighting.

10. Signs.

Following Landlord's consent, Tenant shall have the right to place on the Leased Premises, at locations selected by Tenant, any signs which are permitted by applicable zoning ordinances and private restrictions. Landlord may refuse consent to any proposed signage that is in Landlord's opinion too large, deceptive, unattractive or otherwise inconsistent with or inappropriate to the Leased Premises or use of any other tenant. Landlord shall assist and cooperate with Tenant in obtaining any necessary permission from governmental authorities or adjoining owners and occupants for Tenant to place or construct the foregoing signs. Tenant shall repair all damage to the

Leased Premises resulting from the removal of signs installed by Tenant.

11. Entry.

Landlord shall have the right to enter upon the Leased Premises at reasonable hours to inspect the same, provided Landlord shall not thereby unreasonably interfere with Tenant's business on the Leased Premises.

12. Parking.

During the term of this Lease, Tenant shall have the non-exclusive use in common with Landlord, their guests and invitees, of the non reserved common automobile parking areas, driveways, and footways , subject to rules and regulations for the use thereof as prescribed from time to time by Landlord.

13. Damage and Destruction.

Subject to Section 8 A. above, if the Leased Premises or any part thereof or any appurtenance thereto is so damaged by fire, casualty or structural defects that the same cannot be used for Tenant's purposes, then Tenant shall have the right within ninety (90) days following damage to elect by notice to Landlord to terminate this Lease as of the date of such damage. In the event of minor damage to any part of the Leased Premises, and if such damage does not render the Leased Premises unusable for Tenant's purposes, Tenant shall promptly repair such damage at the cost of the Landlord.

14. Default.

If default shall at any time be made by Tenant in the payment of rent when due to Landlord as herein provided, and if said default shall continue for fifteen (15) days after written notice thereof shall have been given to Tenant by Landlord, or if default shall be made in any of the other covenants or conditions to be kept, observed and performed by Tenant, and such default shall continue for thirty (30) days after notice thereof in writing to Tenant by Landlord without correction thereof then having been commenced and thereafter diligently prosecuted, Landlord may declare the term of this Lease ended and terminated by giving Tenant written notice of such intention, and if possession of the Leased Premises is not surrendered, Landlord may reenter said premises. Landlord shall have, in addition to the remedy above provided, any other right or remedy available to Landlord on account of any Tenant default, either in law or equity. Landlord shall use reasonable efforts to mitigate its damages.

15. Quiet Possession.

Landlord covenants and warrants that upon performance by Tenant of its obligations hereunder, Landlord will keep and maintain Tenant in exclusive, quiet, peaceable and undisturbed and uninterrupted possession of the Leased Premises during the term of this Lease.

16. Condemnation.

If any legally, constituted authority condemns the Building or such part thereof which shall make the Leased Premises unsuitable for leasing, this Lease shall cease when the public authority takes possession, and Landlord and Tenant shall account for rental as of that date. Such termination shall be without prejudice to the rights of either party to recover compensation from the condemning authority for any loss or damage caused by the condemnation . Neither party shall have any rights in or to any award made to the other by the condemning authority.

17. Subordination.

Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust or other lien presently existing or hereafter arising upon the Leased Premises , or upon the Building and to any renewals, refinancing and extensions thereof, but Tenant agrees that any such mortgagee shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Landlord is hereby irrevocably vested with full power and authority to subordinate this Lease to any mortgage, deed of trust or other lien now existing or hereafter placed upon the Leased Premises of the Building, and Tenant agrees upon demand to execute such further instruments subordinating this Lease or attorning to the holder of any such liens as Landlord may request. In the event that Tenant should fail to execute any instrument of subordination herein required to be executed by Tenant promptly as requested, Tenant hereby irrevocably constitutes Landlord as its attorney-in-fact to execute such instrument in Tenant's name, place and stead, it being agreed that such power is one coupled with an interest. Tenant agrees that it will from time to time upon request by Landlord execute and deliver to such persons as Landlord shall request a statement in recordable form certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as so modified), stating the dates to which rent and other charges payable under this Lease have been paid, stating that Landlord is not in default hereunder (or if Tenant alleges a default stating the nature of such alleged default) and further stating such other matters as Landlord shall reasonably require.

18. Notice.

Any notice required or permitted under this Lease shall be deemed sufficiently given or served if sent by United States certified mail, return receipt requested, addressed as follows:

If to Landlord to:

Phil Ufkes
5914 Howard Street, Hanahan, S.C. 29410
[Landlord]

If to Tenant to:

Contracts Dept.
UEC Electronics, LLC
5914 Howard Street, Hanahan, S.C. 29410
[Tenant]

Landlord and Tenant shall each have the right from time to time to change the place notice is to be given under this paragraph by written notice thereof to the other party.

19. Brokers.

Tenant represents that Tenant was not shown the Premises by any real estate broker or agent and that Tenant has not otherwise engaged in, any activity which could form the basis for a claim for real estate commission, brokerage fee, finder's fee or other similar charge, in connection with this Lease.

20. Waiver.

No waiver of any default of Landlord or Tenant hereunder shall be implied from any omission to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated . One or more waivers by Landlord or Tenant shall not be construed as a waiver of a subsequent breach of the same covenant, term or condition .

21. Memorandum of Lease.

The parties hereto contemplate that this Lease should not and shall not be filed for record, but in lieu thereof, at the request of either party, Landlord and Tenant shall execute a Memorandum of Lease to be recorded for the purpose of giving record notice of the appropriate provisions of this Lease.

22. Headings.

The headings used in this Lease are for convenience of the parties only and shall not be considered in interpreting the meaning of any provision of this Lease.

23. Successors.

The provisions of this Lease shall extend to and be binding upon Landlord and Tenant and their respective legal representatives, successors and assigns.

24. Consent.

Landlord shall not unreasonably withhold or delay its consent with respect to any matter for which Landlord's consent is required or desirable under this Lease.

25. Performance.

If there is a default with respect to any of Landlord's covenants, warranties or representations under this Lease, and if the default continues more than fifteen (15) days after notice in writing from Tenant to Landlord specifying the default, Tenant may, at its option and without affecting any other remedy hereunder, cure such default and deduct the cost thereof from the next accruing installment or installments of rent payable hereunder until Tenant shall have been fully reimbursed for such expenditures, together with interest thereon at a rate equal to the lesser of twelve percent (12%) per annum or the then highest lawful rate. If this Lease terminates prior to Tenant's receiving full reimbursement, Landlord shall pay the unreimbursed balance plus accrued interest to Tenant on demand.

26. Compliance with Law.

Tenant shall comply with all laws, orders, ordinances and other public requirements now or hereafter pertaining to Tenant's use of the Leased Premises. Landlord shall comply with all laws, orders, ordinances and other public requirements now or hereafter affecting the Leased Premises.

27. Final Agreement.

This Agreement terminates and supersedes all prior understandings or agreements on the subject matter hereof. This Agreement may be modified only by a further writing that is duly executed by both parties.

28. Governing Law.

This Agreement shall be governed, construed and interpreted by, through and under the Laws of the State of South Carolina.

IN WITNESS WHEREOF, the parties have executed this Lease as of the day and year first above written.

/s/ Philip J. Ufkes
Philip J. Ufkes, Landlord, UEC Properties, LLC

/s/ Lisa Perkins
Lisa Perkins, Contracts Manager, UEC Electronics, LLC



COMMERCIAL LEASE

In consideration of the covenants herein contained, **UEC Electronics, LLC**, hereinafter called "Tenant" and **Small Brothers, LLC**, Landlord, or Agent for the Landlord, hereinafter called "Landlord", agree as follows:

For the period of time beginning on **November 1, 2011**, and ending at midnight on **October 31, 2014**, Landlord hereby grants to Tenant the sole and exclusive right to lease the real property known as:

Lot **N/A** Block **N/A** Section **N/A** Subdivision **N/A**

Address **2261 Technical Pkwy Unit A**

Tax Map # **475-03-00-008** City **N. Charleston** Zip **29415**

County of **Charleston**, State of South Carolina.

THE LANDLORD TENANT IS LICENSED UNDER THE LAWS OF SOUTH CAROLINA AS A REAL ESTATE LICENSEE.

- 1. RENT. Tenant shall pay to the Landlord, a Monthly Base Rental and Additional Rent as follows:
 - (a) MONTHLY BASE RENTAL Tenant shall pay a Monthly Base Rental to Landlord for each month during the term of this lease or any renewal thereof, in advance on or before the **10th** day of each month during the term of this Agreement. The amount of the Monthly Base Rental for the first year of this Agreement shall be **Seven Thousand Fifteen 67/100** Dollar (**\$7,015.67**).
 - (b) The rental for the first month of this lease shall be paid at the date of execution thereof. The Monthly Base Rental shall be increased as Follows **N/A**

- (c) ADDITIONAL RENT. In addition to the Monthly Base Rental and any accumulative adjustments, Tenant shall pay Additional Rent as indicated herein below (check all that apply):
 - 1. PROPERTY TAXES (choose one):
 - TAX INCREASE. Tenant shall pay annually a sum equal to any increase in real estate taxes (ad valorem, special assessments and any other government charges to include any solid waste disposal user fees) over those assessed for the year of 2011, on a pro rata basis. Presentation of copies of tax bills shall constitute sufficient evidence of additional rent due and shall be payable within fifteen (15) days after receipt thereof. Tenant shall be charged additional rent only for the portion of the calendar year during which this lease was in effect.
 - NET LEASE. Tenant shall pay annually the real estate taxes (ad valorem, special assessments and any other government charges) upon presentation by the Landlord of tax bills on the property. These charges shall be payable by the Tenant within fifteen (15) days after receipt thereof. So long as Tenant shall not be in default, Tenant shall be responsible for the portion of the calendar year during which this lease was in effect.
 - 2. PERCENTAGE OF GROSS SALES. Tenant shall pay annually a sum equal to **N/A** % of gross sales, as herein defined, in excess of _____ Dollars (\$ **N / A**), In any lease year. Gross sales as used herein shall be the amount of the gross sales as indicated on the Tenant's South Carolina Tax Report (Form ST-3). Tenant shall deliver to Landlord a certified copy of each

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Vanguard Development Group, LLC 180 Meeting Street Charleston, SC29401 Phone: 843.720.2890 Form 400 PAGE 1 OF 10
UEC Electronics Fax: 843.720.2895

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monthly report within ten (10) days after report is due to the South Carolina Tax Commission. Lease year as used herein shall be the period of one year's duration commencing on the effective day of the lease and each successive period of one full year commencing on the anniversary of said effective date. Tenant shall deliver to Landlord within days following the end of each lease year written statement signed and certified by Tenant to be a true and correct statement of the amount of gross sales during the preceding lease year. Tenant shall at the same time pay the amount of Additional Rent due (if any) as a percentage of the excess over the amount herein stated.

3. COMMON AREA MAINTENANCE. Tenant shall pay on the first day of each month, in advance, a fee equal to the Tenant's pro rata share of the cost of maintaining common areas. Tenant's common area maintenance fee for the remaining portion of the calendar year in which this lease became effective shall be _____ Dollars (\$ N/A _____) per month. Said fee shall be adjusted at the end of each calendar year to reflect any increase in cost during said year. Common areas include all areas used in common with the other Tenants of the property of which the Premises is a part, for the convenience or welfare of all tenants' customers collectively. Common area maintenance shall mean and include all amounts paid or incurred by Landlord for operating, managing and maintaining the Property, including the buildings, improvements and common area facilities of the Property. In a manner deemed by Landlord reasonable and appropriate and for the best interest of the Property, including, without limitation, all costs and expenses of 1) operating, repairing, lighting, cleaning, painting and securing the Property and the common areas of the Property, and water and sewer charges; 2) paying all personnel employed on a part time basis or full time basis in the operation, maintenance, or repair of the Property, including the common areas; 3) removing rubbish and debris from the Property; 4) repair and maintenance of walkway, landscaping, and lighting facilities, other than such costs and expenses of a capital nature; 5) management fees paid to the property management firm to manage the Property; 6) planting, replanting and replacing flowers, shrubbery, and planters and the supplies required therefore; 7) all utilities used in connection with the operation of the common area facilities; 8) seasonal decorations, including installation and removal thereof and electricity therefore; 9) leasing or renting equipment used in connection with the operation and maintenance of the common areas; 10) fountain maintenance and repairs, when applicable; 11) security, fire and crime prevention services; 12) utility charges for the common area-including without limitation, storm water, sewer and pollution control fees.

4. INSURANCE. Landlord shall keep the Premises adequately insured at a reasonable rate as indicated below (choose one):
 INSURANCE INCREASE. Tenant shall pay annually a sum equal to any increase in insurance premium for the year of 2011, on a pro rata basis. Presentation of copies of insurance bills shall constitute sufficient evidence of additional rent due and shall be payable within fifteen (15) days after receipt thereof. Tenant shall be charged additional rent only for the portion of the calendar year during which this lease was in effect.

NET LEASE. Tenant shall pay annually the insurance premium upon presentation by the Landlord of bill on the property. These charges shall be payable by the Tenant within fifteen (15) days after receipt thereof, So long as Tenant shall not be in default, Tenant shall be responsible for the portion of the calendar year during which this lease was in effect.

5. PRORATION OF CHARGES. If the Premises described herein are less than the entire property, the increases in Monthly Base Rental adjustments, Additional Rent and all other charges required by this lease shall be determined by proration on the same ratio that the rentable floor area of the Premises bears to the rentable floor areas of the entire property. Landlord and Tenant hereby deem that the Premises contains approximately 33,831.00 square feet of rentable area of the entire property which is approximately 21,047.00 square feet, resulting in a percentage ratio factor of Sixty-Two Point Zero percent (62%).

6. ADDITIONAL CHARGES. Any charges due Landlord by Tenant, including but not limited to, damage to Premises, legal fees, cost of default remedies, and past due charges for utilities, insurance, cleaning, maintenance and repairs, etc. or for work done on the Premises by order of Tenant, shall be considered as Additional Rent due (in addition to all other rent payable) and shall be included in any lien

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for rent. In the event any documentary stamp tax, or tax levied on rental or leasing of the Premises is required, the cost shall be paid by tenant upon demand. The cost of the credit report on the Tenant which may be requested at the Landlord's option shall be paid by the Tenant.

7. LATE RENT. If rent is not paid within **10** days after due date, the Tenant is subject to a one-time late fee of **Ten Point Zero(10.000%)** percent of all rents due at that time.

2. SECURITY DEPOSIT. Upon execution of the lease by the Tenant, the Tenant shall pay to Landlord a Security Deposit in the amount of **(\$7,015.67) Seven Thousand Fifteen 67/100** Dollars. Any security deposit required by Landlord and paid by Tenant shall be retained as security (interest free) for the faithful performance by Tenant of all terms, covenants and conditions herein. Landlord may at any time apply said deposit or any part thereof against any default by Tenant of any of the terms, covenants and conditions of this lease. In such event, Tenant shall upon demand deposit with Landlord the amount so applied that Landlord shall have the full amount of the deposit on hand at all times during the terms of this lease. Upon the expiration of this lease the Tenant shall surrender possession of the Premises as required in paragraph 24 herein. Landlord is given permission to deduct from said security deposit the cost of any unusual cleaning or repairs to the property, upon vacating of Tenant. Security deposit is not a part of the rental and subsequently cannot be deducted from the rent of the last month of this tenancy. Security deposit or any remaining portion will be returned within 30 days after the termination of this Agreement or completion of the repairs necessitated by Tenant's misuse of the Premises. In the event the security deposit is not sufficient to pay all charges due, Tenant shall pay said charges within three days after receiving written notice from the Landlord or Agent.

3. TENANTS UTILITIES. Tenant shall pay all charges or bills for the utility and services used by the Tenant, EXCEPT:N/A

4. USE OF PREMISES. Tenant agrees not to abandon or vacate the Premises and to use entire leased Property for **Electrical Contracting and Manufacturing** and for no other purposes without the express written consent of the Landlord. Pets, animals or birds may not be kept on the Premises without the landlord's permission. These Premises may not be used for sleeping quarters or apartments, immoral conduct or any illegal activity.

5. EXAMINATION OF PREMISES. Tenant has examined the Premises and is familiar with their present condition. Tenant, relying solely on said examination, agrees to accept Premises in their present "as is" condition, unless otherwise agreed to in writing by Tenant and Landlord.

6. DELAY OF POSSESSION. If Landlord is unable to deliver possession of Premises on the effective date of this lease, by reason of the holding over of a prior Tenant or for any other reason, this lease shall not be affected or impaired in any way and landlord shall not be liable to Tenant for any loss or damage resulting therefrom. The effective date of this lease however, shall not begin until the delivery of possession. If Landlord, however, is unable to deliver possession of the Premises to Tenant by **November 1, 2011**, and if Tenant in fact shall not have accepted possession of the Premises, and if Tenant shall not be in default, Tenant shall have the right to cancel this lease upon written notice delivered to Landlord and upon such cancellation Landlord and Tenant shall each be released and discharged from all liability under this lease. In such case any deposit or prepaid rent shall be promptly returned to Tenant.

7. TENANT'S PARKING. Parking of vehicles owned or operated by Tenant or Tenant's employees is hereby limited, restricted or prohibited, as follows: **The spaces in front of the building and on the aide of the building.**

8. LIABILITY INSURANCE. Tenant shall not carry any stock of goods or do anything in or about the Premises which will in any way restrict or invalidate any insurance coverage of the Premises. Tenant agrees to pay upon demand as

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additional rent any increase in premiums of insurance carried by the Landlord on the Premises resulting from the Tenant's occupancy or improvements. Tenant shall keep in full force and effect, at Tenant's expense, insurance for plate glass, personal property, trade fixtures, and property damages, as well as a public liability policy in which both Tenant and Landlord shall be named as the insured with the following minimum coverage:

Single Limit \$ ~~1,000,000.00~~ Aggregate \$ ~~2,000,000.00~~. A certificate of insurance showing the Landlord and Landlord's Agent as an additional insured shall be provided to the landlord not later than the commencement date of this lease and prior to the expiration of such insurance policy during the term of this lease.

9. MAINTENANCE AND REPAIRS. Landlord shall repair and maintain the foundation, roof, outer walls and structural members of the Premises. Tenant shall, at tenant's sole expense make all other repairs necessary to maintain the Premises, both interior and exterior, ordinary and extraordinary including window glass, plate glass, storefronts, doors, windows, screens, awnings, locks, keys, weather stripping and thresholds, as well as all interior walls, floors, ceilings, and floor coverings. Tenant's responsibility to maintain the Premises shall also include the servicing, repair and maintenance of plumbing, electrical, heating, ventilating and air conditioning systems, including all pipes, wiring, fixtures, filters, equipment, machinery, boilers, furnaces, compressors and appliances, and for the replacement of any of the aforementioned systems if their failure is due to Tenant's neglect. Notwithstanding anything contained in this Lease to the contrary, during the term of this Lease, Landlord shall warrant the major components of the heating, ventilating, and air conditioning (HVAC) equipment servicing the Premises, to include the compressors, condensing units, and air handlers, which warranty shall be contingent upon Tenant maintaining the HVAC equipment and ductwork by entering into a contract with a reputable HVAC services company approved in writing by Landlord. Said contract shall include a minimum of monthly filter changes, routine testing for Freon leakage, cleaning, and other customary periodic maintenance. In the event a major component shall need replacement and Tenant is unable to provide written documentation to the Landlord of the required maintenance as set for in this paragraph, Tenant shall be responsible for the replacement of said component at Tenant's sole cost and expense. Tenant shall also repair and be responsible for any caused by stoppage, breakage, leakage, overflow, discharge or freezing of plumbing pipes, soil lines, or fixtures. If any part of the Premises is damaged by the Tenant, or Tenant's employees, agents or invitees, Tenant shall provide Landlord with immediate written notification of all damages to the property. After notification and approval of the Landlord, repairs shall be made promptly at Tenant's expense so as to restore said Premises to its previous condition. If Tenant refuses or neglects to commence, necessary repairs within ten (10) days after written demand, or does not complete such repairs within a reasonable time thereafter, Landlord may make said repairs without liability to Tenant for any loss or damage that may accrue to Tenant's stock, business or fixtures by reason thereof and if Landlord makes such repairs, Tenant shall pay to Landlord, on demand, as Additional Rent, the cost thereof. Tenant's failure to pay shall constitute a default of this lease. Repairs that are the Landlord's responsibility shall be made within a reasonable time after written notice from the Tenant. Tenant's failure to give or unreasonable delay in giving notice of needed repairs or defects shall make Tenant liable for any loss or damage resulting from delay of needed repairs.

10. REGULATIONS AND SANITATION. Tenant shall keep the Premises clean, safe, sanitary, and in compliance with laws, ordinances and requirements of any legally constituted public authority. Tenant shall keep broom clean all areas in and around Premises that are not included in Common Area Maintenance, such as front sidewalks and area behind building. Cleaning includes removing of any trash or refuse deposited on the lease Premises or adjacent public area by Tenant, Tenant's customers', invitees, or agents. In the event of non-compliance by Tenant, Landlord shall have the right to have said areas cleaned, trash and refuse removed and charge the expense to Tenant as Additional Rent which shall be due and payable upon demand. Nonpayment of which shall constitute default of this Agreement. Tenant shall not allow loitering on Premises. Tenant shall employ if Landlord determines it is necessary, a reputable pest extermination company at regular intervals.

11. ALTERATIONS. Tenant shall make no alterations, additions, improvements, or rewiring in or to the Premises without the written consent of Landlord. All additions, or improvements to the Premises including carpeting, tile, other floor covering, wall covering, ceiling tile, etc., made with or without Landlord's written consent shall become part of the Premises, and the property of Landlord upon installation. Trade fixtures and office furniture shall be installed so as to be readily removable without injury to the Premises and any injury caused by said removal shall be repaired forthwith at Tenant's expense. Said trade fixtures shall be removed from the Premises before the end of this lease or shall become part of the Premises and the property of Landlord. Tenant shall not install or maintain any equipment, partitions, furniture, etc. which the weight or operation thereof would tend to injure, or be detrimental to the Premises or would unreasonably annoy or disturb other Tenants.

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12. ASSIGNMENT OR SUBLEASE. Tenant shall not, without written consent of Landlord, In each case, assign, transfer, mortgage, pledge or otherwise encumber or dispose of this lease, or sublet the Premises or any part thereof or permit the Premises to be occupied by other persons. Such consent shall not be unreasonably withheld, conditioned, or delayed. If this lease be assigned, or if the Premises or any part thereof be sublet or occupied by any other person, firm, office or corporation with or without written permission of Landlord, it will not relieve. Tenant of any obligations under the terms of this lease, and if sublet, assigned or occupied without the Landlord's permission, this lease may, at the option of the Landlord, be terminated by a seven day written notice. In the event Tenant shall sublease the Premises in accordance herewith for rentals in excess of those rentals payable hereunder, Tenant shall pay to Landlord monthly in advance as Additional Rent hereunder, one-half of all such excess rent. Any proposed assignee or sublessee that proposes to assume Tenant's obligations hereunder shall execute a satisfactory assumption or sublease agreement before consent shall be given. Other provisions of this Paragraph to the contrary notwithstanding, Landlord shall have the right in its absolute and sole discretion to withhold consent to any sublease or assignment if Tenant shall be in default or breach of this Agreement or if the proposed assignee or sublessee or its business will cause Landlord to incur any costs of whatever kind or nature.

13. SIGNS OR AWNINGS. Tenant shall place no signs, notices, pictures, or advertising matter upon the exterior of the lease Premises except with the written consent of the Landlord. Any and all signs placed on the Premises by Tenant shall be maintained in compliance with rules and regulations governing such signs. The Tenant shall be responsible to Landlord for any damages by installation, use, maintenance or removal of said signs. Any electrical service needed for signs shall be installed at the Tenant's expense. Tenant shall, at Tenant's expense, remove signs at the expiration of the Agreement.

14. WAIVER OF RIGHTS. No failure of Landlord to exercise any power given Landlord hereunder, or to insist upon Tenant's strict compliance with Tenant's obligation hereunder and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms of this Agreement at a future time. The rights and remedies created by this Agreement are cumulative and the use of one remedy shall not be taken to exclude the right to the use of another.

15. RULES AND REGULATIONS. Landlord reserves the right at any time to make further rules and regulations as in Landlord's judgment that may be necessary for the safety, care, appearance, and cleanliness of the Premises and the entire property, and the preservation of good order herein, and such other rules and regulations shall be binding upon the parties hereto with the same force and effect as if they had been contained herein at the time of execution hereof.

16. RIGHT OF ENTRY. Landlord, without being liable for trespass or damages, shall have the right to enter Premises during reasonable hours, with reasonable prior notice, to examine same or to make repairs, additions, or alterations as Landlord may deem necessary for the safety, comfort, appearance, or preservation thereof or to exhibit said Premises. Entry shall also be allowed to post "FOR RENT" notice, during the 90 days before the expiration of this lease. Said right of entry shall likewise exist for the purpose of removing placards, signs, fixtures, alterations or additions which do not conform to this Agreement. In accordance with this right, Tenant shall give Landlord a key to any and all locks, security systems and burglar alarms. Tenant shall not change or install new locks or security systems without the written consent of Landlord.

17. LIENS. Tenant shall not create or allow to be created any liens for labor or materials against Landlord's interest in the Premises. All persons contracting with the Tenant for the erection, installation, alteration, repair or demolition of any building or other improvements on the Premises, and all material suppliers, contractors, mechanics, and laborers are hereby charged with notice that they must look to the tenant and to the Tenant's interests, only in the Premises to secure the payment of any bill for work done or material furnished during the rental period created by this Agreement. In the event that liens are placed on record against the Premises by contractors, mechanics, laborers, material suppliers, etc., of Tenant it will constitute a default of this Agreement: The Tenant shall indemnify, hold harmless, and defend the Landlord from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of the Tenant. Such indemnity shall include, without limitation, all attorney's fees and costs incurred by the Landlord due to the filing of such mechanic's lien or notice thereof. In the event that the Tenant, within twenty (20) days following the imposition of any such lien, shall not cause such lien to be released of record by payment or posting of a proper bond, in addition to all other remedies provided herein and by law, the Landlord shall have the right (but not the obligation) to cause the same to be released by such means as it shall deem proper, including bonding or payment of the claim giving rise to such lien. All such sums paid by the Landlord and all expenses incurred by it in connection therewith, including attorney's fees and costs shall be payable to the Landlord by the Tenant on demand with interest at the rate of eighteen (18%) percent per annum.

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18. **DAMAGE OR DESTRUCTION OF PREMISES.** If Premises are totally destroyed by fire or other casualty, this lease shall terminate as of the date of such destruction and rental shall be accounted for as between Landlord and Tenant as of that date. If Premises are damaged but not wholly destroyed by fire or other casualty, rental shall abate in such proportion as use of Premises has been lost to the Tenant. Landlord shall restore Premises to substantially the same condition as prior to damage as speedily as practicable, whereupon full rental shall commence. Insurance proceeds, if paid to Tenant, shall be assigned to Landlord to restore Premises and replace any covered contents owned by Landlord.

19. **DAMAGE TO PERSONAL PROPERTY.** All personal property, merchandise, fixtures and equipment placed or moved into the Premises shall be at the risk of Tenant or the owners thereof and Landlord shall not be liable for any damages, loss or theft of said personal property, merchandise, fixtures, or equipment, from any cause whatsoever.

20. **CONDEMNATION.** If the whole of the Premises, or such portion thereof as will make said Premises unusable for the purpose herein leased, be condemned by any legally constituted authority, this lease shall terminate on the date when possession thereof is taken by public authorities, and rental shall be accounted for as between Landlord and Tenant as of that date. Such termination, however, shall be without prejudice to the rights of either Landlord or Tenant to recover from the public authority compensation for damage caused by condemnation. Neither the Tenant nor Landlord shall have any rights in any award made to the other by any condemnation authority. In the event only such portion of the Premises is acquired by condemnation as will leave the remaining. Premises, after alteration and repairs, in condition suitable for use by Tenant, the monthly rental payments from the day of such acquisition to the end of the original or any extended term of this lease shall be reduced in proportion to the resulting loss of use of Premises by Tenant. In the event of such partial acquisition and reduction in rent, Landlord shall make promptly at Landlord's expense, all necessary alterations and repairs that shall be required, to restore the Premises to a safe and usable condition.

21. **INDEMNITY AND LIABILITY.** Tenant shall indemnify and save Landlord harmless from any and all claims, damages, costs and expenses, including reasonable attorney's fees, arising from the management of the business conducted by Tenant on the Premises. Landlord shall not be liable, and Tenant waives all claims for damage to person or property sustained by Tenant, its employees or agents, resulting from the condition of the Premises, or any equipment, or, such as may result from any accident in or about the Premises or which may result directly or indirectly from any act of neglect of any other Tenant of the property of which the Premises is a part.

22. **HOLDOVER.** Tenant shall surrender to Landlord, at the end of the term of this lease or upon cancellation of this lease, said Premises broom clean and in as good condition as the Premises were at the beginning of the term of this lease, ordinary wear and tear and damage by fire and windstorm or other acts of God excepted, or Tenant will pay to Landlord all damages that Landlord may suffer because of Tenant's failure to do so. Tenant will indemnify and save Landlord harmless from and against all claims made by any succeeding Tenant of said Premises against Landlord because of delay in delivering possession of Premises, so far as such delay is occasioned by failure of Tenant to so surrender Premises. If Tenant remains in possession of the Premises or any part thereof after the expiration of the Agreement, such holdover places the Tenant in default and the Monthly Base Rental shall be increased to one hundred fifty percent (150%) of the last month's Monthly Base Rental unless given a month to month tenancy in writing from the Landlord.

23. **EFFECTIVE DATE OF LEASE.** This Agreement shall become effective as a binding agreement only upon the execution and delivery thereof by both Landlord and Tenant. If this Agreement is signed by one party and submitted to the other party, then it shall constitute an offer to lease which is subject to revocation at any time prior to execution by the other party and delivery of a fully executed copy of the submitting party.

24. **NOTICES.** Tenant hereby appoints as Tenant's agent to receive service of all notices required under this Agreement as well as all dispossessory distraint notices, the person in charge of Premises or occupying said Premises, at the time notice is delivered. A copy of all notices under this Agreement shall also be sent via certified mail, return receipt requested, or via recognized overnight delivery company, to Tenant's and Landlord's last known address as follows (or to such other address as either party may specify by written notice):

Tenant Address: **5914 Howard Street, c/o Peter Shortsleeves, Hanahan, SC 29410**

Landlord Address: **8620 Tyler Blvd. , c/o Bud Balsam, Mentor, OH 44060**

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25. **BANKRUPTCY.** If Tenant, shall be adjudicated bankrupt or as Insolvent or take the benefit of any Federal reorganization or make a general assignment or take the benefit of any insolvent law, or if a Trustee in bankruptcy or a receiver be appointed or elected for Tenant, under Federal or State law, this Agreement at the option of the Landlord shall expire and end seven (7) days after Landlord gives Tenant written notice, UNLESS, the Tenant's Trustee immediately cures any default of Tenant hereunder and provides (in compliance with Federal and State laws) adequate assurance of future performance of Tenant's obligations hereunder.

26. **BEYOND LANDLORD'S CONTROL.** None of the acts, promises, covenants, or obligations on the part of the Tenant to be kept, performed or not performed as the case may be, nor the obligation of the Tenant to pay Monthly Base Rental. Additional Rent or other charges or payments shall be in anyway waived, excused or affected by reason of the Landlord being unable at any time during the term of this Agreement, to supply, or to delay in supplying heat, light, elevator service or any other service expressed or implied on the part of the Landlord to be supplied; or by reason of the Landlord being unable to make any alteration, repairs, or decorations, or to supply any equipment or fixtures, or any other promise, covenant, or obligations on the part of the Landlord to be performed, if the Landlord's inability or delay is caused by circumstances or events beyond the Landlord's control.

27. **KEYS.** Landlord shall provide Tenant with one key per lock, and the Tenant is responsible for accounting for all keys provided or duplicated and shall return all keys of Premises to the Landlord upon termination or cancellation of this Agreement and/or Tenant vacating said Premises. Landlord shall have the right, if in the Landlord's sole judgment it is necessary, to require the Tenant at Tenant's expense to replace locks, and to supply Landlord with one key to the new locks. The Landlord shall retain a master key or pass key to the Premises, including all security locks and systems. Tenant shall not change or install new locks or security systems without written approval from Landlord.

28. **ESTOPPEL.** Tenant shall from time to time, within ten days following written notice from Landlord, execute, acknowledge and deliver to the Landlord a written statement certifying that this Agreement is in full force and effect. This statement should also state whether or not the Landlord is in default in performance of any covenant or condition of this Agreement or other such reasonable terms required by the Landlord, purchaser, or lender for either. The failure of the Tenant to execute, acknowledge and deliver to the Landlord a statement in accordance with this covenant shall constitute an acknowledgment by the Tenant that this lease is unmodified and in full force and effect, and shall constitute a waiver of any defaults by the Landlord which may have existed prior to the date of such notice.

29. **PEACEFUL POSSESSION.** Subject to the terms, covenants and conditions of this lease, the Tenant shall have, hold and enjoy possession of the Premises, subject to the rights of the holders of any mortgage which now covers said Premises or which may hereafter be placed on Premises by Landlord. Tenant's rights are also subject to any underlying lease now or later covering the entire property of which the leased property is a part. Tenant shall execute any necessary lease subordination agreement at the Landlord's request.

30. **DEFAULT.** If Tenant fails to pay Monthly Base Rental including Additional Rent on or before the due dates as herein stated (TIME IS OF THE ESSENCE) this Agreement shall be in default. If Tenant fails to cure such default within five (5) days after written notice from Landlord; or if Tenant shall be in default in performing any of the terms, covenants and conditions of this Agreement, other than the provision requiring the payment of Monthly Base Rental and Additional Rent, and fails to cure such default within thirty (30) days after the receipt of written notice of default from Landlord; or if Premises shall be abandoned or deserted for fifteen (15) days, or if this Agreement is assigned to any other person, firm, office or corporation, without the permission of Landlord as required in Paragraph 15 herein, this lease at the Landlord's option shall expire and terminate seven (7) days after Landlord delivers written notice to Tenant of such condition or default and Tenant shall immediately quit and surrender said Premises to Landlord. In the event of any such default or breach of performance, the Landlord without any further notice or demand of any kind to the Tenant, may terminate this lease and re-enter and forthwith repossess the entire Premises and without being liable for trespass or damage shall re-let, lease or demise the Premises to another Tenant without any hindrance or prejudice to Landlord's right to distrain for any past due rent, Additional Rent, and rent from the time of such default or termination until the Premises were leased or rented to another Tenant.

31. **ASSIGNMENT OF CHATTELS.** Tenant hereby pledges and assigns to Landlord all the furniture, fixtures, goods, equipment and chattels of Tenant which shall or may be brought or put on said Premises as security for the payment of said rent, and tenant agrees that said lien may be enforced by distraint or foreclosure, at the election of Landlord. It is understood and agreed that any merchandise, fixtures, furniture, or equipment left in the Premises when Tenant vacates

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shall be deemed to have been abandoned by Tenant and by such abandonment, Tenant relinquishes any right or interest therein and Landlord is authorized to sell, dispose of or destroy same.

32. ATTORNEY'S FEE. In the event Landlord successfully defends any action by the Tenant, or if it is necessary for Landlord to employ an attorney for the collection of rent or any other sum due hereunder, or to enforce any covenant of this lease, or the termination of this lease, or for the possession of the Premises or any part thereof the Tenant shall pay all costs, including reasonable attorney's fees.

33. AGENT. Tenant acknowledges that NAI Avant Charleston, LLC is the leasing/managing agent for the Landlord of the Premises. Tenant shall pay all rent payable under this lease to said agent. The right to collect said rentals shall be governed by the written agreement between Landlord and agent for the management of the Premises and shall terminate with the expiration of said management agreement or any renewal thereof.

34. SUBORDINATION, ATTORMENT, AND NON-DISTURBANCE: Tenant agrees that this Agreement shall be subject and subordinate to any mortgages, deeds of trust or any ground lease now or hereafter placed upon the Premises and to all modifications thereto, and to all present and future advances made with respect to any such mortgage or deed of trust; provided however, that such mortgagee or ground lessor agrees not to disturb Tenant in its possession of the Premises so long as Tenant shall not be in breach or default under any of the terms and conditions of this Agreement. Tenant agrees to attorn to the mortgagee, trustee, or beneficiary under any such mortgage or deed of trust, and to the purchaser at a sale pursuant to the foreclosing thereof, and to the lessor in the event of a termination of any such ground lease.

35. DEFINITIONS. "Landlord" as used in this Agreement shall include the owner or owners of the property and/or the aforementioned managing agent as well as the Landlord's heirs, representatives, assigns and successors in title to Premises. "Tenant" shall include Tenant, Tenant's heirs and representatives, and If this lease shall be assigned or sublet, shall include also Tenant assignees or subleases, as to Premises covered by such assignment or sublease. "Agent" shall include agent, agent's successors, assigns, heirs and representatives. "Landlord," "Tenant," and "Agent," including male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties. "Property" is defined as the land, lots, building improvements, and common areas as may be further defined herein, in which the Premises is included.

36. ENVIRONMENTAL MATTERS. Tenant represents, warrants and covenants to Landlord throughout the Term of this Agreement as follows that Tenant is and agrees to remain in compliance with all applicable federal, state and local laws relating to protection of the public health, welfare, and the environment ("Environmental Law") with respect to Tenant's use and occupancy of the Premises. Tenant agrees to cause all of its employees, agents, contractors, sublessees, assignees, and any other persons occupying or present on the Premises ("Occupants") to comply with all Environmental Laws applicable to their activities in and around the Premises.

37. AMERICANS WITH DISABILITIES ACT. Any other provision of this Agreement notwithstanding, the parties hereby agree that the Premises may be subject to the terms and conditions of the Americans with Disabilities Act of 1990 (hereinafter the "ADA"). The parties further agree and acknowledge that it shall be the sole responsibility of Tenant to comply with any and all provisions of the ADA, as such compliance may be required to operate the Premises. Tenant further agrees to indemnify, defend and hold Landlord harmless against any claims, which may arise out of Tenant's failure to comply with the ADA. Such indemnification shall include, but not necessarily be limited to reasonable attorney's fees, court costs and judgments as a result of said claims. Within ten (10) days after receipt, Tenant shall advise the Landlord in writing and provide with copies of (as applicable), any notices alleging violation of the Americans with Disabilities Act of 1990 ("ADA") relating to any portion of the Property of the Premises, any claims made or threatened in writing regarding noncompliance with the ADA and relating to any portion of the Property or of the Premises, or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Property or of the Premises.

38. SPECIAL STIPULATIONS. Insofar as the following stipulations conflict with any of the provisions herein, the following stipulations shall control (use addendum if necessary): See Addendum A.

39. SOUTH CAROLINA LAW TO GOVERN. Tenant and Landlord agree that South Carolina law will govern the interpretation and enforcement of this Agreement.

 TENANT,

 TENANT, AND

 LANDLORD HAVE READ THIS PAGE.

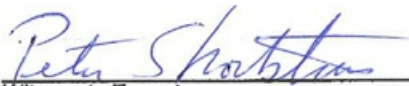
40. ENTIRE AGREEMENT. This lease contains the entire agreement between the parties hereto and all previous negotiations leading thereto, and it may be modified only by a dated written agreement signed by both Landlord and Tenant. No surrender of the Premises or of the remainder of the term of this lease shall be valid unless accepted by Landlord in writing. TIME IS OF THE ESSENCE WITH REGARD TO ALL TERMS AND CONDITIONS IN THIS AGREEMENT.

41. FACSIMILE. The parties agree that the offer, any counteroffer and/or acceptance of any offer or counteroffer may be communicated by use of a fax and the signatures, initials, and handwritten or typewritten modifications to any of the foregoing shall be deemed to be valid and binding upon the parties as if the original signatures, initials and handwritten or typewritten modifications were present on the documents in the handwriting of each party.

42. MEGAN'S LAW. The Tenant and Landlord agree that the Property Manager or Real Estate Broker representing Tenant or Landlord and all affiliated agents are not responsible for obtaining or disclosing any information contained in the South Carolina Sex Offender Registry. The Tenant and Landlord agree that no course of action may be brought against the Property Manager or Real Estate Broker representing Tenant or Landlord and all affiliated agents for failure to obtain or disclose any information contained in the South Carolina Sex Offender Registry. The Tenant agrees that the Tenant has the sole responsibility to obtain any such information. The Tenant understands that Sex Offender Registry information may be obtained from the local sheriff's department or other appropriate law enforcement officials.

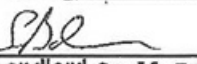
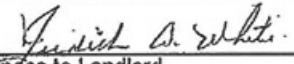
43. NON-RELIANCE CLAUSE. Both Tenant and Landlord hereby acknowledge that they have not received or relied nor could have relied upon any statements or representations or promises or agreements or inducements by either Broker or their agents which are not expressly stipulated herein. If not contained herein, such statements, representations, promises, or agreements shall be of no force or effect. This general non-reliance clause shall not prevent recovery in tort for fraud or negligent misrepresentation or intentional misrepresentation unless specific non-reliance language is included in this agreement. This is a non-reliance clause and is neither a merger clause nor an extension of a merger clause. The parties execute this agreement freely and voluntarily without reliance upon any statements or representations by parties or agents except as set forth herein. Parties have fully read and understand this Agreement and the meaning of its provisions. Parties are legally competent to enter into this agreement and to fully accept responsibility. Parties have been advised to consult with counsel before entering into this agreement and have had the opportunity to do so.

THE UNDERSIGNED HEREBY WARRANT THAT THEY OWN THE PROPERTY AND/OR HAVE THE AUTHORITY TO EXECUTE THIS AGREEMENT. THIS IS A LEGALLY BINDING AGREEMENT. OWNER SHALL SEEK FURTHER ASSISTANCE IF THE CONTENTS ARE NOT UNDERSTOOD. OWNER ACKNOWLEDGES RECEIPT OF A COPY OF THIS AGREEMENT. OWNER AGREES TO RECEIVE COMMUNICATIONS FROM BROKER AT THE EMAIL ADDRESS, PHONE AND FAX NUMBER LISTED BELOW.



Tenant UEC Electronics, LLC Date 10/7/2011 Witness to Tenant
Tenant's Email Address: Philiputkes@uec-electronics.com
Phone: 843 552 8682 Fax: 843 266 4058


Tenant Date Witness to Tenant
Tenant's Email Address: _____
Phone: _____ Fax: _____

 V.P. 10/6/11 

Landlord Small Brothers, LLC Date Witness to Landlord
Landlord's Email Address: Budb@smallbrothers.com
Phone: 877-945-7325 Fax: 239-649-6735
LANDLORD'S AGENT AND COMPANY _____
TENANT'S AGENT AND COMPANY _____

GUARANTEE

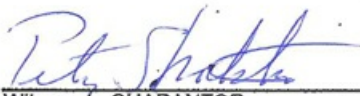
As an inducement and, thus, a further consideration for the Landlord entering into this Agreement with the Tenant, the undersigned (jointly and severally, if more than one) hereby guarantees full performance by the Tenant and its heirs, successors, or assigns of all of the terms and conditions of the Agreement. The Landlord is not required to provide the Guarantor(s) with any notice provided for in the Agreement. In addition, this Guarantee is not waived by any delay that the Landlord has permitted the Tenant in satisfying its obligations under the Agreement. This Guarantee runs to the Guarantor's heirs, successors, and assigns and ensures to the benefit of the Landlord and its successors, and assigns. The Landlord and Tenant may agree to a modification of the Agreement without the approval of the Guarantor(s), provided that the obligation of the Guarantor(s) is not increased beyond the financial conditions contained in the Lease. This is a guarantee of payment and performance and not merely of collection of any term or condition of the Agreement that requires the Tenant to pay the Landlord any sum of money.



GUARANTOR

10/7/11

Date



Witness to GUARANTOR

GUARANTOR

Date

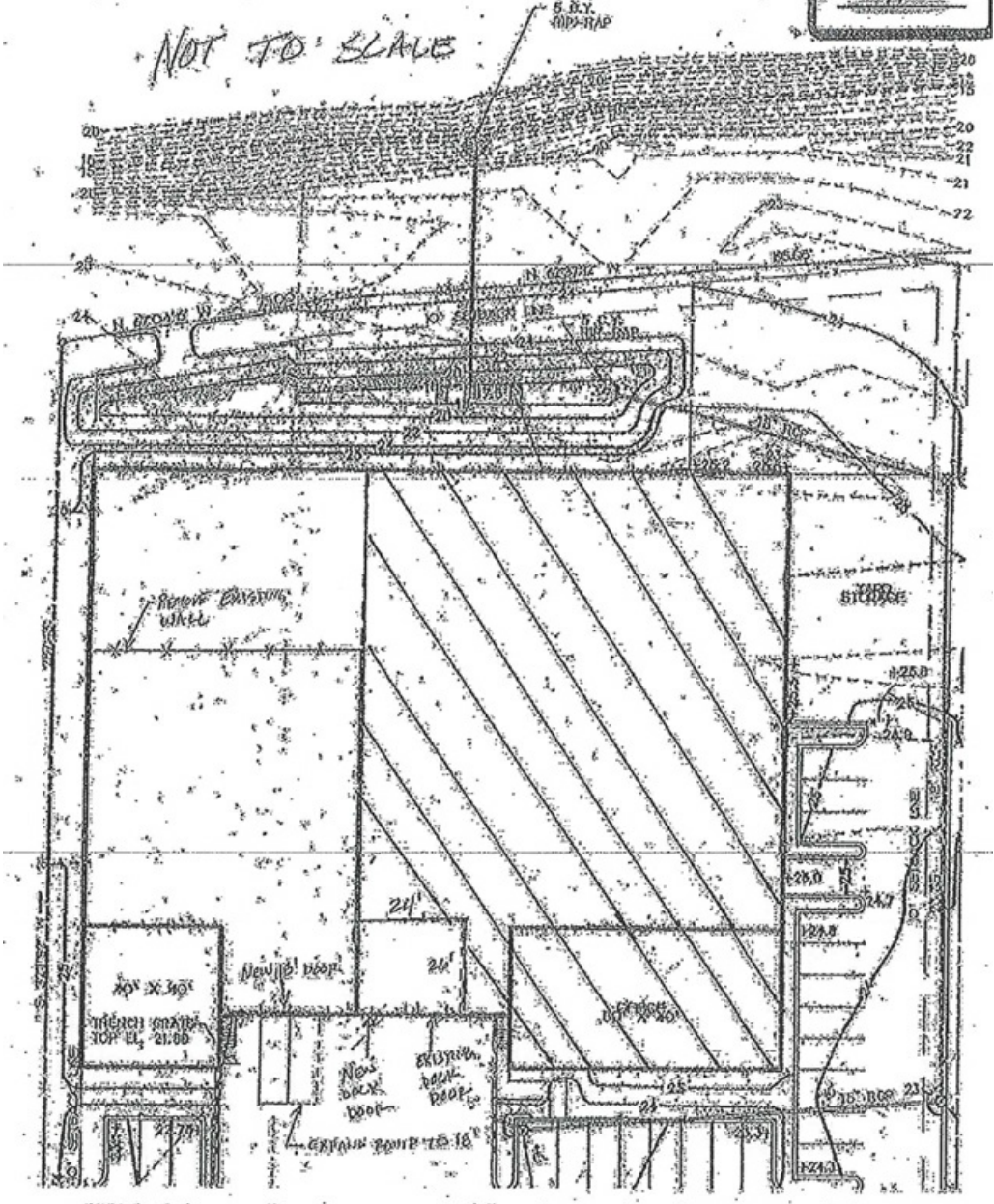
Witness to GUARANTOR

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EXHIBIT
A

NOT TO SCALE



Addendum "A"

To the Lease Agreement for the office and warehouse portion of **2261 Technical Parkway Unit A, North Charleston, SC 29415** and further illustrated as the cross hatched portion on the attached Exhibit "A", and Between **UEC Electronics, LLC**, the Tenant and **Small Brothers, LLC** as the Landlord. Where in conflict with the other printed matter of the Lease Agreement, the following shall control;

The Tenant at their expense shall do the following work to the premises in a workmanlike manner. All work shall be approved by the landlord prior to commencement of the work.

- 1) Install an industrial electrical service in the warehouse area, complete with extended wiring, receptacles, and lighting (as required and at UEC's discretion).
- 2) Install a commercial ventilation system in the warehouse (as required and at UEC's discretion).
- 3) Renovate the office spaces to include new flooring, painting, lighting, and moving of some interior walls (as required and at UEC's discretion).
- 4) Repair perimeter fencing and have the surrounding area cleaned up of all weeds, brush, debris, etc. (as required and at UEC's discretion).

The Tenant shall provide the Landlord with copies of two appraisals that were recently completed on the property within 14 days of occupancy.

The Tenant shall have one (1) three year extension with the rental rate increasing 2.5% annually during the extension period.

The Tenant shall monthly rental payments to:

Small Brothers, LLC
c/o Bud Balsom
8620 Tyler Blvd.
Mentor, OH 44060

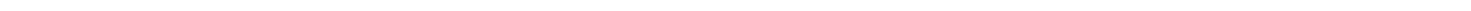
The Tenant acknowledges that the premises is currently occupied by Goodwill Industries. The landlord shall have five (5) working days from the execution of the lease agreement, to execute a document that secures that Goodwill will vacate prior to November 1, 2011. This agreement will be contingent upon the execution of this document.

The Landlord at its expense will replace the two air conditioning compressors and insure that the system is in good working order.

Landlord and Tenant acknowledge that Thomas Boulware and Dexter Rumsey of NAI Avant, LLC are the only agents involved in this transaction. Landlord will compensate the agents per a separate agreement.

Frank A. White
Witness Date
Peter Shortell 10/6/11
Witness Date

[Signature] 10/7/2011
Buyer Date
[Signature] V.P.
Seller Landlord Date
Small Brothers, LLC



THIS AGREEMENT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT, TITLE 15, CHAPTER 48, CODE OF LAWS OF SOUTH CAROLINA 1976, AS AMENDED

SINGLE TENANT BUILDING LEASE AGREEMENT

THIS LEASE AGREEMENT, (hereinafter referred to as the "Lease") is made and entered into on this 30th day of January, 2012 (hereinafter referred to as the "Effective Date") and between **David A. Molony** (hereinafter referred to as the "Landlord") and **UEC Electronics, LLC** (hereinafter referred to as the "Tenant").

WITNESSETH

1. Premises: The Landlord hereby leases to the Tenant, and the Tenant hereby leases from the Landlord, all of that certain building which is deemed by the parties hereto to contain approximately 6,767 rentable square feet, (hereinafter the "Building") together with the contiguous land on which the Building is situated, all being located at 2230 Technical Parkway and further identified as TMS # 475-03-00-023 and being more particularly described in and shown as Exhibit "A" attached hereto and made a part hereof (hereinafter referred to as "Premises" or "Building"). Tenant hereby acknowledges the square feet set forth in the Premises above is an estimate only; the Base Rent set forth in this Lease being based on a negotiated annual rental for the Premises and not on a rental rate per square foot.

TO HAVE AND TO HOLD THE PREMISES upon the terms and conditions hereinafter set forth.

2. Term: The term of this Lease shall be for a period of Five (5) years, beginning on February 1, 2012 (the "Commencement Date") and ending at midnight on January 31, 2017 (the "Expiration Date") unless sooner terminated as hereinafter provided.

3. Possession: If the Tenant accepts possession of the Premises before the Commencement Date specified hereinabove, the term and rental shall commence on such earlier date. If for any reason the Landlord fails to deliver possession of the Premises on or before the specified Commencement Date, this Lease shall remain in full force and effect and the Landlord shall have no liability for delay, but rental shall not commence until the Landlord delivers possession of the Premises to the Tenant.

4. Rent: The Tenant shall pay to the Landlord without counterclaim, notice, demand, offset, defense, or reduction of any kind whatsoever, an annual rental of Forty Three

Thousand Nine Hundred Twenty (\$43,920.00) (hereinafter referred to as the "Base Rent"), payable in equal monthly installments of Three Thousand Six Hundred Sixty (\$3,660.00) each, in advance, on the first day of each and every calendar month during the term hereof. Rent for the first month of the term for which rent shall be due shall be paid concurrent with Tenant's execution and delivery of this Lease. All rent payments shall be made to Landlord, at the address set forth in Paragraph 24 of this Lease, or at such other place as the Landlord may designate in writing to Tenant. Tenant hereby acknowledges the square feet set forth in the Demised Premises above is an estimate only; the Base Rent set forth in this Lease is based on an annual rental for the Demised Premises and not on a rental rate per square foot. If rental commences on a date other than the first day of the month, rent for the first month shall be prorated and paid with the first regular monthly installment. If rent or other monetary sums due the Landlord hereunder are paid later than the tenth (10th) day of the month when due, a late fee of five (5%) percent of the amount due or Twenty-five (\$25.00) Dollars, whichever is the greater, shall be due and payable by the Tenant as Additional Rent (as defined in this Paragraph 4 and in Paragraphs 12 and 13A of this Lease). The parties agree that calculation of the exact costs the Landlord will incur if the Tenant makes late payments would be difficult to determine but would include, without limitation, processing and accounting charges and late charges which may be imposed upon the Landlord by the terms of any mortgage or deed of trust constituting a lien upon the Building. Tenant further agrees that the late charge assessed pursuant to this Lease is not interest, and the late charge assessed does not constitute a lender or borrower/creditor relationship between Landlord and Tenant. The parties agree that the late fee provided herein is a fair and reasonable estimate of the costs the Landlord will incur. Said delinquency charge shall be subject to the default provisions herein. No payment by Tenant or receipt by Landlord of a lesser amount than the Base Rent or any Additional Rent stipulated in this Agreement shall be deemed other than a payment on account of the earliest amount due, nor shall any endorsement or statement on any check or on any letter accompanying any check or payment as rent be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to its right to recover the balance of Base Rent or any Additional Rent or to pursue any other remedy provided for in this Agreement. If Tenant shall be served with a demand for the payment of past due rent, any payments tendered thereafter to cure any default by Tenant shall be made only by cashier's check.

Additional Rent: All sums of Rent due hereunder other than Base Rent shall be called "Additional Rent." Without limitation of the foregoing, Additional Rent shall include Tenant's proportionate share of Operating Costs and any increase in Real Estate Taxes and Insurance from the Base Year, as defined herein, and any sums due from Tenant for utilities costs. Additional Rent, whether or not the same be designated as such, shall be due and payable on demand together with interest thereon as set forth herein; and Landlord shall have the same remedies for failure to pay Additional Rent as for a non-payment of Base Rent.

5. Base Rent Adjustment: Annual and Monthly Base Rent shall be increased on February 1, 2013 and at each anniversary thereof throughout the balance of the term of this

Lease by three percent (3%) of the prior year's Base Rent.

6. Use: The Tenant shall use and occupy the Premises solely for the purpose of General Office, and at Tenant's expense, shall comply with all laws, rules, orders, ordinances, directions, regulations, and requirements of federal, state, county and municipal authorities, now in force or which may hereafter be in force, with respect to the use, occupation or alteration of the Premises. Tenant shall not use the Premises for any other use or purpose whatsoever, without the written consent of Landlord first had and obtained.

7. Assignment and Subletting: The Tenant shall not, without the prior written consent of the Landlord, assign this Lease or any interest therein, or sublet the Premises or any part thereof, or permit the use of the Premises by any party other than the Tenant. Further, in the event the Tenant requests the Landlord's consent to an assignment or sublease of fifty (50%) percent or more of the Premises, the Landlord shall have the option to release the Tenant of its obligations hereunder and accelerate the Expiration Date, and Landlord may subsequently enter into a new lease agreement directly with any such tenant. Consent to one assignment or sublease shall not constitute a waiver of this provision with respect to subsequent transactions. Each subtenant or assignee shall be liable to Landlord for all obligations of the Tenant hereunder, but the Tenant shall not be thereby relieved of such obligations. Landlord's acceptance of any name for listing on the Building Directory will not be deemed, nor will it substitute for, Landlord's consent, as required by this Lease, to any sublease, assignment, or other occupancy of the Premises. Other provisions of this Paragraph 7 to the contrary notwithstanding, Landlord shall have the right in its absolute and sole discretion to withhold consent to any sublease or assignment if Tenant shall be in default or breach of this Lease or if the proposed assignee or sublessee or its business will cause Landlord to incur any costs of whatever kind or nature. Notwithstanding anything contained in this Lease to the contrary, Landlord shall not be obligated to entertain or consider any request by Tenant to consent to any proposed assignment of this Lease or sublet of all or any part of the Premises unless each request by Tenant is accompanied by a nonrefundable fee payable to Landlord or Landlord's managing agent in the amount of One Thousand Dollars (\$1,000.00) to cover administrative, legal, credit reports and other costs and expenses incurred in processing each of Tenant's requests. Neither Tenant's payment nor Landlord's acceptance of the foregoing fee shall be construed to impose any obligation whatsoever upon Landlord to consent to Tenant's request.

8. Improvements. None. Tenant accepts the Premises in the condition existing as of the Effective Date. All other improvements, alterations and additions to the Premises desired by Tenant shall be made only at Tenant's expense, in good and workmanlike manner and in accordance with plans and specifications which have been previously approved in writing by the Landlord and shall comply with all applicable statutes, ordinances, regulations and codes. Landlord's approval of the plans, specifications and working drawings for Tenant's alterations and/or Landlord's approval of Tenant's plans for Landlord's work shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities. Landlord reserves the right to approve Tenant's contractor, and to require adequate lien

waivers, bonds, permits, licenses and insurance. Any and all work performed by Tenant or its contractors shall be with workmen and contractors approved in advance in writing by Landlord and shall be performed in a manner and upon terms and conditions satisfactory to and approved in advance in writing by Landlord. Prior to and at all times during the performance of the work by any of Tenant's contractors or subcontractors, Tenant shall require such contractors to provide insurance coverage reasonably satisfactory to Landlord. Tenant shall require that such contractors' Workers' Compensation Insurance and Commercial General Liability Insurance shall be endorsed specifically to name Landlord, its Affiliates and Agents as Additional Insured parties .. Evidence of such specific endorsements shall be furnished to Landlord prior to commencement of any such work in the Demised Premises. Tenant shall not make any alterations, repair or installation, or perform any other work to or in the Premises unless prior to the commencement thereof Tenant's contractor shall have furnished to Landlord evidence of public liability and workmen's compensation insurance to cover every contractor to be employed and shall deliver duplicate originals or certificates of the policies to Landlord which certificates shall name Landlord, its agent and property manager as additional insureds. The policies shall be non-cancelable without ten (10) days notice to Landlord and shall be carried with companies, and in coverage limits, reasonably satisfactory to Landlord. All improvements and additions made by or for the Tenant and permanently attached to the Premises, including without limitation all partitions, carpets, lighting fixtures, doors, hardware, shelves, cabinets and ceilings, shall remain in the Premises and shall be surrendered to Landlord at the Expiration Date or earlier termination of this Lease, unless the Landlord, by notice given to the Tenant no later than thirty (30) days prior to the end of the term, shall elect to have the Tenant remove such alterations, additions, or improvements, and Tenant shall thereupon accomplish such removal at its sole cost and repair any damage to the Premises caused by such removal.

9. Services. Landlord shall not be responsible for providing any utilities or services to Tenant. Tenant shall furnish, at its own expense and without damage or threat of damage to the Building or to any part of the Building, all utilities and services required for its use of the Premises, including, but not limited to, telephone service, electric power, water and sewer, gas, janitorial service, heat and air conditioning.

10. Maintenance: Landlord shall maintain the roof and structural components of the Building. Landlord shall not be liable for loss or damage resulting from any defective condition in or about the Premises. The Tenant waives the right to make repairs at the Landlord's expense under any law, statute, or ordinance now or hereafter in effect. Tenant shall, at its own expense, keep and maintain the Premises in good order and repair during the term of this Lease, and shall surrender same to Landlord at the Expiration Date or earlier termination of this Lease in as good condition as they were when received (or subsequently improved or altered), normal wear and tear excepted

11. Property of Tenant: During the term of this Lease Tenant may, and at the Expiration Date or earlier termination hereof Tenant shall, remove all furniture, equipment, and other personal property which Tenant shall have placed in the Premises; provided that Tenant shall repair any damage to the Premises caused by such removal. All such property

shall, during the term thereof, be at the risk of Tenant only, and Landlord shall not be liable for any loss thereof or damage thereto resulting from any cause whatsoever; and each policy of insurance covering such property shall contain a standard waiver of subrogation endorsement. Any such property not removed at the Expiration Date or earlier termination of this Lease shall be deemed abandoned and may be disposed of by the Landlord in any manner whatsoever.

12. Taxes and Impositions: Landlord shall pay prior to delinquency, all ad valorem real estate taxes assessed against the Building and the land upon which the Building is situated. The term "real estate taxes" shall include any and all taxes, assessments, impositions, levies, disposal user fees, or any other charges assessed or imposed upon the land or the Building. Tenant shall pay to Landlord, as Additional Rent, the amount of the taxes and impositions set forth above. These amounts shall be due and payable to the Landlord within (30) days after a statement therefore is rendered to the Tenant by the Landlord. Tenant shall pay prior to delinquency, all taxes and assessments of every kind or nature imposed or assessed upon or with respect to furnishings, fixtures, equipment, or other property of Tenant placed in or about the Premises.

13A. Insurance: General: Landlord shall, during the entire term hereof, maintain in force casualty insurance on its interest in the Building in such amounts and against such hazards and contingencies as Landlord shall deem desirable for its own protection; provided, however, Landlord shall not be obligated to insure any furniture, equipment, or other property placed in the Premises by or at the expense of Tenant. Tenant shall not permit any use of the Premises that would invalidate or conflict with the terms of any hazard insurance policy covering risks insured by Landlord. Tenant shall pay to Landlord, as Additional Rent, the cost of Landlord's hazard insurance premiums. These reimbursements shall be due and payable to the Landlord within (30) days after a statement therefore is rendered to the Tenant by the Landlord.

13B. Insurance: Tenant: Tenant shall at Tenant's expense, obtain and keep in force at all times during the term of this Lease, commercial general liability insurance including property damage of not less than One Million Dollars (\$1,000,000.00) for any one occurrence with a Two Million Dollar (\$2,000,000.00) aggregate limit, and an umbrella liability policy of at least One Million Dollars (\$1,000,000.00) insuring Landlord, Landlord's agent and property manager and Tenant against any liability arising out of Tenant's use, occupancy or maintenance of the Premises and all areas appurtenant thereto. The limit of said insurance shall not, however limit the liability of the Tenant hereunder. Tenant may carry said insurance under a blanket policy provided an endorsement naming Landlord and Landlord's agent and property manager as an additional insured is attached thereto. Insurance required hereunder shall be in companies licensed in the State of South Carolina and shall have a "Best's Insurance Guide" rating of "A" or better. No policy shall be cancelable except after ten (10) days written notice to Landlord, and if such policy is cancelled, Tenant shall be deemed immediately in default as is set forth in Paragraph 19A of this Lease. All policies of insurance maintained by Tenant shall be in a form acceptable to Landlord with satisfactory evidence that all premiums have been paid. Tenant shall provide

to Landlord simultaneously with the execution of this Lease, a Certificate evidencing Landlord, Landlord's Agent and Property Manager have been named as an additional insured under the policy described in this paragraph. Tenant agrees not to knowingly violate or permit to be violated any of the conditions or provisions of the insurance policies required to be furnished hereunder, and agrees to promptly notify Landlord or Landlord's Agent of any fire or other casualty within 24 hours. Tenant shall, at Tenant's expense, obtain and keep in force at all times during the term of this Lease, personal property insurance with regard to Tenant's furniture, fixtures, and equipment placed in, on or about the Premises.

14. Damage or Destruction by Casualty: If the Premises are wholly or partially destroyed by fire or other casualty, rental shall abate in proportion to the loss of use thereof, and Landlord shall, at its own expense, promptly restore the Premises to substantially the same condition as existed before damage or destruction, whereupon full rental shall resume, unless said damage was caused by Tenant's negligence, in which case any repair shall be at Tenant's expense; provided, however, Landlord may by notice to Tenant within ninety (90) days after the date of such damage or destruction elect, at its option, not to restore or repair the Premises and Landlord or Tenant may thereafter, at its option, cancel this Lease. There shall be no abatement of rent if all or any portion of the Premises is unusable for a period of three days or less. Notwithstanding anything to the contrary contained in this Article 14, the Landlord shall have no obligation to repair, reconstruct, or restore the Premises when the damage described in this Article 14 occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

15. Eminent Domain: If the whole of the Premises, or such portion thereof as will make the Premises unsuitable for the use contemplated hereby, be taken under the power of eminent domain (including any conveyance in lieu thereof), then the term hereof shall cease as of the date possession thereof is taken by the condemnor, and rental shall be accounted for as between Landlord and Tenant as of that date. If any lesser portion of the Premises is thus taken, rental shall abate in proportion to the loss of use occasioned thereby. Tenant shall not have any right or claim to any part of any award made to or received by Landlord for such taking or right or claim against Landlord for the value of the unexpired term of this Lease; provided, however, Tenant shall not be prevented from making a claim against the condemnor (but not against Landlord) for any moving expenses, loss of profits, or taking of its personal property (other than its leasehold interest) to which Tenant may be entitled.

16. Indemnity: Tenant shall defend, indemnify and hold harmless the Landlord and Landlord's Agent and Property Manager from and against any claims, damages, or expenses, whether due to damage to the Premises, claims for injuries to persons or property, or administrative or criminal action by a governmental authority, where such claims arise out of or from use or occupancy of the Premises by Tenant, its agents, employees or invitees, except where such damage, claims or penalties are caused by the gross negligence of Landlord, its employees or agents.

17. Landlord's Entry: Landlord may enter the Premises at reasonable times and in a reasonable manner to inspect or exhibit same or exercise Landlord's rights under this Lease Agreement.

18. Intentionally deleted

19A. Default and Remedies: If Tenant shall fail to pay either Base Rent or Additional Rent when due, or any other sums of money becoming due hereunder, and does not remedy such default within five (5) days after written notice thereof, or if Tenant shall default in the performance of any other of the terms, conditions, or covenants contained in this Lease Agreement to be observed or performed by it and does not remedy such default within thirty (30) days after written notice thereof or does not, within such thirty (30) days, commence such act or acts as shall be necessary to remedy a default, which is not curable within said thirty (30) days for reasons beyond the control of Tenant, and shall not complete such act or acts within sixty (60) days after written notice, or if Tenant shall become bankrupt or insolvent, or file any debtor proceedings, or file in any court pursuant to any statute, either of the United States or of any state a petition in bankruptcy or insolvency or for reorganization, or file or have filed against it a petition for the appointment of a receiver or trustee for all or substantially all of the assets of Tenant, or if Tenant makes an assignment, or if Tenant shall abandon the Premises or suffer the Lease to be taken under any writ of execution and such writ is not vacated or set aside within fifteen (15) days, or if the Commercial General Liability Insurance required by Tenant is cancelled as is set forth in Paragraph 138 of this Lease then in any such event the Landlord shall have the immediate right of reentry without resort to legal process and the right to terminate and cancel this Lease. Without terminating the Lease, Landlord shall have the right to re-enter and take possession of the Premises or any part thereof and repossess the same as of the Landlord's former estate and expel the Tenant and those claiming through or under the Tenant, and remove the effects of both or either with force, if necessary, without being deemed guilty in trespass or of a forcible entry or detainer and without prejudice to any remedies for arrears of rent or preceding breach of covenants. In such event, the Landlord shall be entitled to recover from the Tenant all damages incurred by the Landlord by reason of the Tenant's default, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, any real estate commission actually paid, the worth at the time of the unpaid rent for the balance of the term and any and all the leasing sums payable shall bear interest from the date due at the rate of eighteen percent (18%) per annum until paid. If Landlord should elect to reenter as herein provided, or should it take possession pursuant to legal proceedings, it may either terminate this Lease or it may from time to time without terminating this Lease, relet the Premises for such term and at such rentals and upon such other terms and conditions as the Landlord may deem advisable. If such reletting shall yield rentals insufficient for any month to pay the rental due by Tenant hereunder for that month, Tenant shall be liable to Landlord for the deficiency and same shall be paid monthly. No such reentry or taking possession of the Premises by Landlord shall be construed as an election to terminate this Lease unless written notice of such intention be given by the Landlord to the Tenant at the time of such reentry; but,

notwithstanding any such reentry and reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach. If as a result of Tenant's default hereunder, Landlord shall institute legal proceedings for the enforcement of Tenant's obligations, Tenant shall pay all costs incurred by Landlord, including reasonable attorney's fees.

19B. Alternative Dispute Provisions: If a dispute, controversy or claim (whether based upon contract, tort, statute common law or otherwise)(collectively a "Dispute") arises from or relates directly or indirectly to the subject matter hereof, and if the Dispute cannot be settled through direct discussions, the parties shall first endeavor to resolve the Dispute by participating in a mediation administered by the American Arbitration Association (the "AAA") under its Commercial Mediation Rules before resorting to arbitration. Thereafter, any unresolved Dispute shall be settled by binding arbitration administered by the AAA in accordance with its Commercial Arbitration Rules and judgment on the award rendered by the arbitrator, after the review rights set forth below have been exhausted, may be entered in any court having jurisdiction . The arbitration proceedings shall be conducted in Charleston, South Carolina on an expedited basis before a neutral arbitrator who is a member of the Bar of the State of South Carolina, and has been actively engaged in the practice of law for at least 15 years, specializing in commercial transactions with substantial experience in the subject matter of this Agreement. Any attorney who serves as an arbitrator shall be compensated at a rate equal to his or her current regular hourly billing rate unless the AAA is able to arrange with the parties and the arbitrator to agree otherwise. Upon the request of either party, the arbitrator's award shall include findings of fact and conclusions of law provided that such findings may be in summary form. Either party may seek review of the arbitrator's award before an arbitration review panel comprised of three arbitrators qualified in the same manner as the initial arbitrator (as set forth above) by submitting a written request to the AAA. The right of review shall be deemed waived unless requested in writing within 10 days of the delivery of the initial arbitrator's award. The arbitration review panel shall be entitled to review all findings of fact and conclusions of law in whatever manner it deems appropriate and may modify the award of the initial arbitrator in its discretion. Unless otherwise deemed appropriate by the arbitrator(s), the prevailing party shall be entitled to an award of all reasonable out-of-pocket costs and expenses (including attorney's and arbitrator's fees) related to the entire arbitration proceedings (Including review if applicable.)

20. Remedies Cumulative-Non-Waiver: No remedy herein or otherwise conferred upon or reserved to Landlord or Tenant shall be considered exclusive of any other remedy, but the same shall be distinct, separate and cumulative and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity; and every power and remedy given by this Lease Agreement may be exercised from time to time as often as occasion may arise or as may be deemed expedient. No delay or omission of Landlord to exercise any right or power arising from any default on the part of Tenant shall impair any such right or power, or shall be construed to be a waiver of any such default, or an acquiescence therein. The acceptance of rent by Landlord with knowledge of a default by Tenant hereunder shall not constitute a waiver of such default.

21. Quiet Enjoyment: If Tenant shall pay the rent and perform and observe all of the other covenants and conditions to be performed and observed by it hereunder, Tenant shall at all times during the term hereof have the peaceable and quiet enjoyment of the Premises without interference from Landlord or any person lawfully claiming through Landlord, subject, however, to the terms of this Lease Agreement and any mortgages or deeds of trust provided for in Paragraph 23 hereof.

22. Estoppel Certificate: Within ten (10) days after written request by Landlord, transferee or any mortgagee or trustee under a mortgage or deed of trust covering the Premises, Tenant shall deliver in recordable form a statement to any such mortgagee, trustee or other transferee, or to Landlord, certifying any facts that are then true with respect to this Lease Agreement, including without limitation (if such be the case) that (a) this Lease Agreement is in full force and effect, (b) that Tenant is in possession, (c) that Tenant has commenced the payment of rent, (d) that Tenant claims no defense or set-off to the due and full performance of its obligations under this Lease Agreement, and (d) the dates, if any, to which rent has been paid in advance. The Tenant's failure to deliver such statement within such time shall constitute a breach and default under this Lease, and shall be conclusive upon the Tenant that this Lease is in full force and effect without modification except as may be represented by the Landlord, and that there are no uncured defaults in the Landlord's performance. Tenant agrees that should it fail to deliver such statement within such time, that Landlord may, as Tenant's Attorney-in Fact, complete such statement on behalf of the Tenant.

23. Subordination and Attornment: Tenant agrees that this Lease shall be subject and subordinate to any mortgages, deeds of trust or any ground lease now or hereafter placed upon the Premises and to all modifications thereto, and to all present and future advances made with respect to any such mortgage or deed of trust. Tenant agrees to attorn to the mortgagee, trustee, or beneficiary under any such mortgage or deed of trust, and to the purchaser at a sale pursuant to the foreclosing thereof, and to the lessor in the event of a termination of any such ground lease.

24. Notices: All notices provided for in this Lease Agreement shall be in writing and shall be deemed to be given when sent by registered or certified mail, return receipt requested, postage prepaid, and addressed as follows:

If to Landlord:

David A. Molony
75 Latitude Lane
Mount Pleasant, SC 29464

If to Tenant:

Peter S. Shortsleeves
Chief Financial Officer
UEC Electronics, LLC
5914 Howard Street
Hanahan, SC 29410

Notices shall also be sent to the holder or holders of any mortgage or deed of trust covering the Premises at such address as such holder or holders may have given by notice as herein provided. Either party hereto, or any such holder, may from time to time, by notice as herein provided, designate a different address to which notices to it shall be sent.

25. Governing Law: This Lease Agreement shall be construed and enforced in accordance with the laws of the State of South Carolina.

26. Successors: This Lease Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns, except as otherwise provided for in this Lease Agreement.

27. Nature and Extent of Agreement: This Lease Agreement, including the exhibits attached hereto, contains the complete agreement between the parties regarding the terms and conditions of the lease of the Premises, and there are no oral or written conditions, terms, warranties, understandings or other agreements pertaining thereto which have not been incorporated herein. This Lease Agreement may be modified only by written instrument duly executed by both parties or their respective successors in interest.

28. Security Deposit:

(a) Tenant has deposited with Landlord simultaneously with the execution of this Lease the sum of Three Thousand Six Hundred Sixty Dollars (\$3,660.00) as security for the full and faithful performance by Tenant of all obligations of Tenant under this Lease. The Security shall bear no interest. If Tenant is in "Default" (as defined in Section 16.01), or if Tenant shall fail to discharge its obligations under the terms of this Lease, Landlord may use, apply or retain all or any part of the Security for the payment of (i) any rent or any other sum which Tenant was obligated to pay but did not pay, (ii) any sum expended by Landlord on Tenant's behalf in accordance with the provisions of this Lease, or (iii) any sum which Landlord may expend or be required to expend as a result of Tenant's Default, including any damages or deficiency in the reletting of the Premises. The use, application or retention of the Security or any portion thereof by Landlord shall not prevent Landlord from exercising any other right or remedy and shall not limit any recovery to which Landlord may be entitled. If Tenant shall fail to pay rent or other sums when due under this Lease more than three (3) times in any twelve (12) month period, irrespective of whether or not such delinquencies have been cured, then the security deposit shall, within ten (10) days after demand by Landlord, be increased by Tenant to an amount equal to the greater of (i) three (3) times the aforesaid amount or (ii) three (3) months rent.

(b) If Tenant fully and faithfully complies with all of the provisions of this Lease, the

Security or any balance thereof shall be returned to Tenant within thirty (30) days after the Expiration Date or upon any later date after which Tenant has vacated the Premises.

(c) Landlord may transfer the Security to any transferee of Landlord's interest in the Premises and, if the Security is so transferred, Landlord shall be deemed released by Tenant from all liability for the return of the Security and Tenant shall look solely to the transferee for return of the Security.

(d) The Security shall not be mortgaged, assigned or encumbered by Tenant. No action of Landlord in enforcing its rights with respect to a Default shall be deemed to be a termination of this Lease so that Tenant is entitled to return of the Security.

29. Holding Over: It is expressly understood by all parties that Tenant shall not be permitted to holdover at the end of the Lease term. It is further understood by all parties that failure to renegotiate or otherwise enter into a new lease agreement before 5:00P.M. on the tenth day from the Expiration Date of this Lease constitutes termination of this Lease at the end of the Lease period, and Tenant understands that it shall vacate the Premises at the exact end of the Lease term.

30. Attorney's Fees: If Tenant defaults in the performance of any of the covenants of this Lease and by reason thereof Landlord employs the services of an attorney to enforce performance by Tenant, to evict Tenant, to collect monies due by Tenant, or to perform any service based upon said default, then that Tenant shall pay a reasonable attorney's fee and all reasonable expenses and costs incurred by Landlord pertaining thereto.

31. Non-Waiver: The failure of Landlord or Tenant to insist upon strict performance of any of the terms, conditions and covenants herein shall not be deemed to be a waiver of any rights or remedies that Landlord and Tenant may have, and shall not be deemed a waiver of any subsequent breach or default in the terms, conditions and covenants herein contained except as may be expressly waived in writing.

32. Non-Easement: It is understood and agreed that this Lease does not grant any rights to light and air over property adjoining the land on which the Premises are situated.

33. Intentionally deleted

34. General:

A. Time of the Essence. It is understood and agreed between the parties hereto that time is of the essence in all of the terms and provisions of this Lease.

B. Captions and Titles. The captions and titles appearing within this Lease are for reference only and shall not be considered a part of this Lease or in any way to modify, amend or affect the provisions thereof.

C. Grammatical Changes. The proper grammatical changes shall be understood and apply where necessary to designate the plural rather than the singular and the masculine or feminine gender.

D. Recordation and Documentary Stamps Taxes. This Lease shall not be recorded, but a short form referring to this Lease, describing the Premises and setting forth the term thereof may be recorded by either party. The cost of South Carolina Documentary Stamp Taxes due shall be paid by the Tenant.

E. No Partnership. Landlord does not, in any way or for any purpose, become a partner of Tenant in the conduct of its business, or otherwise, or a joint venturer or a member of a joint enterprise with Tenant.

F. Binding Agreement. The conditions, covenants and agreements contained in this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, executors, administrators and assigns. No rights, however, shall inure to the benefit of any assignee of Tenant unless the assignment to such assignee has been made in accordance with the provisions set out in this Lease.

G. Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

H. Successors and Assigns. Except as otherwise provided herein this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs personal representatives, executors, successors and assigns. Nothing herein shall authorize any transfer of this Lease, any interest in this Lease, or any interest in Tenant.

I. Survival of Obligations. The provisions of this Lease with respect to any obligation of Tenant to pay any sum owing or to perform any act after expiration or other termination of this Lease shall survive the expiration or other termination of this Lease.

35. Liens Against the Premises: The Tenant shall keep the Premises and the property on which the Building is situated free from any liens arising out of any work performed, materials furnished, or obligations incurred by the Tenant. The Tenant shall indemnify, hold harmless, and defend the Landlord from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of the Tenant. Such indemnity shall include, without limitation, all attorney's fees and costs incurred by the Landlord due to the filing of such mechanic's lien or notice thereof. In the event that the Tenant, within twenty (20) days following the imposition of any such lien, shall not cause

such lien to be released of record by payment or posting of a proper bond, in addition to all other remedies provided herein and by law, the Landlord shall have the right (but not the obligation) to cause the same to be released by such means as it shall deem proper, including bonding or payment of the claim giving rise to such lien. All such sums paid by the Landlord and all expenses incurred by it in connection therewith, including attorney's fees and costs, shall -be payable to the Landlord by the Tenant on demand with interest at the rate of eighteen (18%) percent per annum. The Landlord shall have the right at all times to post and keep posted on the Premises any notice permitted or required by law which the Landlord shall deem proper for the protection of the Landlord and the Premises or any other party having an interest therein from mechanic's and materialmen's liens. The Tenant shall give written notice to the Landlord at least ten (10) business days prior to the commencement of any work relating to alterations or additions to the Premises and shall post the Premises giving all such persons notice of Landlord's nonliability for work performed or materials supplied. Failure to provide the Landlord such notice or post the Premises shall be deemed a material breach of this Lease.

36. Brokerage: Tenant represents and warrants to Landlord that it has not dealt with any broker or finder in connection with the transaction contemplated by this Lease other than Anchor Commercial, LLC ("Landlord's Broker"). Landlord agrees to pay to Landlord's Broker, the commission earned by reason of this transaction as set forth in a separate agreement. Tenant shall defend, indemnify and hold harmless Landlord and Landlord's Agent against any and all expense, cost, damage or liability (including without limitation, court costs and reasonable attorney's fees, at trial and appeal) resulting from the claims of any other brokers, or those claiming to have performed services in the nature of brokerage or finding services.

37. Intentionally Deleted.

38. No Offer: The submission of this document for examination does not constitute an option or offer to lease space in the Property. This document shall have no binding effect on the parties unless executed by the Landlord and the Tenant and a fully executed copy is delivered to the Tenant.

39. Environmental Matters: Tenant represents, warrants and covenants to Landlord throughout the Term as follows:

a) Tenant is and agrees to remain in compliance with all applicable federal, state and local laws relating to protection of the public health, welfare, and the environment ("Environmental Law") with respect to Tenant's employees, agents, contractors, sublessee, assignees, and any other persons occupying or present on the Premises ("Occupants") to comply with all Environmental Laws applicable to their activities in and around the Premises.

b) Tenant shall not bring into the Building or the Premises, nor shall it allow any Occupant to bring into the Building or the Premises, any chemical, waste material, or other

substance that is defined or otherwise classified in any Environmental Laws as a "hazardous substance," "hazardous material," "hazardous waste," "toxic substance," or "toxic pollutant," except for small quantities of any such substances that are consistent with ordinary office use of the Premises. If any quantity of any such substance is brought into the Building or the Premises by Tenant or Occupant for ordinary office use, Tenant or Occupants shall handle, use, and dispose of such substance in a reasonable and prudent manner and in compliance with all applicable Environmental Laws.

c) Landlord or its representative may inspect the Premises at reasonable times to insure compliance with the requirements of this Paragraph 39. As part of its inspection, Landlord or its representative may take such samples as Landlord in its sole discretion deems necessary, including without limitation samples of substances located on the Premises, and neither Landlord nor any representative shall have any liability to Tenant as a result of such sampling activity. In the event Landlord determines that Tenant possesses any substances in violation of this Paragraph 39, Landlord shall notify Tenant and Tenant shall immediately remove those substances in compliance with all applicable laws, rules, ordinances, standards and regulations. In the event Tenant fails to comply with the requirements of this Paragraph 39, Landlord and its representative may enter the Premises and provide for the removal and disposal of those substances as Tenant's agent. To effectuate this Paragraph 39, Tenant hereby grants Landlord and any representative of Landlord a Special Power of Attorney, appointing Landlord or its designated representative as its attorney in fact to act in Tenant's place to take all steps necessary to provide for the lawful removal and disposal of those substances, including the signing of any manifest, on Tenant's behalf and Tenant agrees to remain responsible for the substance and to indemnify, defend, hold harmless and protect Landlord and any representative of Landlord against all costs, fines, penalties or damages incurred by Landlord or its representative due to any activities by Landlord pursuant to this Paragraph 39. It is hereby stipulated by Landlord and Tenant that the above Special Power of Attorney is coupled with an interest in the Premises and is, accordingly, irrevocable. Tenant agrees that no adequate remedy exists at law to enforce this Paragraph 39 and that damages would not make Landlord whole; accordingly, Tenant agrees that Landlord may seek and obtain injunctive relief to enforce this Paragraph 39.

40. Landlord's Lien: To secure the payment of all Rent due and to become due hereunder and the faithful performance of all the other covenants of this Lease required by Tenant to be performed, Tenant hereby gives Landlord an express contractual lien on and security interest in all property, chattels, or merchandise which may be placed in the Premises and also upon all proceeds of any insurance which may accrue to Tenant by reason of damage to or destruction of any such property. All exemption laws are hereby waived by Tenant. This lien and security interest is given in addition to the Landlord's statutory lien(s) and will be cumulative thereto. Upon request of Landlord, Tenant shall execute Uniform Commercial Code financing statements relating to the aforesaid security interest. Upon request, Landlord will subordinate its landlord's lien to purchase money security interests on Tenant's equipment on the Premises from Tenant's vendors upon Landlord's approval of such equipment, all on a form satisfactory to Landlord.

41. Intentionally deleted

42. Interpretation Presumption: This Lease has been negotiated by the parties hereto and by the respective attorneys for each party. The parties represent and warrant to one another that each has, by counsel or otherwise, actively participated in the finalization of this Lease, and in the event of a dispute concerning the interpretation of this Lease, each party hereby waives the doctrine that an ambiguity should be interpreted against the party which has drafted the document.

43. Limitation of Liability: The obligations of the Landlord hereunder shall be binding upon Landlord and each succeeding owner of the Landlord's interest hereunder only during the period of such ownership and Landlord and each succeeding owner shall have no liability whatsoever except for its obligations during each such respective period. Landlord hereby agrees for itself and each succeeding holder of the Landlord's interest, or any portion thereof that any judgment, decree or award obtained against the Landlord or any succeeding owner of the Landlord's interest, which is in any manner related to this Lease, the Premises or the Tenant's use and occupancy of the Premises or the common areas of the Building, whether at law or in equity, shall be satisfied out of the Landlord's equity in the land and Building owned by the Landlord to the extent then owned by the Landlord and such assets and to no other assets of the Landlord, or such succeeding owner, for satisfaction. Neither Landlord, nor any officer thereof, nor any subsequent Landlord, shall have any personal liability hereunder.

44. Transfer of Landlord's Interest: The term "Landlord" as used in this Lease means only the owner for the time being or the Mortgagee, in possession for the time being of the Building. Each time the Building is sold, the selling Landlord shall be entirely relieved of all obligations and liability under this Lease. Any person who owns the Building and leases his reversionary interest in the Building subject to the lien of this Lease shall be relieved of all liability under this Lease.

45. Tenant's Representation: The Tenant hereby covenants, represents, and warrants that it is a Limited Liability Company organized under the laws of the State of South Carolina, registered to do business and in good standing under the laws of the State of South Carolina, and by proper action has been duly authorized to execute and deliver this Lease, to enter into the transaction contemplated hereby, to carry out its obligations hereunder, and that each person executing this Lease on behalf of Tenant is a representative of Tenant who is duly authorized to execute and deliver this Lease. Tenant shall furnish Landlord with suitable evidence of the above simultaneously with the execution of this Lease by Tenant.

46. Tenant's Guarantor: Philip J. Ufkes (See Exhibit D).

47. Jurisdiction: In connection with this Lease, Tenant hereby submits to the jurisdiction and venue of the State Court of Charleston County, South Carolina in

connection with any matter pertaining to this Lease and agrees that service may be had by mailing the same, postage prepaid, addressed to Tenant at Tenant's Notice Address as set forth in Paragraph 24 of this Lease, it being agreed that service shall be deemed to have been made three (3) days after mailing.

48. Confidentiality: The terms and conditions contained herein shall remain confidential between Landlord and Tenant, and neither party shall disclose any of the terms and conditions of the Lease to any third party without first having obtained written permission from the other party.

49. Free Rent: Any other provision of this Lease to the contrary notwithstanding, and provided Tenant shall not be in breach or default under any of the terms and conditions of this Lease, Tenant shall be permitted to occupy the Demised Premises rent-free for the months of February and March 2012 ("Abatement Months"). Tenant's contribution towards CAM, taxes, insurance, etc. as set forth in Paragraph 12 and 13.A. of this Lease shall not be affected by this Paragraph 49, and shall continue to be due as of the Commencement Date set forth in Paragraph 2 of this Lease. The entire Base Rent otherwise due and payable for the Abatement Months shall become immediately due and payable upon the occurrence of any event of default by Tenant under this Lease.

IN WITNESS WHEREOF, the parties hereto have hereunto set their respective Hands and Seals on the day and year first written above.

WITNESS:

LANDLORD:

David A. Molony

(Seal)

Date: _____

WITNESS:



TENANT:

UEC Electronics, LLC

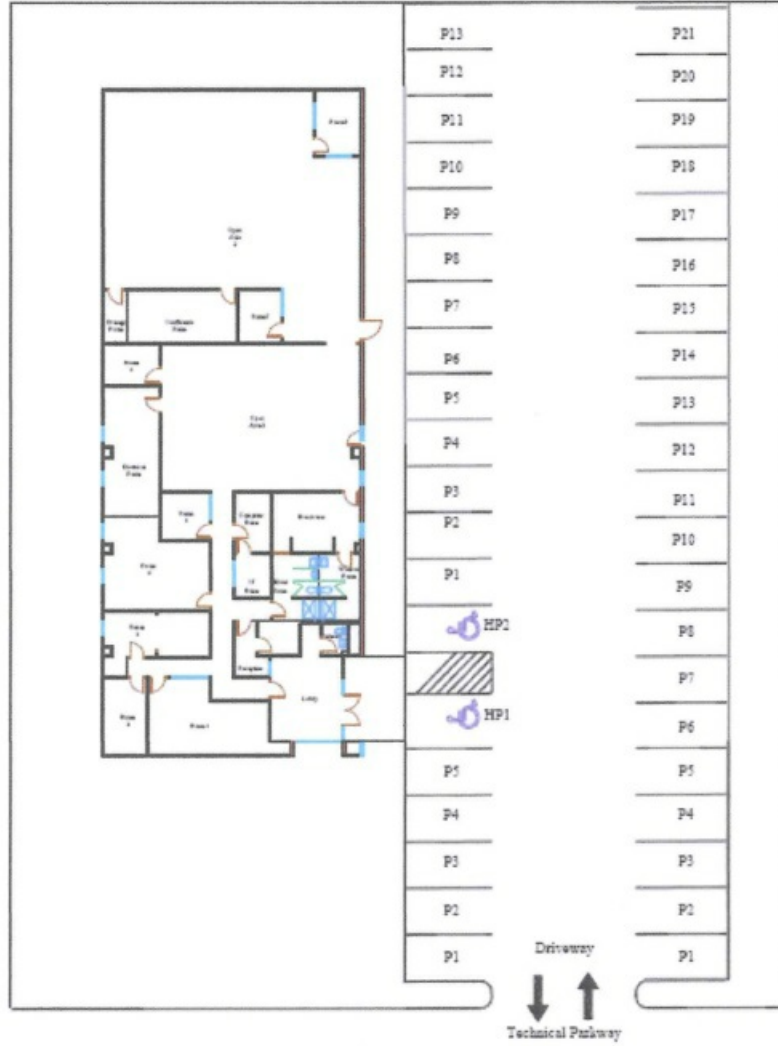
By: /s/ Phil Ufkes

Name: Phil Ufkes

Its: COO

Date: 1/30/12

EXHIBIT A



Friday, November 28, 2007 10:33:54 AM

2230 Technical Parkway

Managed by

EXHIBIT B
LANDLORD'S WORK

None

EXHIBIT C
RULES AND REGULATIONS

None

EXHIBIT D

GUARANTY OF LEASE

THIS GUARANTY is made and entered into as of the date stated below by the undersigned Guarantor(s), Philip J. Ufkes ("Guarantor") in favor of David A. Molony (the "Landlord") with regard to a Lease Agreement between Landlord and UEC Electronics, LLC as Tenant dated January , 2012 for the Premises identified 2230 Technical Parkway and as is more specifically set forth in the Lease.

WITNESETH:

WHEREAS, Guarantor(s) have an interest in the affairs of the Tenant ("Tenant") under the within and foregoing Lease to which this Guaranty is attached ("Lease");

WHEREAS, Landlord has declined to execute the Lease unless Guarantor(s) guarantee Tenant's obligations under the Lease.

NOW, THEREFORE, in consideration of the benefits to be derived by Guarantor(s) from the Lease, in order to induce Landlord to execute the Lease, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor(s) joins in the execution and delivery of the Lease and agrees with, and for the benefit of, Landlord as follows:

1. Guarantor(s) unconditionally guarantee to Landlord the full and prompt payment of any and all rent, additional rent and all other sums and charges payable by Tenant under the Lease (collectively, the "Rent"), and further unconditionally guarantees the full and timely performance and observance of all of the terms, provisions, covenants and obligations of Tenant under the Lease (collectively, the "Obligations"). Guarantor(s) agree that if default or breach shall at any time be made by Tenant in the payment of Rent or the performance of any of the Obligations, Guarantor(s) shall pay the Rent and faithfully perform and fulfill all obligations and shall pay to Landlord any attorney's fees, court costs, and other expenses, costs and disbursements incurred by Landlord on account of any such default and on account of the enforcement of this Guaranty.

2. This Guaranty shall be enforceable by Landlord in a joint action against Guarantor(s) without the necessity of any suit action or proceedings by Landlord of any kind or nature whatsoever against Tenant, without the necessity of any notice to Guarantor(s) of Tenant's default or breach under the Lease, and without the necessity of any other notice or demand to Guarantor(s) to which Guarantor(s) might otherwise be entitled, all of which notices Guarantor(s) hereby expressly waive. Guarantor(s) hereby agree that the validity of the Guaranty and the obligations of Guarantor(s) hereunder shall not be terminated, affected, diminished, or impaired by reason of the assertion or the failure to assert by

Landlord against Tenant any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease or any other remedy or right which Landlord may have at law or in equity otherwise.

3. Guarantor(s) covenant and agrees that this Guaranty is an absolute, unconditional and continuing guaranty. The liability of Guarantor(s) hereunder shall in no way be affected, modified, or diminish by reason of any assignment, renewal, modification or extension of the Lease or any modification or waiver of or change in any of the covenants and terms of the Lease by agreement of Landlord and Tenant, or by any unilateral action of either Landlord or Tenant or by an extension of time that may be granted by Landlord to Tenant or any indulgence of any kind granted to Tenant, or any dealings or transactions occurring between Landlord and Tenant, including, without limitation, any adjustment, compromise, settlement, accord and satisfaction, or release, or any bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, receivership, or trusteeship affecting Tenant. Guarantor(s) do hereby expressly waive any suretyship defense it may have by virtue of any statute, law, or ordinance of any state or other governmental authority, and further waives any and every defense of Tenant, including, without limitation, any defense arising by reason of any disability of Tenant or by reason of cessation from any cause whatsoever of the liability of Tenant.

4. In the event that other agreements similar to the Guaranty are executed from time to time by other entities or persons with respect to the Lease, this agreement shall be cumulative of any such other agreement to the effect that the liabilities and obligations of Guarantor(s) hereunder shall be joint and several with those of each other Guarantor(s), and the liabilities and obligations of Guarantor(s) hereunder shall in no event be affected or diminished by reason or any such other agreement.

5. All of Landlord's rights and remedies under the Lease or under this Guaranty are intended to be distinct, separate, and cumulative and no such right and remedy therein or herein is intended to be the exclusion of or a waiver of any other.

6. Guarantor(s) hereby waive presentment, demand for performance notice of non performance, protest, notice of protest, notice of dishonor, and notice of acceptance, Guarantor(s) further waives any right to require that an action be brought against Tenant or any other person or to require that resort be had by Landlord to any security held by Landlord.

7. Landlord may, without notice, assign this Guaranty in whole or in part, or may assign all of its interest in and to the Lease, and in such event, each and every successive assignee of the Lease or of the Guaranty shall have the right to enforce this Guaranty, by suit or otherwise, for the benefit of such assignee as fully as if such assignee were named herein. Guarantor(s) shall not assign or delegate its obligations under this Guaranty.

8. Guarantor(s) warrant and represent that they have the legal right and capacity to execute this Guaranty. This Guaranty shall be governed by and construed in accordance with the laws of the State in which the Building is located.

9. This Guaranty shall be binding upon Guarantor(s) and the heirs, legal representatives and assigns of Guarantor(s), and shall inure to the benefit of Landlord, and Landlord's legal representatives, successors, and assigns. If more than one party shall execute this Guaranty, all such parties shall be jointly and severally obligated hereunder.

IN WITNESS WHEREOF, Guarantor(s) have executed sealed and delivered this Guaranty, as of this 30 day of January, 2012.

WITNESSES:

Peter Skratz

GUARANTORS:

Philip J Ufkes

/s/ Philip J Ufkes (Seal)

Address 5914 Howard St.
Hanahan, SC 29410

CERTIFICATION

I, Robert S. Ehrlich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arotech Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer 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 we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 function):
 - (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 controls over financial reporting.

Dated: August 14, 2014

/s/ Robert S. Ehrlich

Robert S. Ehrlich, Chairman and CEO
(Principal Executive Officer)

A signed original of this written statement required by Section 302 has been provided to Arotech Corporation and will be retained by Arotech Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

CERTIFICATION

I, Thomas J. Paup, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arotech Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer 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 we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 function):
 - (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 controls over financial reporting.

Dated: August 14, 2014

/s/ Thomas J. Paup

Thomas J. Paup, Senior Vice President – Finance and CFO
(Principal Financial Officer)

A signed original of this written statement required by Section 302 has been provided to Arotech Corporation and will be retained by Arotech Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

WRITTEN STATEMENT

In connection with the Quarterly Report of Arotech Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2014 filed with the Securities and Exchange Commission (the "Report"), I, Robert S. Ehrlich, Chairman and Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company and its subsidiaries as of the dates presented and the consolidated results of operations of the Company and its subsidiaries for the periods presented.

Dated: August 14, 2014

/s/ Robert S. Ehrlich
Robert S. Ehrlich, Chairman and CEO
(Principal Executive Officer)

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.

WRITTEN STATEMENT

In connection with the Quarterly Report of Arotech Corporation (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2014 filed with the Securities and Exchange Commission (the “Report”), I, Thomas J. Paup, Senior Vice President – Finance and Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that to my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company and its subsidiaries as of the dates presented and the consolidated results of operations of the Company and its subsidiaries for the periods presented.

Dated: August 14, 2014

/s/ Thomas J. Paup

Thomas J. Paup, Senior Vice President – Finance and CFO
(Principal Financial Officer)

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.