

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 September 27, 2003

or

Transition report pursuant to section 13 or 15(d) of the Securities
Exchange Act of 1934 for the transition period from

_____ to _____

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction
of incorporation or organization)

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

2000 Technology Parkway, Newark, New York 14513

(Address of principal executive offices)
(Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

Common stock, \$.10 par value - 13,542,452 shares of common stock
outstanding, net of 727,250 treasury shares, as of November 1, 2003.

ULTRALIFE BATTERIES, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	September 27, 2003 ----	December 31, 2002 ----
Current assets:		
Cash and cash equivalents	\$ 877	\$ 1,322
Available-for-sale securities	2	2
Restricted cash	50	50
Trade accounts receivable (less allowance for doubtful accounts of \$210 at September 27, 2003 and \$297 at December 31, 2002)	15,842	6,200
Inventories	7,572	5,813
Prepaid expenses and other current assets	2,383	968
	-----	-----
Total current assets	26,726	14,355
	-----	-----
Property, plant and equipment, net	17,783	15,336
Other assets:		
Investment in UTI	1,550	1,550
Technology license agreements (net of accumulated amortization of \$1,393 at September 27, 2003 and \$1,318 at December 31, 2002)	58	133
	-----	-----
	1,608	1,683
	-----	-----
Total Assets	\$ 46,117	\$ 31,374
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 6,391	\$ 816
Accounts payable	7,472	4,283
Other current liabilities	2,951	2,045
	-----	-----
Total current liabilities	16,814	7,144
Long-term liabilities:		
Debt and capital lease obligations	87	1,354
Grant	--	633
	-----	-----
	87	1,987
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 40,000,000 shares issued - 14,050,002 at September 27, 2003 and 13,579,519 at December 31, 2002)	1,405	1,358
Capital in excess of par value	117,990	115,251
Accumulated other comprehensive loss	(1,066)	(1,016)
Accumulated deficit	(86,735)	(90,972)
	-----	-----
	31,594	24,621
Less -- Treasury stock, at cost -- 727,250 shares	2,378	2,378
	-----	-----
Total shareholders' equity	29,216	22,243
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 46,117	\$ 31,374
	=====	=====

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

ULTRALIFE BATTERIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands, Except Per Share Amounts)
(unaudited)

	Three Months Ended		Nine Months Ended	
	Sept 27, 2003	Sept 28, 2002	Sept 27, 2003	Sept 28, 2002
	----	----	----	----
Revenues	\$19,874	\$ 6,847	\$55,412	\$ 24,287
Cost of products sold	15,981	6,718	43,629	22,151
	-----	-----	-----	-----
Gross margin	3,893	129	11,783	2,136
Operating expenses:				
Research and development	652	477	1,883	2,614
Selling, general, and administrative	2,098	1,569	6,247	5,305
Impairment of long-lived assets	--	--	--	14,318
	-----	-----	-----	-----
Total operating expenses	2,750	2,046	8,130	22,237
	-----	-----	-----	-----
Operating income (loss)	1,143	(1,917)	3,653	(20,101)
Other income (expense):				
Interest income	1	33	6	39
Interest expense	(144)	(115)	(386)	(322)
Equity loss in UTI	--	(959)	--	(2,138)
Gain from forgiveness of debt/grant	781	--	781	--
Miscellaneous	(4)	221	183	486
	-----	-----	-----	-----
Income (loss) before income taxes	1,777	(2,737)	4,237	(22,036)
	-----	-----	-----	-----
Income taxes	--	--	--	--
	-----	-----	-----	-----
Net income (loss)	\$ 1,777	\$(2,737)	\$ 4,237	\$(22,036)
	=====	=====	=====	=====
Earnings (loss) per share - basic	\$ 0.13	\$ (0.21)	\$ 0.33	\$ (1.72)
	=====	=====	=====	=====
Earnings (loss) per share - diluted	\$ 0.12	\$ (0.21)	\$ 0.31	\$ (1.72)
	=====	=====	=====	=====
Weighted average shares outstanding - basic	13,229	13,137	13,004	12,807
	=====	=====	=====	=====
Weighted average shares outstanding - diluted	14,361	13,137	13,701	12,807
	=====	=====	=====	=====

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

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

	Nine Months Ended	
	Sept 27, 2003	Sept 28, 2002
	----	----
OPERATING ACTIVITIES		
Net income (loss)	\$ 4,237	\$(22,036)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,292	2,805
Loss on asset disposal	--	4
Foreign exchange gains	(188)	(423)
Equity loss in UTI	--	2,138
Non-cash stock-based compensation	26	--
Non-cash gain from forgiveness of debt/grant	(781)	--
Impairment of long-lived assets	--	14,318
Changes in operating assets and liabilities:		
Accounts receivable	(9,642)	(721)
Inventories	(1,759)	224
Prepaid expenses and other current assets	(1,415)	72
Accounts payable and other current liabilities	4,126	(414)
	-----	-----
Net cash used in operating activities	(3,104)	(4,033)
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,542)	(893)
Proceeds from sale leaseback	--	451
Proceeds from asset disposal	--	8
Purchase of securities	--	666
Sales of securities	--	1,399
	-----	-----
Net cash (used in) provided by investing activities	(4,542)	1,631
	-----	-----
FINANCING ACTIVITIES		
Change in revolving credit facilities	4,908	--
Proceeds from issuance of common stock	2,260	2,350
Proceeds from issuance of debt	500	600
Principal payments on long-term debt and capital lease obligations	(600)	(813)
Proceeds from grant	117	395
	-----	-----
Net cash provided by financing activities	7,185	2,532
	-----	-----
Effect of exchange rate changes on cash	16	93
	-----	-----
(Decrease)/Increase in cash and cash equivalents	(445)	223
	-----	-----
Cash and cash equivalents at beginning of period	1,322	706
	-----	-----
Cash and cash equivalents at end of period	\$ 877	\$ 929
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 238	\$ 378
	=====	=====

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

ULTRALIFE BATTERIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts in Thousands - Except Share and Per Share Amounts)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements contained in the Company's Transition Report on Form 10-K for the six-month period ended December 31, 2002.

As of July 1, 2002, the Company changed its monthly closing schedule, moving to a weekly-based cycle as opposed to a calendar month - based cycle. While the actual dates for the quarter-ends will change slightly each year, the Company believes that there will not be any material differences when making quarterly comparisons.

Effective December 31, 2002, the Company changed its fiscal year-end from June 30 to December 31.

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year presentation.

2. IMPAIRMENT OF LONG-LIVED ASSETS

In June 2002, the Company reported a \$14,318 impairment charge. This impairment charge related to a writedown of long-lived assets in the Company's rechargeable production operations, reflecting a change in the Company's strategy. Changes in external economic conditions culminated in June 2002, reflecting a slowdown in the mobile electronics marketplace and a realization that near-term business opportunities utilizing the high volume rechargeable production equipment had dissipated. These changes caused the Company to shift away from high volume polymer battery production to higher value, lower volume opportunities. The Company's redefined strategy eliminates the need for its high volume production line that had been built mainly to manufacture Nokia cell phone replacement batteries. The new strategy is a three-pronged approach. First, the Company will manufacture in-house for the higher value, lower volume polymer rechargeable opportunities. Second, the Company will utilize its affiliate in Taiwan, Ultralife Taiwan, Inc., as a source for both polymer and liquid lithium cells. And third, the Company will look to other rechargeable cell manufacturers as sources for cells that the Company can then assemble into completed battery packs.

The impairment charge was accounted for under Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which requires evaluating the assets' carrying value based on future cash flows. As a result of the impairment of the Company's fixed assets, depreciation charges were reduced by approximately \$1,800 per year.

3. EARNINGS (LOSS) PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by dividing net income, adjusted for interest on convertible securities, by potentially dilutive common shares, which include stock options, warrants and convertible securities.

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The impact of conversion of dilutive securities, such as stock options and warrants, are not considered where a net loss is reported as the inclusion of such securities would be anti-dilutive. As a result, basic loss per share is the same as diluted loss per share.

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

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	Sept 27, 2003	Sept 28, 2002	Sept 27, 2003	Sept 28, 2002
Net Income (a)	\$ 1,777	(\$ 2,737)	\$ 4,237	(\$22,036)
Effect of Dilutive Securities:				
Stock Options / Warrants	--	--	44	--
Convertible Note	--	--	9	--
Net Income - Adjusted (b)	\$ 1,777	(\$ 2,737)	\$ 4,290	(\$22,036)
Average Shares Outstanding - Basic (c)	13,229	13,137	13,004	12,807
Effect of Dilutive Securities:				
Stock Options / Warrants	1,132	--	614	--
Convertible Note	--	--	83	--
Average Shares Outstanding - Diluted (d)	14,361	13,137	13,701	12,807
EPS - Basic (a/c)	\$ 0.13	(\$ 0.21)	\$ 0.33	(\$ 1.72)
EPS - Diluted (b/d)	\$ 0.12	(\$ 0.21)	\$ 0.31	(\$ 1.72)

The Company also had the equivalent of 19,000 and 2,556,000 options and warrants outstanding for the three-month periods ended as of September 27, 2003 and September 28, 2002, respectively, and 285,000 and 2,455,000 options and warrants outstanding for the nine-month periods ended as of September 27, 2003 and September 28, 2002, respectively, which were not included in the computation of diluted EPS because these securities would have been anti-dilutive for the periods presented.

4. STOCK-BASED COMPENSATION

The Company has various stock-based employee compensation plans. The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations which require compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. As all options granted to employees under such plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant, and given the fixed nature of the equity instruments, no stock-based employee compensation cost is reflected in net income (loss). The

effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of SFAS No. 123" (as discussed below in Note 12 - Recent Accounting Pronouncements), to stock-based employee compensation is as follows:

	Three Months Ended		Nine Months Ended	
	Sept 27, 2003	Sept 28, 2002	Sept 27, 2003	Sept 28, 2002
Net income (loss), as reported	\$1,777	\$(2,737)	\$4,237	\$(22,036)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	--	--	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(296)	(273)	(839)	(926)
Pro forma net income (loss)	\$1,481	\$(3,010)	\$3,398	\$(22,962)
Earnings (loss) per share:				
Basic - as reported	\$0.13	\$(0.21)	\$0.33	\$(1.72)
Basic - pro forma	\$0.11	\$(0.23)	\$0.26	\$(1.79)
Diluted - as reported	\$0.12	\$(0.21)	\$0.31	\$(1.72)
Diluted - pro forma	\$0.10	\$(0.23)	\$0.25	\$(1.79)

5. COMPREHENSIVE INCOME (LOSS)

The components of the Company's total comprehensive income (loss) were:

	Three Months Ended		Nine Months Ended	
	Sept 27, 2003	Sept 28, 2002	Sept 27, 2003	Sept 28, 2002
Net income (loss)	\$1,777	\$(2,737)	\$4,237	\$(22,036)
Foreign currency translation adjustments	15	(63)	(50)	(84)
Total comprehensive income (loss)	\$1,792	\$(2,800)	\$4,187	\$(22,120)

6. INVENTORIES

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

	September 27, 2003	December 31, 2002
Raw materials	\$6,291	\$3,259
Work in process	1,437	1,882
Finished goods	1,038	1,207
	8,766	6,348
Less: Reserve for obsolescence	1,194	535
	\$7,572	\$5,813

7. PROPERTY, PLANT AND EQUIPMENT

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

	September 27, 2003	December 31, 2002
Land	\$123	\$123
Buildings and leasehold improvements	1,625	1,619
Machinery and equipment	31,706	28,772
Furniture and fixtures	339	319
Computer hardware and software	1,557	1,405
Construction in progress	1,972	291
	37,322	32,529
Less: Accumulated depreciation	19,539	17,193
	\$17,783	\$15,336

8. DEBT

In November 2001, the Company received approval for a \$750 grant/loan from a federally sponsored small cities program. The grant/loan has assisted in funding capital expansion plans that the Company expected would lead to job creation. The Company has been reimbursed for approved capital as it incurred the cost. In August 2002, the \$750 small cities grant/loan documentation was finalized and the Company was reimbursed approximately \$400 for costs it had incurred to date for equipment purchases applicable under this grant/loan. During the first quarter of 2003, \$117 under this grant/loan was reimbursed as the Company incurred additional expenses and submitted requests for reimbursement. By the end of March 2003, all \$750 had been advanced to the Company. If the Company were to meet its employment quota requirements by April 1, 2005, the loan and all associated accrued interest would be forgiven. If the Company did not meet its employment quota requirements, then the funds advanced and the associated interest would be converted into a loan that will be repaid over a seven-year period. The Company had initially recorded the proceeds from this grant/loan as a long-term liability. In September 2003, the Company fulfilled its obligations and had met its employment quota requirements, and the loan was forgiven. As a result, the Company reclassified this liability and associated accrued interest from the Consolidated Balance Sheet and has recorded miscellaneous income of \$781 in the September 2003 quarter. Interest had been accrued at a rate of 5% per year.

On March 4, 2003, the Company completed a short-term financing to help it meet certain working capital needs as the Company was growing rapidly. The three-month, \$500 note, which

accrued interest at 7.5% per annum, was converted into 125,000 shares of common stock at \$4.00 per share on June 4, 2003, at the option of the note holder. Accrued interest was paid to the note holder on the maturity date.

On March 25, 2003, the Company's primary lending bank agreed to amend the Company's credit facility. Among other things, this amendment included an extension of the credit agreement through June 30, 2004, a release of accounts receivable at the Company's U.K. subsidiary in order to allow that subsidiary to obtain its own revolving credit facility with a U.K. bank, and a formula adjustment in the borrowing base that enhanced the eligible receivables related to the U.S. military in recognition of the increasing business with the U.S. Army. Since this credit facility is currently scheduled to expire in less than one year from the September 27, 2003 balance sheet date, all liabilities associated with this facility as of this date have been reflected as a current liability.

On April 29, 2003, Ultralife Batteries (UK) Ltd., the Company's wholly-owned U.K. subsidiary, completed an agreement for a revolving credit facility with a commercial bank in the U.K. Any borrowings against this credit facility are collateralized with that company's outstanding accounts receivable balances. The maximum credit available to that company under the facility is approximately \$700. This credit facility provides the Company's U.K. operation with additional financing flexibility for its working capital needs. At September 27, 2003, the outstanding borrowings under this revolver were \$340.

9. INCOME TAXES

The liability method, prescribed by SFAS No. 109, "Accounting for Income Taxes", is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that may be in effect when the differences are expected to reverse. The Company recorded no income tax benefit or expense relating to the operating results generated during the nine-month periods ended September 27, 2003 and September 28, 2002, as such income tax benefit or expense was offset by changes in the valuation allowance. A valuation allowance is required when it is more likely than not that the recorded value of a deferred tax asset will not be realized.

10. COMMITMENTS AND CONTINGENCIES

As of December 31, 2002, the Company had foreign and domestic net operating loss carryforwards totaling approximately \$78,816 that are available to reduce future taxable income. If it is determined that a change in ownership as defined under Internal Revenue Code Section 382 has occurred, the net operating loss carryforwards will be subject to an annual limitation. Such a limitation could result in the possibility of a cash outlay for income taxes for the year ended December 31, 2003.

As of September 27, 2003, the Company had \$50 in restricted cash in support of a corporate credit card account.

As of September 27, 2003, the Company had open capital commitments to purchase approximately \$2,584 of production machinery and equipment, of which \$1,416 is expected to be reimbursed to the Company and owned by the U.S. Army / CECOM in conjunction with the agreement announced in September 2003. Pursuant to that agreement, the U.S. Army will pay approximately \$3,100 for the installation of machinery and equipment through the end of the first quarter of 2004, increasing the production capacity for military batteries. As of September 27, 2003,

the Company had incurred expenditures of approximately \$1,400 on behalf of the U.S. Army / CECOM, which was included in other current assets on the Consolidated Balance Sheet because the Company will invoice the U.S. Army / CECOM for reimbursement of these funds.

In March 1998, the Company received a \$500 grant from the Empire State Development Corporation to fund certain equipment purchases. The grant was contingent upon the Company achieving and maintaining minimum employment levels for a period of five years. If annual levels of employment were not maintained, a portion of the grant might have become repayable. Through the first four years of the grant period, the Company met the requirements. The Company believes that it has also met the requirements in the fifth and final year, and it has recognized this portion of the grant into income during 2002. However, there is some uncertainty with the interpretation of the grant agreement, and it is possible that the Company may be required to repay \$100 of the grant. The Company believes that the likelihood of a repayment is remote, and it is discussing its position with the Empire State Development Corporation accordingly. At September 27, 2003, there is no balance pertaining to this grant on the balance sheet.

The Company estimates future costs associated with expected product failure rates, material usage and service costs in the development of its warranty obligations. Warranty reserves, included in other current liabilities on the Company's Consolidated Balance Sheet, are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in the Company's product warranty liability during the first nine months of 2003 were as follows:

Balance at December 31, 2002	\$236
Accruals for warranties issued	78
Settlements made	(46)

Balance at September 27, 2003	\$268
	=====

The Company is subject to legal proceedings and claims which arise in the normal course of business. The Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment which revealed the existence of contaminated soil and ground water around one of the buildings. The Company retained an engineering firm which estimated that the cost of remediation should be in the range of \$230. This cost, however, is merely an estimate and the cost may in fact be much higher. In February, 1998, the Company entered into an agreement with a third party which provides that the Company and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse the Company for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. The Company has fully reserved for its portion of the estimated liability, reflected as a part of other current liabilities on the Company's Consolidated Balance Sheet. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (NYSDEC) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. The Company responded by submitting a work plan to NYSDEC, which was approved in April 2002. The Company has sought proposals from environmental remediation firms to complete the remedial work contained in the work plan, but it is unknown at this time whether the final cost to remediate will be in the range of the original estimate, given the passage of time. Because this is a

voluntary remediation, the Company does not have a specified time frame in which to complete the project. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved. Furthermore, the Company may face claims resulting in substantial liability which could have a material adverse effect on the Company's business, financial condition and the results of operations in the period in which such claims are resolved.

A retail end-user of a product manufactured by one of Ultralife's customers (the "Customer"), has made a claim against the Customer wherein it is asserted that the Customer's product, which is powered by an Ultralife battery, does not operate according to the Customer's product specification. No claim has been filed against Ultralife. However, in the interest of fostering good customer relations, in September 2002, Ultralife agreed to lend technical support to the Customer in defense of its claim. The claim between the end-user and the Customer has now been settled. Ultralife has renewed its commitment to the Customer to honor its warranty by replacing any batteries that may be determined to be defective. In the event a claim is filed against Ultralife and it is ultimately determined that Ultralife's product was defective, replacement of batteries to this Customer or end-user may have a material adverse effect on the Company's financial position and results of operations.

11. BUSINESS SEGMENT INFORMATION

The Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt, cylindrical and various other non-rechargeable specialty batteries. The Rechargeable Batteries segment includes the Company's lithium polymer and lithium ion rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Corporate segment consists of all other items that do not specifically relate to the three other segments and are not considered in the performance of the other segments.

Effective January 1, 2003, the Company revised its definition of segment contribution for each of its segments to be defined as gross margin (excluding the Corporate segment). Previously, segment contribution included applicable research and development costs. The Corporate segment now includes all of the Company's operating expenses, including research and development costs. This change in presentation was made to be consistent with the manner in which the Company's management views its results from operations. Certain amounts in the prior year's segment information have been reclassified to conform to the current year presentation.

Three Months Ended September 27, 2003

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$19,450	\$ 293	\$131	\$ --	\$19,874
Segment contribution	4,125	(318)	86	(2,750)	1,143
Interest expense, net				(143)	(143)
Equity loss in UTI				--	--
Miscellaneous				777	777
Income taxes				--	--
Net income (loss)					\$ 1,777
Total assets	\$35,529	\$3,379	\$ 99	\$ 7,110	\$46,117

Three Months Ended September 28, 2002

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$6,678	\$169	\$0	\$ --	\$6,847
Segment contribution	421	(292)	0	(2,046)	(1,917)
Interest expense, net				(82)	(82)
Equity loss in UTI				(959)	(959)
Miscellaneous				221	221
Income taxes				--	--
Net income (loss)					\$(2,737)
Total assets	\$20,428	\$4,076	\$0	\$8,747	\$33,251

Nine Months Ended September 27, 2003

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$53,652	\$931	\$829	\$ --	\$55,412
Segment contribution	12,297	(914)	400	(8,130)	3,653
Interest expense, net				(380)	(380)
Equity loss in UTI				--	--
Miscellaneous				964	964
Income taxes				--	--
Net income (loss)					\$4,237
Total assets	\$35,529	\$3,379	\$99	\$7,110	\$46,117

Nine Months Ended September 28, 2002

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$23,717	\$327	\$243	\$ --	\$24,287
Segment contribution	3,424	(1,310)	22	(22,237)	(20,101)
Interest expense, net				(283)	(283)
Equity loss in UTI				(2,138)	(2,138)
Miscellaneous				486	486
Income taxes				--	--
Net income (loss)					\$(22,036)
Total assets	\$20,428	\$4,076	\$0	\$8,747	\$33,251

12. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others Indebtedness." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others." The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The only material guarantees that the Company has in accordance with FASB Interpretation No. 45 are product warranties. All such guarantees have been appropriately recorded in the financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years after December 15, 2003. The Company currently applies the intrinsic value method and has no plans to convert to the fair value method.

In December 2002, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities." This Interpretation requires companies to reevaluate their accounting for certain investments in "variable interest entities." A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. Variable interest entities are to be consolidated if the Company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The disclosure requirements of this Interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements of this Interpretation have been deferred and are effective for all periods ending after December 15, 2003. The Company has no investments in variable interest entities.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The standard amends and clarifies financial reporting for derivative instruments and for hedging activities accounted for under SFAS No. 133 and is effective for contracts entered into or modified, and for hedges designated, after June 30, 2003. The Company has no derivative instruments and adoption of the standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." The standard establishes how an issuer classifies and measures certain freestanding financial instruments with characteristics of liabilities and equity and requires that such instruments be classified as liabilities. The standard is effective for financial instruments entered into or modified after May 31, 2003 and is generally effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of the standard has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the Emerging Issues Task Force (EITF) issued Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is required, how the arrangement consideration should be allocated among the separate units of accounting. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Adoption of this Issue has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the EITF issued Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease". EITF Issue No. 01-08 provides guidance on how to determine whether an arrangement contains a lease that is within the scope of SFAS No.13, "Accounting for leases". The guidance in this Issue is effective for arrangements agreed or committed to, or modified after July 1, 2003. Adoption of the standard has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

13. SUBSEQUENT EVENTS

On October 7, 2003, the Company completed a private placement of 200,000 shares of unregistered common stock at a price of \$12.50 per share, for a total of \$2,500. The net proceeds of the private placement, \$2,350, were used to advance funds to Ultralife Taiwan, Inc. (UTI), in which Ultralife has an approximate 9.2% ownership interest. This transaction was done in order to provide some bridge financing to UTI while they work to complete an additional equity infusion into UTI to support their growth plans. The transaction was recorded as a short-term note receivable maturing on March 1, 2004 with interest accruing at 3% per annum. The Company expects to convert this note receivable into shares of UTI common stock on or before March 1, 2004, assuming UTI is successful in raising additional equity capital. Pursuant to the agreement, the Company expects to file an S-3 Registration Statement with the SEC within 30 days of the initial transaction to initiate the process of registering these shares for unrestricted trading. The Company accounts for its investment in UTI using the cost method. The carrying value of the Company's 9.2% ownership interest in UTI reflected on the Company's Consolidated Balance Sheet as of September 27, 2003 was \$1,550. The Company does not guarantee the obligations of UTI and is not required to provide any additional funding.

In May 2003, the Company announced a contract with the U.S. Army / CECOM to provide BA-5390 batteries worth a total of approximately \$18,600. Unlike contract awards that result from a competitive bidding process, this contract was an "exigent" contract, which is subject to an audit and a final price adjustment. The contract authorized the U.S. Army / CECOM to pay up to 50% of the total value specified, precluding any further payments until the contract was definitized. As of September 27, 2003, the Company had reached the 50% threshold under this contract. In the first week of November 2003, the audit process was completed, resulting in a reduction of the margin over the term of the contract. This lower margin is reflected in the third quarter results, resulting in a \$547 lower margin than was anticipated under the original terms of the contract.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (In whole dollars)

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, future demand for the Company's products and services, the successful commercialization of the Company's advanced rechargeable batteries, general economic conditions, government and environmental regulation, competition and customer strategies, technological innovations in the primary and rechargeable battery industries, changes in the Company's business strategy or development plans, capital deployment, business disruptions, including those caused by fires, raw materials supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, estimated or expected.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto contained herein and the Company's consolidated financial statements and notes thereto contained in the Company's Transition Report on Form 10-K as of and for the six-month period ended December 31, 2002.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations are presented in whole dollars.

General

Ultralife Batteries, Inc. develops, manufactures and markets a wide range of standard and customized lithium primary (non-rechargeable), lithium ion and lithium polymer rechargeable batteries for use in a wide array of applications. The Company believes that its technologies allow the Company to offer batteries that are flexibly configured, lightweight and generally achieve longer operating time than many competing batteries currently available. The Company has focused on manufacturing a family of lithium primary batteries for military, industrial and consumer applications, which it believes is one of the most comprehensive lines of lithium manganese dioxide primary batteries commercially available. The Company also supplies rechargeable lithium ion and lithium polymer batteries for use in portable electronic applications.

Effective December 31, 2002, the Company changed its fiscal year-end from June 30 to December 31.

For several years, the Company had incurred net operating losses primarily as a result of funding research and development activities and, to a lesser extent, incurring manufacturing and selling, general and administrative costs. During the twelve month period ended June 30, 2002, the Company realigned its resources to bring costs more in line with revenues, moving the Company closer to achieving operating cash breakeven and profitability. In addition, the Company refined its rechargeable strategy to allow it to be more effective in the marketplace. As a result of the Company's focus on its key financial goals, the Company successfully achieved operating profitability for the first time in its history in the quarter ended March 29, 2003.

The Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt, cylindrical and various other non-rechargeable specialty batteries. The Rechargeable Batteries segment includes the Company's lithium polymer and lithium ion rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Corporate segment consists of all other items that do not specifically relate to the three other segments and are not considered in the performance of the other segments.

Results of Operations (in whole dollars)

Three months ended September 27, 2003 and September 28, 2002

Revenues. Consolidated revenues for the three-month period ended September 27, 2003 amounted to \$19,874,000, an increase of \$13,027,000, or 190%, from the \$6,847,000 reported in the same quarter in the prior year. Primary battery sales increased \$12,772,000, or 191%, from \$6,678,000 last year to \$19,450,000 this year, mainly as a result of strong shipments of HiRate(R) battery products, including sales of BA-5390 batteries used mainly in various communications and weapons applications in the military, as well as higher 9-volt battery sales. Rechargeable revenues rose \$124,000 to \$293,000 as the Company's broadened strategy to include battery assemblies resulted in new customers. Technology Contract revenues were \$131,000 in the third quarter of 2003 as certain milestones were met on a development contract with the U.S. Army. There were no Technology Contract revenues reflected during the comparable three-month period in 2002.

Cost of Products Sold. Cost of products sold totaled \$15,981,000 for the quarter ended September 27, 2003, an increase of \$9,263,000, or 138% over the same three-month period a year ago. The gross margin on consolidated revenues for the quarter was \$3,893,000, or 20% of revenues, an improvement of \$3,764,000 over the \$129,000, or 2% of revenues, reported in the same quarter in the prior year. Gross margins in the Company's primary battery operations improved \$3,704,000, from \$421,000 in 2002 to \$4,125,000 in 2003. As a percentage of revenues, primary battery margins amounted to 21% in the third quarter of 2003 compared with 6% in 2002. This improvement resulted mainly from higher sales and production volumes that spread manufacturing overhead costs over a broader base, as well as improvements in manufacturing efficiencies. In the Company's rechargeable operations, the gross margin loss amounted to \$318,000 in the third quarter of 2003, relatively consistent with the same period in 2002. Gross margins in the Technology Contract segment were \$86,000 in the September quarter of 2003.

During the third quarter of 2003, the Company's production volumes continued to be limited by equipment capacity, with the workforce generally working 13 out of 14 days in order to keep pace with product demand. As of September 2003, the Company had more than doubled its direct labor force since December 2002, adding more than 350 people to manufacturing operations. As a result of this rapid growth, certain inefficiencies were inherent in the production operations, including the need to work significant amounts of overtime to meet customer delivery requirements and significant training and learning curve issues. As the Company installs additional equipment to alleviate the capacity constraints during the next several months, manufacturing efficiencies are expected to improve as the direct labor force stabilizes and benefits of automation are realized. In addition to labor efficiencies, the Company expects to realize further direct material cost reductions as production volumes increase.

Operating Expenses. Operating expenses for the three months ended September 27, 2003 totaled \$2,750,000, a \$704,000 increase over the prior year's amount of \$2,046,000. Research and development charges increased \$175,000 to \$652,000 in 2003 due to an increased focus in the development of military batteries, as well as the development of opportunities for new rechargeable batteries. Selling, general, and administrative expenses increased \$529,000 to \$2,098,000 due to higher

compensation costs and professional fees. Overall, operating expenses as a percentage of sales improved significantly, from 30% in the September 2002 quarter to 14% in the September 2003 quarter, as the revenue base increased.

Other Income (Expense). Interest expense, net, for the third quarter of 2003 was \$143,000, an increase of \$61,000 from the comparable period in 2002, mainly as a result of higher revolving loan balances. Equity loss in Ultralife Taiwan, Inc., (UTI) was \$959,000 in the third quarter of 2002 compared with zero in the third quarter of 2003. This change resulted from an October 2002 change in the method of accounting for the Company's investment in UTI, from the equity method of accounting to the cost method of accounting. In October 2002, the Company sold a portion of its equity investment in UTI, reducing its ownership interest from approximately 30% to approximately 10.6%. Subsequent to the completion of this transaction, UTI has raised additional equity capital and the Company's ownership interest in UTI has declined to approximately 9.2% as of September 27, 2003. A \$781,000 gain from the forgiveness of debt/grant was recorded during the third quarter of 2003 as the Company fulfilled its obligation to increase employment levels under a government-sponsored loan. Miscellaneous income / expense changed from income of \$221,000 in 2002 to an expense of \$4,000 in 2003 due to smaller gains on foreign currency translations, primarily related to dealings with the Company's affiliate in the U.K. In July 2003, the Company reevaluated the amount of the intercompany loan and determined that a significant portion of the loan owed by the U.K. subsidiary to the U.S. parent company is unlikely to be repaid within the foreseeable future. As a result, the impact of the foreign currency translations on the Consolidated Statement of Income related to this intercompany loan balance has been significantly diminished.

Net Income. Net income and diluted earnings per share were \$1,777,000 and \$0.12, respectively, for the three months ended September 27, 2003, compared to a net loss and loss per share of \$2,737,000 and \$0.21, respectively, for the same quarter last year, primarily as a result of the reasons described above. Average common shares outstanding used to compute basic earnings per share increased mainly due to the Company's private equity offering in April 2002, stock option exercises in 2003, and the conversion of a short-term note in June 2003, offset in part by the reacquisition of shares from UTI that resulted from the Company's sale of a portion of its interest in UTI in October 2002. The increase in the Company's stock price during 2003 and the related impact on stock options and warrants "in the money" resulted in an additional 1,132,000 shares for the average diluted shares outstanding computation.

Nine months ended September 27, 2003 and September 28, 2002

Revenues. Consolidated revenues totaled \$55,412,000 for the nine-month period ended September 27, 2003, an increase of \$31,125,000, or 128%, from the \$24,287,000 reported for the same nine months in 2002. Primary battery sales increased \$29,935,000, or 126%, from \$23,717,000 last year to \$53,652,000 this year, mainly as a result of strong shipments of HiRate(R) battery products, including sales of BA-5390 batteries used mainly in various communications and weapons applications in the military, as well as higher 9-volt sales. Rechargeable revenues rose \$604,000 to \$931,000 as the Company's broadened strategy including battery assemblies began to develop new customers. Technology Contract revenues increased \$586,000 to \$829,000 in the first nine months of 2003 as certain milestones were met on a development contract with the U.S. Army.

Cost of Products Sold. Cost of products sold totaled \$43,629,000 for the nine months ended September 27, 2003, an increase of \$21,478,000, or 97% over the same nine-month period a year ago. The gross margin on consolidated revenues for the nine-month period of 2003 was \$11,783,000, or 21% of revenues, an improvement of \$9,647,000 over the \$2,136,000, or 9% of revenues, in the same period in the prior year. Gross margins in the Company's primary battery operations improved \$8,873,000, from \$3,424,000 in 2002 to \$12,297,000 in 2003. As a percentage of revenues, primary battery margins amounted to 23% in the first three quarters of 2003 compared with 14% in 2002. This improvement resulted mainly from higher sales and production volumes, in addition to manufacturing efficiencies. In

the Company's rechargeable operations, the gross margin loss amounted to \$914,000 in the first nine months of 2003 compared with a loss of \$1,310,000 in the same period in 2002. This improvement in the rechargeable area was the result of higher sales volumes and the favorable impact from cost savings initiatives that were implemented during the first quarter in 2002, as well as lower depreciation charges. Gross margins in the Technology Contract segment increased from \$22,000 in 2002 to \$400,000 in 2003 as a result of higher sales and contracts with higher margins.

During the first nine months of 2003, the Company's production volumes increased in order to keep pace with product demand. As a result, the Company has more than doubled its direct labor force since December 2002, adding more than 350 people to manufacturing operations. Certain inefficiencies in the production operation resulting from the rapid manufacturing ramp-up, including the need to work significant amounts of overtime to meet customer delivery requirements, are expected to improve as the direct labor force stabilizes and additional production equipment is installed to alleviate various manual processes. In addition, the Company expects to realize further direct material cost reductions over the levels achieved in the first half of 2003 as production volumes increase.

Operating Expenses. Operating expenses for the nine months ended September 27, 2003 totaled \$8,130,000, an increase of \$211,000 from the prior year, excluding the \$14,318,000 impairment charge related to rechargeable assets. This increase was primarily attributable to higher selling, general and administrative costs, which increased \$942,000, mainly as a result of higher compensation expenses and higher professional fees. As a percentage of sales, total operating expenses (excluding impairment charges) declined noticeably from 33% in the first nine months of 2002 to 15% in the same period in 2003, mostly due to the higher revenue base.

Other Income (Expense). Interest expense, net, for the first nine months of 2003 rose \$97,000 to \$380,000 due to interest expense associated with the \$500,000 short-term convertible note that was issued in March 2003 and higher revolving loan balances. Equity loss in Ultralife Taiwan, Inc., (UTI) was \$2,138,000 in the first nine months of 2002 compared with zero in the same period of 2003. This change resulted mainly from an October 2002 change in the method of accounting for the Company's investment in UTI, from the equity method of accounting to the cost method of accounting. In October 2002, the Company sold a portion of its equity investment in UTI, reducing its ownership interest from approximately 30% to approximately 10.6%. Subsequent to the completion of this transaction, UTI has raised additional equity capital and the Company's ownership interest in UTI has declined to approximately 9.2% as of September 27, 2003. A \$781,000 gain from the forgiveness of debt/grant was recorded during the third quarter of 2003 as the Company fulfilled its obligation to increase employment levels under a government-sponsored loan. Miscellaneous income decreased from \$486,000 in 2002 to \$183,000 in 2003 due to smaller gains on foreign currency translations, primarily related to dealings with the Company's affiliate in the U.K. In July 2003, the Company reevaluated the amount of the intercompany loan and determined that a significant portion of the loan owed by the U.K. subsidiary to the U.S. parent company is unlikely to be repaid within the foreseeable future. As a result, the impact of the foreign currency translations on the Consolidated Statement of Income related to this intercompany loan balance has been significantly diminished.

Net Income. Net income and diluted earnings per share were \$4,237,000 and \$0.31, respectively, for the nine month period ended September 27, 2003, compared to a net loss and loss per share of \$22,036,000 and \$1.72, respectively, for the same nine-month period last year, primarily as a result of the reasons described above. Average common shares outstanding changed due to the Company's private equity offering in April 2002, stock option exercises during 2003, and the conversion of a short-term note in June 2003, offset in part by the reacquisition of shares from UTI that resulted from the Company's sale of a portion of its interest in UTI in October 2002. The increase in the Company's stock price during 2003 and the related impact on stock options and warrants "in the money" resulted in an additional 697,000 shares for the average diluted shares outstanding computation.

Liquidity and Capital Resources (in whole dollars)

As of September 27, 2003, cash equivalents and available for sale securities totaled \$879,000, excluding restricted cash of \$50,000. During the nine months ended September 27, 2003, the Company used \$3,104,000 of cash in operating activities as compared to \$4,033,000 for the nine months ended September 28, 2002. During the first three quarters of 2003, the Company's net income plus depreciation and amortization were more than offset by an increase in working capital usage, particularly a \$9,642,000 increase in accounts receivable related to the significant rise in sales during the period. In the nine months ended September 27, 2003, the Company used \$4,542,000 to purchase plant, property and equipment, an increase of \$3,649,000 from the prior year's capital expenditures, mainly as a result of the need to increase production capacity for cylindrical cells as demand from military customers grew significantly. During the nine month period ended September 27, 2003, the Company generated \$7,185,000 in funds from financing activities. The financing activities included inflows from issuance of stock, mainly as stock options were exercised during the period, a \$500,000 90-day note converted into shares of common stock in June 2003, and the final payment of \$117,000 that was received on a \$750,000 government grant/loan, offset in part by payments on debt obligations. In addition, the Company had accessed \$4,908,000 of its revolving credit facilities as of September 27, 2003 to finance working capital needs.

Months cost of sales in inventory at September 27, 2003 was 1.7 months based on a rolling three-month average, compared with 2.0 months at December 31, 2002. This metric is indicative of the rapid turnaround of product to the military and the high volume of sales during the first nine months of 2003, as well as the Company's continuing focus to improve purchasing procedures and inventory controls. The Company's Days Sales Outstanding (DSOs) was an average of 50 days for the first nine months of 2003, compared with an average of 60 days for the same nine-month period in 2002. This improvement in DSOs mainly reflects the significant increase in sales to the U.S. military and the associated favorable impact from the timely payments made by them.

At September 27, 2003, the Company had a capital lease obligation outstanding of \$103,000 for the Company's Newark, New York offices and manufacturing facilities.

As of September 27, 2003, the Company had open capital commitments to purchase approximately \$2,584,000 of production machinery and equipment, of which \$1,416,000 is expected to be reimbursed to the Company and owned by the U.S. Army / CECOM in conjunction with the agreement announced in September 2003. Pursuant to that agreement, the U.S. Army will pay approximately \$3,100,000 for the installation of machinery and equipment through the end of the first quarter of 2004, increasing the production capacity for military batteries.

On March 25, 2003, the Company's primary lending bank and the Company agreed to amend the Company's \$15,000,000 credit facility. Among other things, the amendment extended the maturity date to June 30, 2004, allowed for the collateral release of accounts receivable related to the Company's subsidiary in the U.K. affording it the ability to enter into a separate revolving credit facility, and also revised certain limitations on customer concentration to account for the increased sales activity with the U.S. military. The Company has classified the portion of this debt that is due and payable as of September 27, 2003 as a short-term liability on the Consolidated Balance Sheet because the credit facility expires in less than one year. As of September 27, 2003, the Company had \$1,467,000 outstanding under the term loan component of the credit facility, and had \$4,568,000 of borrowings outstanding under the revolver component of the credit facility. The Company's additional borrowing capacity under the revolver component of the credit facility as of September 27, 2003 was approximately \$4,400,000, net of outstanding letters of credit of \$3,800,000. At September 27, 2003, the Company's net worth was \$29,763,000, compared to the debt covenant requiring a minimum net worth of approximately \$19,200,000.

On April 29, 2003, Ultralife Batteries (UK) Ltd., the Company's wholly-owned U.K. subsidiary, completed an agreement for a revolving credit facility with a commercial bank in the U.K. Any borrowings against this credit facility are collateralized with that company's outstanding accounts receivable balances. The maximum credit available to that company under the facility is approximately \$700,000. This credit facility provides the Company's U.K. operation with additional financing flexibility for its working capital needs. At September 27, 2003, the outstanding borrowings under this revolver were \$340,000.

In November 2001, the Company received approval for a \$750,000 grant/loan from a federally sponsored small cities program. The grant/loan has assisted in funding capital expansion plans that the Company expected would lead to job creation. The Company has been reimbursed for approved capital as it incurred the cost. In August 2002, the \$750,000 small cities grant/loan documentation was finalized and the Company was reimbursed approximately \$400,000 for costs it had incurred to date for equipment purchases applicable under this grant/loan. During the first quarter of 2003, \$117,000 under this grant/loan was reimbursed as the Company incurred additional expenses and submitted requests for reimbursement. By the end of March 2003, all \$750,000 had been advanced to the Company. If the Company were to meet its employment quota requirements by April 1, 2005, the loan and all associated accrued interest would be forgiven. If the Company did not meet its employment quota requirements, then the funds advanced and the associated interest would be converted into a loan that will be repaid over a seven-year period. The Company had initially recorded the proceeds from this grant/loan as a long-term liability. In September 2003, the Company fulfilled its obligations and had met its employment quota requirements, and the loan has been forgiven. As a result, the Company reclassified this liability and associated accrued interest from the Consolidated Balance Sheet and has recorded miscellaneous income of \$781,000 in the September 2003 quarter. Interest had been accrued at a rate of 5% per year.

On March 4, 2003, the Company completed a short-term financing to help it meet certain working capital needs as the Company was growing rapidly. Pursuant to the terms of the note, the three-month, \$500,000 note, which accrued interest at 7.5% per annum, was converted into 125,000 shares of common stock at \$4.00 per share on June 4, 2003. Accrued interest was paid to the note holder on the maturity date.

During the first nine months of 2003, the Company issued 345,483 shares of common stock as a result of exercises of stock options and warrants. The Company received approximately \$2,260,000 in cash proceeds as a result of these transactions.

The Company is optimistic about its future prospects and growth potential. However, the recent rapid growth of the business has created a near-term need for certain machinery, equipment and working capital in order to increase capacity and build product to meet demand. In certain areas of manufacturing, the Company has been producing at or near capacity. In order to increase its capacity in these areas, the Company has added a significant number of people and is adding machinery and equipment to enhance its ability to continue to fulfill this demand. The Company continues to explore other sources of capital, including utilizing its unleveraged assets as collateral for additional borrowing capacity, issuing debt and raising equity through a private or public offering. Although it is evaluating these alternatives, the Company believes it has the ability over the next 12 months to finance its operations primarily through internally generated funds, or through the use of additional financing that currently is available to the Company.

As described in Part II, Item 1, "Legal Proceedings", the Company is involved in certain environmental matters with respect to its facility in Newark, New York. Although the Company has reserved for expenses related to this, there can be no assurance that this will be the maximum amount. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved.

The Company typically offers warranties against any defects due to product malfunction or workmanship for a period up to one year from the date of purchase. The Company also offers a 10-year warranty on its 9-volt batteries that are used in ionization-type smoke detector applications. The Company provides for a reserve for this potential warranty expense, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event the Company's experiences a significant increase in warranty claims, there is no assurance that the Company's reserves are sufficient. This could have a material adverse effect on the Company's business, financial condition and results of operations.

Outlook (in whole dollars)

Compared to the guidance last provided by management of \$2,100,000 in Operating Income for the third quarter of 2003, the Company actually reported Operating Income of \$1,143,000. This \$957,000 shortfall resulted from (a) lower margins per unit than originally expected under the \$18,600,000 contract with the U.S. Army / CECOM to produce BA-5390 batteries (a \$547,000 impact), (b) production disruptions due to unusually high temperatures during the summer in the Company's U.K. facility, making it difficult to operate the humidity controlled dry rooms effectively, and (c) equipment operating failures in the U.S. operations due to running at levels above normal capacity. The Company does not expect these production inefficiencies to recur in the fourth quarter of 2004, as it has added additional equipment to enhance overall production capacity.

The Company expects revenues in its fourth quarter of calendar 2003 to reach approximately \$23,000,000, as new equipment is commissioned and overall capacity increases. This would result in total revenues for 2003 of approximately \$78,000,000 (up from the previous guidance of approximately \$75,000,000), compared with \$33,039,000 in 2002, an increase of more than 135%. Demand for the BA-5390 battery remains very strong, and the Company continues to respond as quickly as possible to the orders on hand. The Company's current outlook incorporates the margin adjustments that were recently made to the \$18,600,000 BA-5390 "exigent" contract with the U.S. Army / CECOM, as well as other possible margin adjustments on other "exigent" contracts that the Company has, or expects to have, with them.

The Company has a fairly substantial fixed cost infrastructure to support its overall operations. The Company believes that incremental sales volumes can generate added gross margins in the range of 30%, based on recent results and subject to product mix and the ability to maintain consistent levels of pricing. Conversely, decreasing sales volumes will result in the opposite effect. During the December 2001 and March 2002 quarters, the Company was able to significantly reduce costs through various cost savings actions, moving it toward cash generation and profitability. As the Company continues to grow and leverage this infrastructure, it believes that sustainable profitability can be achieved.

The Company continues to monitor its operating costs very tightly. In the fourth quarter of 2003, the Company is projecting operating expenses to be relatively consistent with the first three quarters of 2003, in the range of approximately \$2,800,000.

The Company expects that operating income in the December 2003 quarter will be approximately \$2,000,000 and net income will be approximately \$1,850,000, based on the Company's projected revenues and the assumptions that other income and expense consists only of net interest expense of approximately \$150,000 and there are no applicable income taxes. While management expects to realize general improvements in manufacturing efficiencies during the quarter, the holiday season is expected to result in fewer productive workdays, and margins on the BA-5390 batteries produced for the U.S. Army / CECOM are expected to decline due to the significantly higher contract volumes and pressure on unit margins. This compares to an operating loss of \$1,738,000 and a net loss of \$375,000 in the December 2002 quarter. For the full year of 2003, this will result in a total operating income of approximately \$5,700,000 and net income (before applicable income taxes) of approximately \$6,100,000, compared with an operating loss of \$21,839,000 and a net loss of \$22,411,000, including a \$14,318,000 asset impairment charge, for the full calendar year of 2002. The guidance previously provided called operating income in the range of \$7,000,000 for the

year. The Company's current guidance for operating income for the full year is less than the previous guidance due to lower margins than expected on BA-5390 contracts with the U.S. Army / CECOM, as well as capacity constraints that have resulted in the Company being less efficient than expected during this phase of its production ramp up.

At December 31, 2002, the Company had approximately \$78,800,000 of net operating loss carryforwards applicable to income taxes. Due to the consistent losses reported in prior years, the Company has not reported a deferred tax asset on its Consolidated Balance Sheet due to the uncertainty of its ability to utilize the benefits of these tax losses in the future. As a result of the positive earnings trend during 2003, the Company needs to reevaluate these income tax benefits. During the fourth quarter of 2003, the Company will assess the likelihood of being able to utilize these benefits against taxable earnings, which may result in the recognition of a deferred tax asset on the Consolidated Balance Sheet when this assessment is made, along with an ongoing income tax expense on the Consolidated Statement of Income into the future. The Company is unable to adequately quantify the amount of these impacts on the financial statements at this time. In addition, if it is determined that a change in ownership as defined under Internal Revenue Code Section 382 has occurred, the net operating loss carry forwards will be subject to an annual limitation. Such a limitation could result in the possibility of a cash outlay for income taxes for the year ended December 31, 2003.

Looking ahead to 2004, the Company believes that total revenues will exceed \$100,000,000 for the year, a nearly 30% increase over 2003. This growth is expected to be generated from all areas of the business. The Company has solid order coverage from the military booked into the first half of 2004, and the commitment by the U.S. Army to purchase approximately \$3,100,000 of machinery and equipment on the Company's behalf is an indicator that demand from the military will continue to be strong into next year. Quarterly, revenues are expected to be fairly consistent throughout the year at this time.

The Company's basic financial model is to drive gross margins to exceed 25% of revenues, and to drive operating expenses as a percentage of sales down below 12%, resulting in a pre-tax operating profit margin in the range of 15%. The Company believes that these targets can be realized by continuing to grow the revenue base while improving manufacturing efficiencies, in addition to monitoring operating expenses closely.

At this time, operating income for 2004 is expected to be in the range of \$11,000,000. Gross margins are expected to improve as manufacturing efficiencies are realized with a more experienced workforce, and operating expenses as a percentage of revenues are expected to decline.

In order to meet the significant demand from the military, the Company is continuing to make prudent investments in capital equipment that have a very short payback. At this time, the Company believes that expenditures for capital projects in 2003 will be approximately \$5,500,000 to \$6,000,000, based on the recent volume of orders and the expectation that demand will continue to increase across all product lines. In addition, the Company received a contract from the U.S. Army / CECOM whereby they will provide funding for approximately \$3,100,000 of machinery and equipment related to the production of BA-5390 batteries, to ensure that there is adequate capacity to produce at increased volumes, if necessary. The Company will act as the intermediary to ensure proper installation and setup, receiving reimbursement for expenditures made throughout the process. This specific equipment will be installed on the Company's premises, but the title to the equipment will reside with the U.S. Army. As of September 27, 2003, the Company has incurred expenditures of approximately \$1,400,000 on behalf of the U.S. Army / CECOM, which was included in other current assets on the Consolidated Balance Sheet because the Company will invoice the U.S. Army / CECOM for reimbursement of these funds. Since the lead time, in general, for ordering certain production equipment can range from six to twelve months, the Company has had to make some up front investments in capital in order to increase its capacity to meet anticipated demand. The recent success and the continued outlook for growth has required the Company to make some such investments in new equipment during 2003. The Company carefully evaluates such projects and will only make capital investments when necessary and when there is typically a favorable payback period.

As the Company's volume grows, it expects that working capital needs related to increasing sales volumes and inventory levels will be able to be financed by its revolving credit facility. The Company continually explores its financing alternatives, including utilizing its unleveraged assets as collateral for additional borrowing capacity, refinancing current debt or issuing new debt, and raising equity through a private or public offering. Although it is evaluating these alternatives, the Company believes it has the ability over the next 12 months to finance its operations primarily through internally generated funds, or through the use of additional financing that currently is available to the Company. While the Company is confident that it will be successful in continuing to arrange adequate financing to support its growth, there can be no assurance that the Company will be able to do so. Therefore, this could have a material adverse effect on the Company's business, financial position and results of operations.

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others Indebtedness." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others." The initial recognition and measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The only material guarantees that the Company has in accordance with FASB Interpretation No. 45 are product warranties. All such guarantees have been appropriately recorded in the financial statements.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years after December 15, 2003. The Company currently applies the intrinsic value method and has no plans to convert to the fair value method.

In December 2002, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities." This Interpretation requires companies to reevaluate their accounting for certain investments in "variable interest entities." A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. Variable interest entities are to be consolidated if the Company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The disclosure requirements of this Interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements of this Interpretation have been deferred and are effective for all periods ending after December 15, 2003. The Company has no investments in variable interest entities.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The standard amends and clarifies financial reporting for derivative instruments and for hedging activities accounted for under SFAS No. 133 and is effective for contracts entered into or modified, and for hedges designated, after June 30, 2003. The Company has no derivative instruments and adoption of the standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity." The standard establishes how an issuer classifies and measures certain freestanding financial instruments with characteristics of liabilities and equity and requires that such instruments be classified as liabilities. The standard is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of the standard has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the Emerging Issues Task Force (EITF) issued Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is required, how the arrangement consideration should be allocated among the separate units of accounting. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Adoption of this Issue has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the EITF issued Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease". EITF Issue No. 01-08 provides guidance on how to determine whether an arrangement contains a lease that is within the scope of SFAS No.13, "Accounting for leases". The guidance in this Issue is effective for arrangements agreed or committed to, or modified after July 1, 2003. Adoption of the standard has not had a material impact on the Company's consolidated financial position, results of operations or cash flows.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company is exposed to various market risks in the normal course of business, primarily interest rate risk and changes in market value of its investments and believes its exposure to these risks is minimal. The Company's investments are made in accordance with the Company's investment policy and primarily consist of commercial paper and U.S. corporate bonds. The Company does not currently invest in derivative financial instruments.

Item 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures - The Company's president and chief executive officer (principal executive officer) and its vice president- finance and chief financial officer (principal financial officer) have evaluated the disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, the president and chief executive officer and vice president - finance and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of such date.

Changes In Internal Controls Over Financial Reporting - There has been no change in the internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims which arise in the normal course of business. The Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment which revealed the existence of contaminated soil and ground water around one of the buildings. The Company retained an engineering firm which estimated that the cost of remediation should be in the range of \$230,000. This cost, however, is merely an estimate and the cost may in fact be much higher. In February, 1998, the Company entered into an agreement with a third party which provides that the Company and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse the Company for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. The Company has fully reserved for its portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (NYSDEC) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. The Company responded by submitting a work plan to NYSDEC, which was approved in April 2002. The Company has sought proposals from environmental remediation firms to complete the remedial work contained in the work plan, but it is unknown at this time whether the final cost to remediate will be in the range of the original estimate, given the passage of time. Because this is a voluntary remediation, the Company does not have a specified time frame in which to complete the project. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved. Furthermore, the Company may face claims resulting in substantial liability which could have a material adverse effect on the Company's business, financial condition and the results of operations in the period in which such claims are resolved.

A retail end-user of a product manufactured by one of Ultralife's customers (the "Customer"), has made a claim against the Customer wherein it is asserted that the Customer's product, which is powered by an Ultralife battery, does not operate according to the Customer's product specification. No claim has been filed against Ultralife. However, in the interest of fostering good customer relations, in September 2002, Ultralife agreed to lend technical support to the Customer in defense of its claim. The claim between the end-user and the Customer has now been settled. Ultralife has renewed its commitment to the Customer to honor its warranty by replacing any batteries that may be determined to be defective. In the event a claim is filed against Ultralife and it is ultimately determined that Ultralife's product was defective, replacement of batteries to this Customer or end-user may have a material adverse effect on the Company's financial position and results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Form of Stock Purchase Agreement Dated October 7, 2003 (Three separate but identical (other than subscription amount) stock purchase agreements for Corsair Capital Partners, LP, Corsair Long Short International Ltd., and Neptune Partners, LP for an aggregate 200,000 shares for an aggregate purchase price of \$2,500,000)
- 10.2 Form of Registration Rights Agreement Dated October 7, 2003 (Three separate but identical registration rights agreements for Corsair Capital Partners, LP, Corsair Long Short International Ltd., and Neptune Partners, LP)
- 10.3 Loan and Subscription Agreement with Ultralife Taiwan, Inc. Dated October 7, 2003
- 31.1 Section 302 Certification - CEO
- 31.2 Section 302 Certification - CFO
- 32 Section 906 Certifications

(b) Reports on Form 8-K

On July 28, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing the receipt of a multi-million dollar order and annual contract renewal to continue supplying its advanced 9-volt lithium battery under private label for an existing major consumer battery-brand customer.

On July 29, 2003, the Company announced that it would report its second quarter 2003 results for the period ended June 28, 2003 on August 7, 2003.

On July 30, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing receipt of an order valued at \$545,000 for its HiRate D-size lithium cells from one of its U.S. battery assembly customers.

On August 5, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing a contract, valued at \$28 Million, awarded by the U.S. Army Communications Electronic Command for its BA-5390/U battery. Shipments will begin in November 2003 and continue into the first quarter of 2004.

On August 7, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing its second quarter 2003 earnings.

On August 13, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing the receipt of a \$2.9 million order for its lithium Thin Cell (R) batteries from an undisclosed U.S. medical device maker. Cell deliveries began in September and extend into 2004.

On August 19, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing the receipt of a \$1.4 million order for its HiRate(TM) D-size lithium cells from one of its U.S. battery assembly customers. Deliveries have begun and are expected to continue through the first quarter of 2004.

On August 27, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing that it received orders valued at approximately \$2.6 million from the U.S. Army Communications and Electronics Command for its BA-

5372/U military batteries. Deliveries against the new releases under the NextGen II contract are expected to begin in 2004 with deliveries into the 2nd half of the year.

On September 24, 2003, the Company filed a Form 8-K with the Securities and Exchange Commission announcing that it signed a contract with the U.S. Department of the Army - Communications and Electronics Command (CECOM) whereby the Company will receive \$3.1 million to purchase, on behalf of CECOM, manufacturing equipment to expand its BA-5390 lithium-manganese dioxide battery manufacturing capability.

SIGNATURES

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

ULTRALIFE BATTERIES, INC.

(Registrant)

Date: November 6, 2003

By: /s/ John D. Kavazanjian

John D. Kavazanjian
President and Chief Executive Officer

Date: November 6, 2003

By: /s/ Robert W. Fishback

Robert W. Fishback
Vice President - Finance and Chief
Financial Officer

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (the "Agreement") is made as of the 7th day of October, 2003 between ULTRALIFE BATTERIES, INC., a Delaware corporation (the "Company") and _____, a _____ (the "Purchaser").

Recitals

The Company desires to issue and sell, and the Purchaser desires to buy, shares of the Common Stock, \$0.10 par value (the "Common Stock") of the Company on the terms and conditions set forth in this Agreement. The Company has authorized the sale of 200,000 shares of its Common Stock in a private placement at a price of \$12.50 per share to raise \$2,500,000 of working capital, the net proceeds of which the Company intends to use to fund a purchase of securities issued by Ultralife Taiwan, Inc., and anticipates closing the sale of the Common Stock upon the execution and delivery of this Agreement.

The Company and the Purchaser acknowledge that, in addition to the Purchaser, there will be others who will be subscribing for shares of the Company's Common Stock and that there will be a simultaneous closing of all subscriptions.

In consideration of the covenants and conditions set forth in this Agreement, the parties agree as follows:

1. Sale of Shares. The Company agrees to sell, transfer and assign to the Purchaser and, subject to and in reliance upon the representations, warranties, terms and conditions of this Agreement, the Purchaser agrees to purchase _____ newly issued shares of Common Stock or shares issued from the Company's treasury (the "Shares") at a purchase price of \$12.50 per share for an aggregate purchase price of \$_____ (the "Purchase Price").

2. Closing. The closing of the purchase and sale of the Shares (the "Closing") shall be held concurrently with the execution and delivery of this Agreement at the offices of the Company, or at such other time and place or in such other manner as the Company and the Purchaser may agree. At the Closing, upon receipt of the Purchase Price for the Shares by wire transfer to the Company's account, the Company shall authorize its transfer agent to issue to the Purchaser a certificate representing the Shares bearing the legend required by Section 7 of this Agreement. Within ten (10) business days of the Closing, the Company will cause to be delivered to the Purchaser a certificate representing the Shares.

3. Representations of the Company. The Company represents, warrants and agrees as follows:

(a) Neither the execution nor delivery by the Company of this Agreement will conflict with or violate any provision of the Articles of Incorporation, Bylaws or any agreement to which the Company is a party.

(b) The Shares, when issued, sold, delivered and paid for in accordance with the terms hereof, will be duly and validly issued, fully paid and nonassessable.

(c) The sale and issuance of the Shares in accordance with the terms of and on the basis of the representations and warranties set forth in this Agreement, will be exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act").

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(d) This Agreement has been duly executed and delivered by the Company and is enforceable against the Company in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, fraudulent transfer, marshalling or similar laws affecting creditors' rights and remedies generally, and general principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether such enforceability is considered in a proceeding in equity or at law). Except for any notice of issuance to or listing of additional shares with NASDAQ, if required, all consents, approvals, orders or authorizations of, or registrations, qualifications, designations or filings with any federal or state governmental authority on the part of the Company required in connection with the consummation of the transactions contemplated herein have been obtained and are effective.

4. Representations of the Purchaser. The Purchaser represents, warrants and agrees as follows:

(a) It is the Purchaser's present intention to acquire the Shares hereunder for the Purchaser's own account as principal and the Shares are being and will be acquired for the purpose of investment and not with a view to

distribution or resale except in accordance with the provisions of a registration statement declared effective by the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Act").

(b) The Purchaser has such knowledge and experience in business and financial matters that the Purchaser is capable of evaluating the merits and risks of the investment contemplated hereby.

(c) The Purchaser has full power and authority to execute, deliver and perform this Agreement and to make this Agreement the valid and enforceable obligation of the Purchaser.

(d) The Purchaser understands that the Shares will be "restricted securities" as that term is defined in Rule 144 under the Act and that the Shares may only be resold in compliance with applicable federal and state securities laws.

(e) The Purchaser's domicile is located at the Purchaser's address set forth on the signature page hereto.

(f) The Purchaser is an "Accredited Investor" as defined in Rule 501(a) of the Act, a copy of which is set forth on Exhibit A to this Agreement, and the Purchaser has certified to the Company the basis for that Purchaser's Accredited Investor status by checking the appropriate category on Exhibit A and signing and dating that Exhibit.

(g) The Purchaser has no contract, understanding, agreement or arrangement with any person to sell, transfer or pledge to such person or anyone else any of the Shares the Purchaser hereby purchases (in whole or in part) and that the Purchaser has no present plans to enter into any such contract, undertaking, agreement or arrangement.

(h) The Purchaser will provide, if requested, any additional information that may be requested or required to determine the Purchaser's eligibility to purchase the Shares.

(i) The Purchaser acknowledges that the Purchaser's representations, warranties, acknowledgements and agreements in this Agreement will be relied upon by the Company in determining the Purchaser's suitability as a purchaser of the Shares.

(j) The Purchaser has not retained a broker or finder in connection with the Purchaser's purchase of the Shares and to the Purchaser's knowledge there are no other brokers or finders entitled to compensation in connection with the sale of the Shares to the Purchaser other than Richard Hansen and William Gomez, who shall share in the fee to be paid by the Company to Richard Hansen.

5. Company Information. The Purchaser and the Company agree that each is capable of evaluating the merits and risks of the purchase and sale, respectively, of the Shares hereunder. The Purchaser acknowledges that it has reviewed the Company's (i) Annual Report on Form 10-K for the transition period ended December 31, 2002 (the "Transition Report"), as filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) Proxy Statement for its 2003 Annual Meeting of Shareholders; (iii) Quarterly Reports on Form 10-Q, as amended, for the fiscal quarters ended March 29, 2003 and June 28, 2003 as filed with the SEC pursuant to the Exchange Act; and (iv) all other reports filed with the SEC since June 28, 2003. Since June 28,

2003, the Company has filed with the SEC all reports, documents, definitive proxy statements and all other filings required to be filed with the SEC. The Purchaser further acknowledges that it has reviewed the Risk Factors of the Company set forth in the Transition Report and the additional Risk Factors set forth on Exhibit B to this Agreement. The Purchaser further acknowledges that it has been furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Shares that have been requested by the Purchaser. The Purchaser further acknowledges that it has been afforded the opportunity to meet with and ask questions of senior officers of the Company concerning the Company's business, finance and operations, including in particular the Company's business, finances and operations since June 28, 2003.

6. Registration Rights. Within thirty (30) days of the date of Closing, the Company shall use its best efforts to prepare and file with the SEC a resale registration statement (the "Registration Statement") on Form S-3 covering the Shares (including any shares of the Company's Common Stock issued as, or issuable upon the conversion or exercise of any warrant, right or other security which is issued as, a dividend or other distribution with respect to, or in exchange for or in replacement of, the Shares), provided that Form S-3 is available to the Company for such purpose. The Company shall take all actions necessary or desirable to qualify to use Form S-3 for the registration of the resale of the Shares. The Company shall be required to file only one Registration Statement. The Purchaser and the Company agree that promptly after the Closing, they shall enter into a separate Registration Rights Agreement consistent with the provisions of this Section 6, which Registration Rights Agreement shall contain customary representations and warranties and provisions regarding indemnification and contribution.

7. Legend. The Purchaser understands and acknowledges that the certificates evidencing the Shares will bear the following legend: "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND ARE "RESTRICTED SECURITIES" AS DEFINED IN RULE 144 PROMULGATED UNDER THE ACT. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE OR OTHERWISE DISTRIBUTED EXCEPT (I) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE ACT; (II) IN COMPLIANCE WITH RULE 144; OR (III) AFTER RECEIPT OF AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO ULTRALIFE BATTERIES, INC. THAT SUCH REGISTRATION OR COMPLIANCE IS NOT REQUIRED AS TO SAID SALE, OFFER OR DISTRIBUTION."

8. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original but all of which will be deemed one instrument.

9. Expenses and Taxes. The Company shall pay any and all stamp and other taxes payable or determined to be payable in connection with the execution, delivery and performance of this Agreement and any other instruments and documents to be delivered hereunder and agrees to save the Purchaser harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and filing fees.

10. Survival of Representations and Warranties. All representations and warranties made in this Agreement or any other instrument or document delivered in connection herewith shall survive the execution and delivery hereof.

11. Prior Agreements. This Agreement constitutes the entire agreement between the parties and supersedes any prior or contemporaneous understandings or agreements concerning the subject matter hereof.

12. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

13. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. The rights of the parties under this Agreement are unique and, accordingly, the parties shall, in addition to such other remedies as may be available to any of them at law or in equity, have the right to enforce their rights hereunder by actions of specific performance to the extent permitted by law.

14. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of the Agreement for any other purpose.

15. Amendments and Waivers. This Agreement may not be amended, supplemented or otherwise modified except by an instrument in writing signed by both parties that specifically refers to this Agreement. Either party hereto may, only by an instrument in writing, waive compliance by the other party hereto with any term or provision of this Agreement on the part of such other party to be performed or complied with. The waiver by a party hereto of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach. Any amended or waiver effected in accordance with this Section 15 shall be binding upon each party and its permitted assigns.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ULTRALIFE BATTERIES, INC.

By: _____

Name:
Title:

THE PURCHASER: _____
Print Name

Signature

Address: _____

Social Security Number or
Employment Identification Number: _____

EXHIBIT A

Section 501(a) of the Securities Act of 1933, as amended:

"As used in Regulation D (17 CFR ss.ss. 230.501-230.508), the following terms shall have the meaning indicated:

- (a) Accredited investor. "Accredited investor" shall mean any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:
- (1) Any bank as defined in section 3(a)(2) of the [Securities Act of 1933, as amended (the "Act")], or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
 - (2) Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940;
 - (3) Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
 - (4) Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;
 - (5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000;
 - (6) Any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
 - (7) Any trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in ss. 230.506(b)(2)(ii); and
 - (8) Any entity in which all of the equity owners are accredited investors."

The undersigned Purchaser hereby certifies to the Company that the Purchaser is an "Accredited Investor" on the basis of the box checked above.

PURCHASER

Date: _____

Print Name

Signature

RISK FACTORS

Please carefully consider all information provided by the Company. In particular, the Risk Factors set forth in the Company's Transition Report and the following factors could cause actual results to differ materially from the matters described in the forward-looking statements, with material and adverse effects on the Company's business, operating results, financial condition and the value of Ultralife Batteries, Inc. stock.

Risks Related to Company's Ability to Finance Ongoing Operations and Projected Growth

While the Company believes that its revenue growth projections and its ongoing cost controls will allow it to continue to generate cash and achieve profitability, there is no assurance that the Company will be able to be successful. The Company's future cash flows from operations, combined with its accessibility to cash and credit, may not be sufficient to allow the Company to finance ongoing operations or to make required investments for future growth. The Company may need to seek additional credit or access capital markets for additional funds. There is no assurance that the Company would be successful in this regard.

Risks Related to Ability to Staff Adequately

As the Company has added equipment to increase production capacity, so has it increased its number of employees. The ability of the Company to continue increased production levels depends on its ability to attract, hire and retain a sufficient number of employees at its Newark, New York production facility. While the Company has retained the services of an employment agency to assist in this endeavor, there is no assurance that the Company will be able to adequately staff its Newark production facility. The inability to staff adequately would have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Timely Delivery of Quality Products from Suppliers

The Company relies upon its suppliers and vendors to provide quality materials, components and equipment for its use in production. The Company's ability to meet demand for its product and to maintain adequate production schedules for the manufacture of cells and batteries is vital for its continued success. In the event one or more of these suppliers or vendors is significantly late in meeting its delivery schedule to the Company, or if one or more demonstrates a serious inability to consistently supply quality goods, the Company may fall behind in its production schedule which could, in turn, result in late deliveries to its customers. Continued or habitual late deliveries to customers could lead to the cancellation of orders and/or loss of customers, either of which could have a material adverse effect on the Company's business.

Risks Related to Investment in Ultralife Taiwan, Inc.

The Company intends to use the net proceeds of the private placement contemplated by the Stock Purchase Agreement to which this Exhibit B is attached to fund a short-term loan and ultimate purchase of securities issued by Ultralife Taiwan, Inc. The terms and conditions of that transaction have not yet been finalized. Because of the precarious financial condition of Ultralife Taiwan, the Company may not be able to recover or realize any gain on its investment which could adversely affect the financial condition of the Company and the market value of its Common Stock.

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is made as of the 7th day of October, 2003 between ULTRALIFE BATTERIES, INC., a Delaware corporation (the "Company") and _____, a _____ (the "Purchaser").

The Company and the Purchaser have entered into that certain Stock Purchase Agreement (the "Stock Purchase Agreement") pursuant to which the Purchaser purchased _____ newly-issued shares of the Company's Common Stock or shares issued from the Company's treasury (the "Shares") at a purchase price of \$12.50 per share and also pursuant to which the Company agreed to register the Shares for the benefit of the Purchaser.

Capitalized terms not defined in this Agreement shall have the meanings given them in the Stock Purchase Agreement.

In consideration of the covenants and conditions set forth in this Agreement, the parties agree as follows:

A. REGISTRATION; COMPLIANCE WITH THE SECURITIES ACT; COVENANTS

a.1 Registration of Shares

a.1.1 Registration Statement; Expenses

The Company shall:

(a) use its best efforts to prepare and file with the Securities and Exchange Commission (the "Commission") within thirty (30) days of the date of Closing a Registration Statement on Form S-3 (or, if the Company is ineligible to use Form S-3, then on Form S-1) relating to the sale of the Shares by the Purchaser from time to time on the Nasdaq National Market (or the facilities of any national securities exchange on which the Company's Common Stock is then traded) or in privately negotiated transactions (the "Registration Statement");

(b) provide to the Purchaser any information required to permit the sale of the Shares under Rule 144A of the Securities Act;

(c) subject to receipt of necessary information from the Purchaser, use its reasonable best efforts to cause the Commission to declare the Registration Statement effective as soon as practicable after the Registration Statement is filed with the Commission;

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(d) notify Purchaser promptly upon the Registration Statement, and any post-effective amendment thereto, being declared effective by the Commission;

(e) prepare and file with the Commission such amendments and supplements to the Registration Statement and the Prospectus (as defined in Section 1.3.1 below) and take such other action, if any, as may be necessary to keep the Registration Statement effective until the earlier of (i) the date on which the Shares may be resold by the Purchaser without registration and without regard to any volume limitations by reason of Rule 144(k) under the Securities Act or any other rule of similar effect or (ii) all of the Shares have been sold pursuant to the Registration Statement or Rule 144 under the Securities Act or any other rule of similar effect;

(f) promptly furnish to the Purchaser with respect to the Shares registered under the Registration Statement such reasonable number of copies of the Prospectus, including any supplements to or amendments of the Prospectus, in order to facilitate the public sale or other disposition of all or any of the Shares by the Purchaser;

(g) during the period when copies of the Prospectus are required to be delivered under the Securities Act or the Exchange Act, will file all documents required to be filed with the Commission pursuant to Section 13, 14 or 15 of the Exchange Act within the time periods required by the Exchange Act and the rules and regulations promulgated thereunder;

(h) file documents required of the Company for customary Blue Sky clearance in all states requiring Blue Sky clearance; provided, however, that the Company shall not be required to qualify to do business or consent to service of process in any jurisdiction in which it is not now so qualified or has not so consented;

(i) advise the Purchaser, promptly after it shall receive notice or obtain knowledge of the issuance of any stop order by the Commission delaying or suspending the effectiveness of the Registration Statement or of the initiation of any proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the

earliest practicable moment if such stop order should be issued; and

(j) bear all expenses in connection with the procedures in paragraphs (a) through (i) of this Section 1.1.1 and the registration of the Shares pursuant to the Registration Statement.

a.2 Transfer of Shares After Registration

Purchaser agrees that the Purchaser will not effect any disposition of the Shares or right to purchase the Shares that would constitute a sale within the meaning of the Securities Act, except as contemplated in the Registration Statement referred to in Section 1.1 or as otherwise permitted by law, and that the Purchaser will promptly notify the Company of any changes in the information set forth in the Registration Statement regarding the Purchaser or the Purchaser's plan of distribution.

a.3 Indemnification

For the purpose of this Section 1.3, the term "Registration Statement" shall include any preliminary or final prospectus, exhibit, supplement or amendment included in or relating to the Registration Statement referred to in Section 1.1.

a.3.1 Indemnification by the Company

The Company agrees to indemnify and hold harmless the Purchaser and each person, if any, who controls the Purchaser within the meaning of the Securities Act, against any losses, claims, damages, liabilities or expenses, joint or several, to which the Purchaser or such controlling person may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company, which consent shall not be unreasonably withheld), insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, including the Prospectus, financial statements and schedules, and all other documents filed as a part thereof, as amended at the time of effectiveness of the

Registration Statement, including any information deemed to be a part thereof as of the time of effectiveness pursuant to paragraph (b) of Rule 430A, or pursuant to Rule 434, of the Rules and Regulations, or the Prospectus, in the form first filed with the Commission pursuant to Rule 424(b) of the Regulations, or filed as part of the Registration Statement at the time of effectiveness if no Rule 424(b) filing is required (the "Prospectus"), or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state in any of them a material fact required to be stated therein or necessary to make the statements in any of them, in light of the circumstances under which they were made, not misleading, or arise out of or are based in whole or in part on any inaccuracy in the representations and warranties of the Company contained in this Agreement, or any failure of the Company to perform its obligations under this Agreement or under applicable law, and will reimburse the Purchaser and each such controlling person for any legal and other expenses as such expenses are reasonably incurred by the Purchaser or such controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon (i) an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Prospectus or any amendment or supplement of the Registration Statement or Prospectus in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Purchaser expressly for use in the Registration Statement or the Prospectus, or (ii) the failure of the Purchaser to comply with the covenants and agreements contained in the Stock Purchase Agreement or in Section 1.2 of this Agreement respecting resale of the Shares, or (iii) the inaccuracy of any representations made by the Purchaser in this Agreement or (iv) any untrue statement or omission of a material fact required to make such statement not misleading in any Prospectus that is corrected in any subsequent Prospectus that was delivered to the Purchaser before the pertinent sale or sales by the Purchaser.

a.3.2 Indemnification by the Purchaser

The Purchaser will indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, against any losses, claims, damages, liabilities or expenses to which the Company, each of its directors, each of its officers who signed the Registration Statement or controlling person may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Purchaser, which consent shall not be unreasonably withheld) insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon (i) any failure on the part of the Purchaser to comply with the covenants and agreements contained in the Stock Purchase Agreement or Section 1.2 of this Agreement respecting the sale of the Shares or (ii) the inaccuracy of any representation made by the Purchaser in this Agreement or (iii) any untrue or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement to the Registration Statement or Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Purchaser expressly for use therein; provided, however, that the Purchaser shall not be liable for any such untrue or alleged untrue statement or omission or alleged omission of which the Purchaser has delivered to the Company in writing a correction before the occurrence of the transaction from which such loss was incurred, and the Purchaser will reimburse the Company, each of its directors, each of its officers who signed the Registration Statement or controlling person for any legal and other expense reasonably incurred by the Company, each of its directors, each of its officers who signed the Registration Statement or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action.

a.3.3 Indemnification Procedure

(a) Promptly after receipt by an indemnified party under this Section 1.3 of notice of the threat or commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 1.3, promptly notify the indemnifying party in writing of the claim; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any

indemnified party for contribution or otherwise under the indemnity agreement contained in this Section 1.3 or to the extent it is not prejudiced as a result of such failure.

(b) In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with all other indemnifying parties similarly notified, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be a conflict between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it or other indemnified parties that are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 7.3 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless:

(i) the indemnified party shall have employed such counsel in connection with the assumption of legal defenses in accordance with the proviso to the preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel, approved by such indemnifying party representing all of the indemnified parties who are parties to such action) or

(ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of action, in each of which cases the reasonable fees and expenses of counsel shall be at the expense of the indemnifying party. Notwithstanding the provisions of this Section 1.3, the Purchaser shall not be liable for any indemnification obligation under this Agreement in excess of the amount of net proceeds received by the Purchaser from the sale of the Shares.

a.3.4 Contribution

If the indemnification provided for in this Section 1.3 is required by its terms but is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party under this Section 1.3 in respect to any losses, claims, damages, liabilities or expenses referred to in this Agreement, then each applicable indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of any losses, claims, damages, liabilities or expenses referred to in this Agreement

(a) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Purchaser from the placement of Common Stock or

(b) if the allocation provided by clause (a) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (a) above but the relative fault of the Company and the Purchaser in connection with the statements or omissions or inaccuracies in the representations and warranties in this Agreement that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations.

The respective relative benefits received by the Company on the one hand and the Purchaser on the other shall be deemed to be in the same proportion as the amount paid by the Purchaser to the Company pursuant to this Agreement for the Shares purchased by the Purchaser that were sold pursuant to the Registration Statement bears to the difference (the "Difference") between the amount the Purchaser paid for the Shares that were sold pursuant to the Registration Statement and the amount received by the Purchaser from such sale. The relative fault of the Company and the Purchaser shall be determined by reference to, among other things, whether the untrue or alleged statement of a material fact or the omission or alleged omission to state a material fact or the inaccurate or the alleged inaccurate representation or warranty relates to information supplied by the Company or by the Purchaser

and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 1.3.3, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in Section 1.3.3 with respect to the notice of the threat or commencement of any threat or action shall apply if a claim for contribution is to be made under this Section 1.3.4; provided, however, that no additional notice shall be required with respect to any threat or action for which notice has been given under Section 1.3 for purposes of indemnification. The Company and each Purchaser agree that it would not be just and equitable if contribution pursuant to this Section 1.3 were determined solely by pro rata allocation (even if the Purchaser were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this paragraph. Notwithstanding the provisions of this Section 1.3, the Purchaser shall not be required to contribute any amount in excess of the amount by which the Difference exceeds the amount of any damages that the Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

a.4 Termination of Conditions and Obligations

The restrictions imposed by the Stock Purchase Agreement or this Agreement upon the transferability of the Shares shall cease and terminate as to any particular number of the Shares upon the passage of two years from the Closing Date or at such time as an opinion of counsel satisfactory in form and substance to the Company shall have been rendered to the effect that such conditions are not necessary in order to comply with the Securities Act.

a.5 Information Available

From the date of this Agreement through the date the Registration Statement covering the resale of Shares owned by the Purchaser is no longer effective, the Company will furnish to the Purchaser:

(a) as soon as practicable after available (but in the case of the Company's Annual Report to Shareholders, within 90 days after the end of each fiscal year of the Company), one copy of

(i) its Annual Report to Stockholders (which Annual Report shall contain financial statements audited in accordance with generally accepted accounting principles by a national firm of certified public accountants);

(ii) if not included in substance in the Annual Report to Stockholders, its Annual Report on Form 10-K;

(iii) if not included in substance in its Quarterly Reports to Stockholders, its quarterly reports on Form 10-Q; and

(iv) a full copy of the particular Registration Statement covering the Shares (the foregoing, in each case, excluding exhibits);

(b) upon the request of the Purchaser, a reasonable number of copies of the Prospectus to supply to any other party requiring the Prospectus.

a.6 Rule 144 Information

Until the earlier of (i) the date on which the Shares may be resold by the Purchaser without registration and without regard to any volume limitations by reason of Rule 144(k) under the Securities Act or any other rule of similar effect or (ii) all of the Shares have been sold pursuant to the Registration Statement or Rule 144 under the Securities Act or any other rule of similar effect, the Company shall file all reports required to be filed by it under the Securities Act, the Rules and Regulations and the Exchange Act and shall take such further action to the extent required to enable the Purchasers to sell the Shares pursuant to Rule 144 under the Securities Act (as such rule may be amended from time to time).

B. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PURCHASER

b.1 Securities Law Representations and Warranties

The Purchaser represents, warrants and covenants to the Company as follows:

(a) The Purchaser has acquired the Shares for the Purchaser's own account for investment only, and has no present intention of distributing any of the Shares, nor any arrangement or understanding with any other persons regarding the distribution of the Shares within the meaning of Section 2(11) of the Securities Act, other than as contemplated in Section 1 of this Agreement.

(b) The Purchaser will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Shares except in compliance with the Securities Act and rules and regulations promulgated thereunder the "Rules and Regulations").

(c) The Purchaser has completed or caused to be completed the Registration Statement Questionnaire, attached to this Agreement as Appendix I, for use in preparation of the Registration Statement, and the answers to the Questionnaire are true and correct as of the date of this Agreement and will be true and correct as of the effective date of the Registration Statement; provided, however, that the Purchaser shall be entitled to update such information by providing notice thereof to the Company before the effective date of the Registration Statement.

b.2 Resales of Shares

(a) The Purchaser hereby covenants with the Company not to make any sale of the Shares without satisfying the requirements of the Securities Act and the Rules and Regulations, including, in the event of any resale under the Registration Statement, the prospectus delivery requirements under the Securities Act, and the Purchaser acknowledges and agrees that such Shares are not transferable on the books of the Company pursuant to a resale under the Registration statement unless the certificate submitted to the transfer agent evidencing the Shares is accompanied by a separate certificate

(i) in the form of Appendix II to this Agreement;

(ii) executed by the Purchaser individually, or if the Purchaser is an entity, by an officer of, or other authorized person designated by, the Purchaser; and

(iii) to the effect that (a) the Shares have been sold in accordance with the Registration Statement and (b) the requirement of delivering a current prospectus has been satisfied.

(b) The Purchaser acknowledges that there may occasionally be times when the Company determines, in good faith following consultation with its Board of Directors or a committee thereof, the use of the Prospectus forming a part of the Registration Statement should be suspended until such time as an amendment or supplement to the Registration Statement or the Prospectus has been filed by the Company with the Commission and any such amendment to the Registration Statement is declared effective by the Commission, or until such time as the Company has filed an appropriate report with the Commission pursuant to the Exchange Act. The Purchaser hereby covenants that the Purchaser will not sell any Shares pursuant to the Prospectus during the period commencing at the time at which the Company gives the Purchaser written notice of the suspension of the use of the Prospectus and ending at the time the Company gives the Purchaser written notice that the Purchaser may thereafter effect sales pursuant to the Prospectus. The Company may, upon written notice to the Purchaser, suspend the use of the Prospectus for up to thirty (30) days in any 365-day period based on the reasonable determination of the Company's Board of Directors that there is a significant business purpose for such determination, such as pending corporate developments, public filings with the Commission or similar events. The Company shall in no event be required to disclose the business purpose for which it has suspended the use of the Prospectus if the Company determines in its good faith judgment that the business purpose should remain confidential. In addition, the Company shall notify each Purchaser (i) of any request by the Commission for an amendment or any supplement to such Registration Statement or the Prospectus, or any other information request by any other governmental agency directly relating to

the sale of Shares, and (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of the Prospectus or the initiation or threat of any proceeding for that purpose.

(c) The Purchaser further covenants to notify the Company promptly of the sale of any of the Shares, other than sales pursuant to the Registration Statement or sales upon termination of the transfer restrictions pursuant to Section 1.4 of this Agreement.

3. MISCELLANEOUS

3.1 Counterparts

This Agreement may be executed in counterparts, each of which will be deemed an original but all of which will be deemed one instrument.

3.2 Survival of Representations and Warranties

All representations and warranties made in this Agreement or any other instrument or document delivered in connection herewith shall survive the execution and delivery hereof.

3.3 Prior Agreements

This Agreement constitutes the entire agreement between the parties and supersedes any prior or contemporaneous understandings or agreements concerning the subject matter hereof.

3.4 Severability

The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

3.5 Governing Law

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. The rights of the parties under this Agreement are unique and, accordingly, the parties shall, in addition to such other remedies as may be available to any of them at law or in equity, have the right to enforce their rights hereunder by actions of specific performance to the extent permitted by law.

3.6 Headings

Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of the Agreement for any other purpose.

3.7 Amendments and Waivers

This Agreement may not be amended, supplemented or otherwise modified except by an instrument in writing signed by both parties that specifically refers to this Agreement. Either party hereto may, only by an instrument in writing, waive compliance by the other party hereto with any term or provision of this Agreement on the part of such other party to be performed or complied with. The waiver by a party hereto of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach. Any amendment or waiver effected in accordance with this Section 2.7 shall be binding upon each party and its permitted assigns.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ULTRALIFE BATTERIES, INC.

By: _____

Name: _____

Title: _____

Print Name: _____

Signature _____

APPENDIX I

ULTRALIFE BATTERIES, INC.

REGISTRATION STATEMENT QUESTIONNAIRE

In connection with the preparation of the Registration Statement, please provide us with the following information:

A. Pursuant to the "Selling Stockholder" section of the Registration Statement, please state your or your organization's name exactly as it should appear in the Registration Statement:

B. Please provide the number of shares that you or your organization will own immediately after Closing, including those Shares purchased by you or your organization pursuant to this Purchase Agreement and those shares purchased by you or your organization through other transactions:

C. Have you or your organization had any position, office or other material relationship within the past three years with the Company or its affiliates?

_____ Yes _____ No

If yes, please indicate the nature of any such relationships below:

APPENDIX II

PURCHASER'S CERTIFICATE OF SUBSEQUENT SALE

The undersigned, an officer of, or other person duly authorized by

[fill in official name of individual or institution]

hereby certifies that he/she/it is the Purchaser of the shares evidenced by the attached certificate, and as such, sold such shares on _____, 200__ in accordance with Registration Statement number 333-_____, and complied with the requirement of delivering a current prospectus in connection with such sale.

Print or Type:

Name of Purchaser (Individual or Institution):

Name of Individual representing Purchaser (if an Institution)

Title of Individual representing Purchaser (if an Institution):

Signature:

Individual Purchaser or Individual representing Purchaser:

LOAN AND STOCK SUBSCRIPTION AGREEMENT

This Loan Agreement (the "Agreement") is made as of the 7th day of October, 2003 among ULTRALIFE BATTERIES, INC., a Delaware corporation, having its principle office at 2000 Technology Parkway, Newark, NY 14513, U.S.A. ("UBI") and ULTRALIFE TAIWAN, INC., a company organized and existing under the laws of the Republic of China ("R.O.C."), having its principle office at No. 2-3 Industry E. Rd. II, Science-Based Industrial Park, Hsinchu, Taiwan, R.O.C. (the "Company").

The Company currently has an authorized capital of NT\$2,500,000,000 divided into 250,000,000 shares of common stock at a par value of NT\$10 each, of which 194,062,000 shares are fully issued and outstanding. The Company intends to first reduce its paid-in capital and then increase its paid-in capital by issuing certain new shares of common stock. UBI desires to invest in the Company by initially making a loan to the Company and then, upon repayment of that loan under certain conditions, subscribing for certain shares of common stock to be issued by the Company under such capital increase, all upon the terms and conditions set forth in this Agreement.

In consideration of the covenants and conditions set forth in this Agreement, the parties agree as follows:

1. Amount of Loan. UBI agrees to lend to the Company and the Company agrees to borrow from UBI, a loan in the amount of US\$2,350,000 (the "Loan"). UBI agrees to remit the Loan into the bank account designated by the Company on October 7th, 2003. The Loan shall be evidenced by a promissory note in the form attached hereto as Exhibit A.

2. Reduction of Paid-in Capital. The Company shall take all necessary corporate actions to reduce its paid-in capital from NT\$1,940,620,000 to NT\$776,248,000 by reducing NT\$1,164,372,000 representing 116,437,200 shares in proportion to the number of shares held by each of the shareholders of the Company, namely, six hundred (600) shares shall be reduced for every one thousand (1,000) old shares ("Contemplated Capital Reduction").

3. Increase of Paid-in Capital. Immediately following the consummation of the Contemplated Capital Reduction, the Company shall take all necessary corporate actions to increase its paid-in capital by at least NT\$300,000,000. ("Contemplated Capital Increase").

4. Repayment of the Loan. The Company shall repay the Loan plus an interest accrued at the interest rate of three percent (3%) per annum (i) at least three (3) days prior to the record date of the Contemplated Capital Increase; or (ii) immediately upon the request of UBI in the event that the Contemplated Capital Increase or the Contemplated Capital Reduction has not been consummated prior to March 1st, 2004. The repayment to be made by the Company pursuant to this Agreement shall be made in US Dollars to a bank account designated by UBI.

5. Subscription to Shares. Subject to the repayment of the Loan in accordance with Section 4(i) (rather than in accordance with Sections 4(ii) or 8 in which case UBI shall have no obligation to subscribe) and the terms and conditions set forth herein, UBI agrees to subscribe to as many shares (the "Shares") of common stock of the Company to be newly issued under the Contemplated Capital Increase as the loan plus the accrued interest would buy at the US dollar-New Taiwan dollar exchange rate at the day of the subscription. The Company shall take any and all corporate actions to issue the Shares for subscription by UBI, including, if necessary, obtaining waivers of any preemptive rights with respect to the Shares.

6. Closing. The closing of the share subscription (the "Closing") shall be held at the time and place and in the manner to which the Company and UBI may agree. At the Closing, UBI shall effect payment of the Subscription Price through wire transfer to the bank account designated by the Company and shall provide documentary evidence showing such payment. Upon receipt of such documentary evidence, the Company shall deliver to UBI a certificate acknowledging receipt of payment of the Subscription Price and a certificate confirming delivery of the share certificates representing the Shares within seven (7) days after the Company amendment registration reflecting the Contemplated Capital Increase has been approved by the Science-based Industrial Park Administration ("SIPA").

7. Representations of the Company. The Company represents, warrants and agrees as follows:

(a) The Company is a corporation duly organized and validly existing under the laws of the R.O.C. and has obtained all the government approvals, certificates and permits necessary for the rights, benefits and incentives that it is entitled to under the laws and regulations of the R.O.C.

(b) The Company has the authority to execute and deliver this Agreement and to otherwise carry out and perform its obligations hereunder. The execution and delivery of this Agreement and the other agreements contemplated by this Agreement by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company. This Agreement and the other agreements contemplated by this Agreement have been duly executed by the Company and constitute the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms.

(c) The total paid-in capital of the Company consists solely of 194,062,000 shares of common stock at par value of NT\$10 per share, all of which have been issued and outstanding as of the date of this Agreement. Except for the obligations set forth herein, there is no outstanding security or other instrument convertible into or exchange for share capital of the Company nor is there any subscription, option, warrant, right, agreement, call or commitment relating to the issuance, sale, delivery or transfer by the Company or any of its shareholders of any share capital of the Company of any class.

(d) The Company is in compliance with its organizational and corporate documents and with all laws, ordinances, regulations and orders applicable to its business. The Company is not aware of any non-compliance of such laws, ordinances, regulations and orders of a material nature that have not been corrected.

(e) The Company owns or possesses sufficient legal rights to all patents, trademarks, service marks, tradenames, copyrights, trade secrets, licenses, information and proprietary rights and processes necessary for its business as presently conducted, to the Company's knowledge with respect to any such rights in recipes, without any conflict with, or infringement of, the rights of others.

(f) There are neither any claims, actions, suits, proceedings or investigations pending against the Company before any court or government agency, nor is there any reasonable basis therefor or threat thereof.

(g) The per share subscription price payable by UBI to the Company pursuant to Section 3 shall not be higher than those payable by other investors who also participate in subscription to the shares issued under the Contemplated Capital Increase.

(h) As of the record date of the Contemplated Capital Reduction, the net value of the shares of the Company shall be no less than NT\$2 (two) per share.

(i) The Company shall obtain for the benefit of UBI loan subordinations from any Company officer or director (a "Company affiliate") who is a creditor of the Company to the effect that any obligation owed UBI by the Company shall be paid in full prior to making any payment on any obligation owed to a Company affiliate.

(j) The Company has delivered to UBI its audited financial statements for the year Ended December 31, 2002 and interim financial statements for the eight months ended August 31, 2003 (the "Financial Statements"). Such Financial Statements and any notes thereto fairly present the financial condition and the results of operations of the Company as of the respective dates of and for the periods referred to in such Financial Statements in accordance with generally accepted accounting principles and reflect the consistent application of such accounting principles throughout the period involved.

(k) The Company owns all the real, personal and tangible property and assets that it purports to own or located in facilities leased by the Company or reflected as owned in the books and records of the Company, including all of the properties and assets reflected in the Financial Statements. All material properties and assets reflected in the Financial Statements are free and clear of all encumbrances except as noted in the Financial Statements.

(l) The Company has no liabilities or obligations of any nature except for liabilities or obligations reflected or reserved against in the most recent Financial Statements and current liabilities incurred in the ordinary course of business since the date thereof.

(m) The Company has filed or caused to be filed (on a timely basis) all applicable tax returns that are or were required to be filed and has paid, or made provision for the payment of, all taxes that have or may have become due pursuant to those tax returns or otherwise, or pursuant to any assessment received by the Company.

(n) No representation or warranty of the Company in this Agreement omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

8. Acceleration of Maturity Date. Under any of the following circumstances, the Loan and the interest accrued thereon shall be deemed matured in full amount, effective immediately without requiring a further notice, and the Company shall repay the Loan upon its maturity without any delay:

(a) The Company fails to pay as and when due and payable (whether at maturity, by acceleration or otherwise) all or any part of the principal of or interest on any indebtedness of or assumed by it, or of the rentals due under any lease or sublease, or of any other obligation for the payment of money, and such default shall not be cured within the period or periods of grace, if any, specified in the instruments governing such obligations; or default shall occur under any evidence of, or any indenture, lease, sublease, agreement or other instrument governing such obligations, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such indebtedness or other obligation or the termination of such lease or sublease;

(b) The Company: (i) becomes insolvent; or (ii) is unable, or admits in writing its inability to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) becomes the subject of a creditor's petition for liquidation, reorganization or to effect a plan or other arrangement with creditors; or (v) applies to a court for the appointment of a custodian or receiver for any of its assets; or (vi) has a custodian or receiver appointed for any of its assets (with or without its consent); or (vii) otherwise becomes the subject of any insolvency proceedings or propose or enter into any formal or informal composition or arrangement with its creditors; or

(c) The Company has materially breached any of its representations or obligations under this Agreement.

9. Termination after Closing. After the Closing, this Agreement may be terminated by UBI by written notice to the Company with immediate effect, if:

(a) The Contemplated Capital Reduction or the Contemplated Capital Increase has not been consummated before March 1st, 2004, regardless of the reasons therefor; or

(b) The Company has materially breached any of its representations or obligations under this Agreement.

10. Effect of Termination. If this Agreement is terminated pursuant to Section 9, the Company shall be liable for returning the Subscription Price back to UBI as well as any and all costs and expenses of UBI incurred in performing this Agreement within three (3) days after such termination. Termination hereunder shall be without prejudice to the respective right and liabilities of the parties accrued prior to termination, or to any provision expressed to remain in full force and effect notwithstanding termination.

11. Compensation for Issuance of Additional Shares. If the Company shall issue any shares ("Additional Shares"), within three (3) months after the record date of the Contemplated Capital Increase, for a consideration (the "New Consideration") per share less than the per share subscription price paid by UBI to the Company pursuant to Section 5 (the "Subscription Price"), the Company shall pay UBI an amount equal to the difference between the Subscription Price and the New Consideration multiplied by the number of Shares for which UBI subscribed:

12. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original but all of which will be deemed one instrument.

13. Expenses and Taxes. Except otherwise provided herein, each party shall be responsible for its owned costs, expenses incurred in performing this Agreement and any tax levied by the authorities in accordance with applicable laws.

14. Notice. All notices and other communications hereunder shall be given if given in writing and delivered personally, by registered or certified mail, return receipt requested, postage prepaid, or by overnight courier for which a receipt confirming delivery is provided, to the party to receive the same at its respective address set forth below (or at such other address as may from time to time be designated by such party to the others in accordance with this Section 15):

If to the Company, to:
ULTRALIFE TAIWAN, INC.
No. 2-3 Industry E. Rd. II, Science-Based Industrial
Park, Hsinchu, Taiwan, R.O.C.
Attention: J.F. Hsu, Chairman

If to UBI, to:
ULTRALIFE BATTERIES, INC.
2000 Technology Parkway, Newark, NY 14513, U.S.A.
Attention: Peter F. Comerford, Vice President of
Administration and General Counsel

15. Survival of Representations and Warranties. All representations and warranties made in this Agreement or any other instrument or document delivered in connection herewith shall survive the execution and delivery hereof.

16. Prior Agreements. This Agreement constitutes the entire agreement between the parties and supersedes any prior or contemporaneous understandings or agreements concerning the subject matter hereof.

17. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

18. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the R.O.C, without giving effect to the principles of conflicts of laws. Any disputes arising out of or relating to this Agreement shall be submitted for arbitration in Taipei in accordance with the R.O.C. Arbitration Act.

19. Headings. Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of the Agreement for any other purpose.

20. Amendments and Waivers. This Agreement may not be amended, supplemented or otherwise modified except by an instrument in writing signed by both parties that specifically refers to this Agreement. Any party hereto may, only by an instrument in writing, waive compliance by the other parties hereto with any term or provision of this Agreement on the part of such other parties to be performed or complied with. The waiver by a party hereto of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach. Any amended or waiver effected in accordance with this Section 21 shall be binding upon each party and its permitted assigns.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ULTRALIFE BATTERIES, INC.

By: /s/ Robert W. Fishback

Name: Robert W. Fishback
Title: VP - Finance & CFO

ULTRALIFE TAIWAN, INC.

By: /s/ J. F. Hsu

Name: J.F. Hsu
Title: Chairman / President

PROMISSORY NOTE

US \$2,350,000

Newark, New York
October 7, 2003

FOR VALUE RECEIVED, Ultralife Taiwan, Inc. (the "Company") a company organized and existing under the laws of the Republic of China ("R.O.C.") with its principal office at No. 2-3 Industry E. Rd. II, Science Based Industrial Park, Hsinchu, Taiwan, R.O.C. hereby promises to pay to the order of Ultralife Batteries, Inc. ("UBI") a Delaware corporation at its principal office of 2000 Technology Parkway, Newark, NY 14513, or, at the holder's option, at such other place as may be designated from time to time by the holder, the principal sum of US Two Million Three Hundred Fifty Thousand Dollars (US\$ 2,350,000) in lawful money of the United States of America, plus interest at a per annum rate equal to three percent (3%). In no event shall the rate of interest on this Note exceed the maximum rate authorized by applicable law. Interest will be calculated for each day at 1/360th of the applicable per annum rate, which will result in a higher effective annual rate.

This Promissory Note is the promissory note referenced in that certain Loan and Stock Subscription Agreement by and between the Company and UBI dated October 7, 2003 (the "Loan Agreement").

The Company shall repay this Promissory Note in an amount equal to the then unpaid principal balance hereof, together with any unpaid interest (i) at least three (3) days prior to the record date of the Contemplated Capital Increase (as such term is defined herein); or (ii) immediately upon the request of UBI in the event that the Contemplated Capital Increase or the Contemplated Capital Reduction (as such term is defined herein) has not been consummated prior to March 1st, 2004.

"Contemplated Capital Reduction" shall mean the Company reducing its paid-in capital from NT\$1,940,620,000 to NT\$776,248,000 by reducing NT\$1,164,372,000 representing 116,437,200 shares in proportion to the number of shares held by each of the shareholders of the Company, namely, six hundred (600) shares shall be reduced for every one thousand (1,000) old shares.

"Contemplated Capital Increase" shall mean immediately following the consummation of the Contemplated Capital Reduction, the Company shall take all necessary corporate actions to increase its paid-in capital by at least NT\$300,000,000.

The Company may make a partial or complete pre-payment of this Promissory Note at any time without penalty. If any installment of this Note is not paid when due, whether because such installment becomes due on a Saturday, Sunday or a federally recognized holiday, or for any other reason, the Company will pay interest thereon at the applicable rate until the date of actual receipt of such installment by the holder of this Note.

Any holder of this Promissory Note may declare all indebtedness evidenced by this Note to be immediately due and payable upon the happening of any of the following:

(a) The Company fails to pay as and when due and payable (whether at maturity, by acceleration or otherwise) all or any part of the principal of or interest on any indebtedness of or assumed by it, or of the rentals due under any lease or sublease, or of any other obligation for the payment of money, and such default shall not be cured within the period or periods of grace, if any, specified in the instruments governing such obligations; or default shall occur under any evidence of, or any indenture, lease, sublease, agreement or other instrument governing such obligations, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such indebtedness or other obligation or the termination of such lease or sublease;

(b) The Company: (i) becomes insolvent; or (ii) is unable, or admits in writing its inability to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) becomes the subject of a creditor's petition for liquidation, reorganization or to effect a plan or other arrangement with creditors; or (v) applies to a court for the

appointment of a custodian or receiver for any of its assets; or (vi) has a custodian or receiver appointed for any of its assets (with or without its consent); or (vii) otherwise becomes the subject of any insolvency proceedings or propose or enter into any formal or informal composition or arrangement with its creditors; or

(c) The Company has materially breached any of its representations or obligations under the Loan Agreement.

No failure by UBI to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by such holder of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies of UBI as herein specified are cumulative and not exclusive of any other rights or remedies that such holder may otherwise have.

No rescission, waiver, forbearance, release or amendment of any provision of this Promissory Note shall be made, except by a written agreement duly executed by the Company and UBI. This Promissory Note may not be assigned by the Company. The provisions of this Promissory Note shall inure to the benefit of UBI and its successors and assigns. If any provision of this Promissory Note shall, to any extent, be held invalid or unenforceable, then only such provision shall be deemed ineffective and the remainder of this Promissory Note shall not be affected.

This Promissory Note shall be governed by and construed in accordance with the laws of the State of New York (but not its conflicts of law provisions). The Company agrees to submit any dispute hereunder to the jurisdiction and venue of the state and federal courts located in Monroe County, New York and waives any objection it may have to the convenience of the forum. The Company agrees to pay all costs and expenses incurred by the holder hereof in enforcing this Promissory Note, including, without limitation, actual attorney's fees and disbursements. All notices hereunder shall be in writing and shall be deemed given three business day following deposit with an overnight courier service or ten days following deposit in the United States mail, certified and return receipt requested.

ULTRALIFE TAIWAN, INC.

By: /s/ J. F. Hsu

Name: J. F. Hsu
Title: Chairman / President

I, John D. Kavazanjian,, certify that:

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

Date: November 6, 2003

/s/ John D. Kavazanjian

 John D. Kavazanjian
 President and Chief Executive Officer

I, Robert W. Fishback, certify that:

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

Date: November 6, 2003

/s/ Robert W. Fishback

Robert W. Fishback
Vice President - Finance and
Chief Financial Officer

Section 1350 Certification

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), John D. Kavazanjian and Robert W. Fishback, the President and Chief Executive Officer and Vice President - Finance and Chief Financial Officer, respectively, of Ultralife Batteries, Inc., certify that (i) the Quarterly Report on Form 10-Q for the quarter ended September 27, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Ultralife Batteries, Inc.

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

Date: November 6, 2003

/s/ John D. Kavazanjian

John D. Kavazanjian
President and Chief Executive Officer

Date: November 6, 2003

/s/ Robert W. Fishback

Robert W. Fishback
Vice President - Finance and
Chief Financial Officer