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 July 2, 2005

or

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

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 o

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

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 – 14,489,921 shares of common stock outstanding, net of 727,250 treasury shares, as of July 2, 2005.

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)

	July 2, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,168	$ 10,529
Available-for-sale securities	—	1,000
Trade accounts receivable (less allowance for doubtful accounts of $229 at July 2, 2005 and $284 at December 31, 2004)	10,066	8,585
Inventories	17,491	13,938
Due from insurance company	472	1,198
Deferred tax asset — current	3,211	3,082
Prepaid expenses and other current assets	1,735	1,851
Total current assets	41,143	40,183
Property, plant and equipment, net	20,242	20,202
Other assets:		
Financing fees	—	103
Security deposits	226	226
Deferred tax asset — non-current	19,442	20,420
	19,668	20,749
Total Assets	$ 81,053	$ 81,134
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 8,489	$ 2,390
Accounts payable	6,533	3,545
Other current liabilities	3,945	3,603
Total current liabilities	18,967	9,538
Long-term liabilities:		
Debt and capital lease obligations	48	7,215
Deferred tax liability — long-term	1	—
Other long-term liabilities	457	756
Total long-term liabilities	506	7,971
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 - 15,217,171 at July 2, 2005 and 15,019,262 at December 31, 2004	1,522	1,502
Capital in excess of par value	128,584	127,299
Accumulated other comprehensive loss	(966)	(605)
Accumulated deficit	(65,182)	(62,193)
	63,958	66,003
Less —Treasury stock, at cost — 727,250 shares	2,378	2,378
Total shareholders' equity	61,580	63,625
Total Liabilities and Shareholders' Equity	$ 81,053	$ 81,134

The accompanying Notes to Condensed 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-Month Periods Ended		Six-Month Periods Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
Revenues	$ 21,603	$ 28,439	$ 36,966	$ 55,427
Cost of products sold	17,398	21,391	30,738	42,047
Gross margin	4,205	7,048	6,228	13,380
Operating expenses:				
Research and development	1,059	560	1,905	1,063
Selling, general, and administrative	2,942	2,858	5,843	5,329
Total operating expenses	4,001	3,418	7,748	6,392
Operating income/(loss)	204	3,630	(1,520)	6,988
Other income (expense):				
Interest income	58	27	118	47
Interest expense	(180)	(110)	(373)	(235)
Write-off of UTI investment and note receivable	—	(3,951)	—	(3,951)
Miscellaneous	(191)	32	(194)	93
(Loss)/income before income taxes	(109)	(372)	(1,969)	2,942
Income tax provision/(benefit)-current	15	—	(2)	79
Income tax provision-deferred	1,315	—	1,022	—
Total income taxes	1,330	—	1,020	79
Net (loss)/income	$ (1,439)	$ (372)	$ (2,989)	$ 2,863
(Loss)/earnings per share — basic	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.21
(Loss)/earnings per share — diluted	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.19
Weighted average shares outstanding — basic	14,450	14,115	14,413	13,930
Weighted average shares outstanding — diluted	14,450	14,115	14,413	15,109

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

ULTRALIFE BATTERIES, INC.

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

	Six-Month Period Ended	
	July 2, 2005	June 26, 2004
OPERATING ACTIVITIES		
Net (loss) income	$ (2,989)	$ 2,863
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,613	1,705
Loss (gain) on asset disposal	6	(14)
Foreign exchange loss (gain)	203	(87)
Write-off of UTI investment and note receivable	—	3,951
Write-down of inventory damaged in fire	—	543
Write-down of fixed assets damaged in fire	—	112
Non-cash stock-based compensation	20	10
Change in deferred taxes	1,035	—
Changes in operating assets and liabilities:		
Accounts receivable	(1,593)	(2,402)
Inventories	(3,849)	(6,465)
Prepaid expenses and other current assets	180	399
Insurance receivable relating to fires	699	(798)
Income taxes payable	—	(93)
Accounts payable and other liabilities	3,276	2,095
Net cash (used in) provided by operating activities	(1,399)	1,819
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,972)	(2,628)
Proceeds from asset disposal	10	16
Purchase of securities	—	(1)
Sales of securities	1,000	—
Net cash used in investing activities	(962)	(2,613)
FINANCING ACTIVITIES		
Net change in revolving credit facilities	129	(2,456)
Proceeds from issuance of common stock	1,100	3,703
Principal payments on long-term debt and capital lease obligations	(1,167)	(400)
Net cash provided by financing activities	62	847
Effect of exchange rate changes on cash	(62)	58
(Decrease) increase in cash and cash equivalents	(2,361)	111
Cash and cash equivalents at beginning of period	10,529	830
Cash and cash equivalents at end of period	$ 8,168	$ 941
SUPPLEMENTAL CASH FLOW INFORMATION		
Taxes paid	$ —	$ 255
Interest paid	$ 277	$ 173

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

ULTRALIFE BATTERIES, INC.

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements 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 Form 10-K for the twelve-month period ended December 31, 2004.

The Company's monthly closing schedule is a weekly-based cycle as opposed to a calendar month-based cycle. While the actual dates for the quarter-ends will change slightly each year, the Company believes that there are not any material differences when making quarterly comparisons.

2. 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 and warrants.

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 (loss) earnings per share is summarized as follows:

(In thousands, except per share data)	Three-Month Periods Ended July 2, 2005	Three-Month Periods Ended June 26, 2004	Six-Month Periods Ended July 2, 2005	Six-Month Periods Ended June 26, 2004
Net (Loss)/Income (a)	$ (1,439)	$ (372)	$ (2,989)	$ 2,863
Effect of Dilutive Securities:				
Stock Options / Warrants	—	—	—	—
Convertible Note	—	—	—	—
Net (Loss) /Income – Adjusted (b)	$ (1,439)	$ (372)	$ (2,989)	$ 2,863
Average Shares Outstanding – Basic (c)	14,450	14,115	14,413	13,930
Effect of Dilutive Securities:				
Stock Options / Warrants	—	—	—	1,179
Convertible Note	—	—	—	—
Average Shares Outstanding – Diluted (d)	14,450	14,115	14,413	15,109
EPS – Basic (a/c)	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.21
EPS – Diluted (b/d)	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.19

The Company also had the equivalent of 645,101 and 684,629 options and warrants outstanding for the three and six-month periods ended July 2, 2005, respectively, and 1,056,880 for the three month period ended June 26, 2004, which were not included in the computation of diluted EPS because these securities would have been anti-dilutive for those periods.

3. 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 relating to stock options is reflected in net income (loss).

The effect on net (loss) income and (loss) 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", to stock-based employee compensation is as follows:

(In thousands, except per hare data)	Three-Month Periods Ended		Six-Month Periods Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
Net (loss) income, as reported	$ (1,439)	$ (372)	$ (2,989)	$ 2,863
Add: Stock-based employee compensation expense included in reported net income, 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	(511)	(467)	(1,048)	(681)
Pro forma net (loss) income	$ (1,950)	$ (839)	$ (4,037)	$ 2,182
(Loss) earnings per share:				
Basic – as reported	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.21
Basic – pro forma	$ (0.13)	$ (0.06)	$ (0.28)	$ 0.16
Diluted – as reported	$ (0.10)	$ (0.03)	$ (0.21)	$ 0.19
Diluted – pro forma	$ (0.13)	$ (0.06)	$ (0.28)	$ 0.14

During the first six-month period of 2005, the Company issued 197,867 shares of common stock as a result of exercises of stock options and warrants. The Company received approximately $1,100 in cash proceeds as a result of these transactions.

4. COMPREHENSIVE (LOSS) INCOME

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

	Three-Month Periods Ended		Six-Month Periods Ended	
	July 2, 2005	June 26, 2004	July 2, 2005	June 26, 2004
Net (loss) income	$ (1,439)	$ (372)	$ (2,989)	$ 2,863
Foreign currency translation adjustments	(313)	15	(465)	85
Change in fair value of derivatives, net of tax	(5)	—	104	—
Total comprehensive (loss) income	$ (1,757)	$ (357)	$ (3,350)	$ 2,948

5. INVESTMENTS

The Company’s investments at December 31, 2004 are categorized as available-for-sale securities, as defined by SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, which requires the securities to be reported at fair value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders’ equity. At December 31, 2004 the fair value of the Company’s investments was $1,000 and the unrealized gain or loss was $0.

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:

	July 2, 2005	December 31, 2004
Raw materials	$ 6,843	$ 7,441
Work in process	8,698	4,184
Finished goods	2,704	2,821
	18,245	14,446
Less: Reserve for obsolescence	754	508
	$ 17,491	$ 13,938

7. PROPERTY, PLANT AND EQUIPMENT

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

	July 2, 2005	December 31, 2004
Land	$ 123	$ 123
Buildings and leasehold improvements	3,367	3,223
Machinery and equipment	36,116	36,300
Furniture and fixtures	501	497
Computer hardware and software	1,915	1,882
Construction in progress	3,280	2,185
	45,302	44,210
Less: Accumulated depreciation	25,060	24,008
	$ 20,242	$ 20,202

8. DEBT

On June 30, 2004, the Company closed on a new $25,000 credit facility, comprised of a five-year $10,000 term loan component and a three-year $15,000 revolving credit component. The facility is collateralized by essentially all of the assets of the Company, including its subsidiary in the U.K. The term loan component is paid in equal monthly installments over 5 years. The rate of interest, in general, is based upon either a LIBOR rate or Prime, plus a Eurodollar spread (dependent upon a debt to earnings ratio within a predetermined grid). This facility replaced the Company’s $15,000 credit facility that expired on the same date. Availability under the revolving credit component is subject to a debt to earnings ratio. The lenders of the new credit facility are JP Morgan Chase Bank and Manufacturers and Traders Trust Company, with JP Morgan Chase Bank acting as the administrative agent. The Company is required to meet certain financial covenants, including a debt to earnings ratio, an EBIT to interest expense ratio, and a current assets to total liabilities ratio.

On June 30, 2004, the Company drew down the full $10,000 term loan. The proceeds of the term loan, to be repaid in equal monthly installments of $167 over five years, were used for the retirement of outstanding debt and capital expenditures. From June 30, 2004 through August 1, 2004, the interest rate associated with the term loan was based on LIBOR plus a 1.25% Eurodollar spread. On July 1, 2004, the Company entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. The Company received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by the Company is equal to the swap rate of 3.98% plus the Eurodollar spread stipulated in the predetermined grid associated with the term loan. From August 2, 2004 to September 30, 2004, the total rate of interest associated with the outstanding portion of the $10,000 term loan was 5.23%. On October 1, 2004, this adjusted rate increased to 5.33%, on January 1, 2005 the adjusted rate increased to 5.73%, and on April 1, 2005, the adjusted rate increased to 6.48%, the maximum amount under the current grid structure. Derivative instruments are accounted for in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of this arrangement at July 2, 2005 resulted in an asset of $6, all of which was reflected as short-term.

On May 4, 2005, the Company amended its $25,000 credit facility with JPMorgan Chase and M&T Bank. The amendment provided for a waiver of the financial covenant violations as of the end of the first quarter of 2005, and changes the financial metrics that must be met to remain in compliance with the debt covenants for the second quarter of 2005 and after, in light of the lower than expected revenue quarters caused mainly by delays in contract awards from the U.S. military. In addition, the banks allowed for an adjustment to earnings in the definition of the financial covenants related to the $1,803 non-cash charge taken in the fourth quarter of 2004 for the impairment of certain of the Company’s rechargeable assets.

As of July 2, 2005, the Company had $8,000 outstanding under the term loan component of its credit facility with its primary lending bank and nothing was outstanding under the revolver component. At July 2, 2005, the Company again did not meet the minimum requirements for all of the financial ratios, specifically the debt to earnings ratio and the EBIT to interest expense ratio. Management is working with its lenders to modify the financial covenants of this credit facility to accommodate the Company’s revised outlook. As a result of the near-term uncertainty of the Company’s ability to comply with the financial covenants, the Company reclassified $6,000 of this debt from long-term to current on the Consolidated Balance Sheet as of July 2, 2005. The Company intends to reassess the classification of the debt at the end of each fiscal quarter. The Company has no additional borrowing capacity under the revolver component of the credit facility, as revised, at July 2, 2005. (See Note 14 concerning an amendment to this facility.)

As of July 2, 2005, the Company’s wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd., had approximately $469 outstanding under its revolving credit facility with a commercial bank in the U.K. This credit facility provides the Company’s U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility are collateralized with that company’s outstanding accounts receivable balances. There was approximately $402 in additional borrowing capacity under this credit facility as of July 2, 2005.

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 a deferred tax asset in December of 2004 arising from the Company’s conclusion that it is more likely than not that it will be able to utilize its U.S. net operating loss carryforwards (NOLs) that have accumulated over time. The recognition of a deferred tax asset resulted from the Company’s evaluation of all available evidence, both positive and negative, including: a) recent historical net income and losses on a cumulative three-year basis, as well as anticipated future profitability based in part on recent military contracts; b) a financial evaluation that modeled the future utilization of anticipated deferred tax assets under three alternative scenarios; and c) the award of a significant contract with the U.S. Defense Department in December 2004 for various battery types that could reach a maximum value of $286,000 in revenues over the next five years. The amount of the net deferred tax asset is considered realizable; however, such amount could be reduced in the near term if actual or expected future U.S. income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences. The Company has significant NOLs related to past years’ cumulative losses, and as a result it is subject to U.S. alternative minimum tax where NOLs can offset only 90% of alternative minimum taxable income. Achieving business plan targets, particularly those relating to revenue and profitability, is integral to the Company's assessment regarding the recoverability of its net deferred tax asset.

For the three-month period ended July 2, 2005, the Company recorded an income tax expense of $1,330. Of this amount, $1,063 resulted from a change in the NYS income tax law, which caused a revision to the associated deferred tax asset. The remaining expense of $267 related mainly to the income reported for U.S. operations during the period. The Company has not recognized a deferred tax asset pertaining to cumulative historical losses for its U.K. subsidiary as management does not believe it is more likely than not that they will realize the benefit of these losses. As a result, there is no provision for income taxes for the U.K. subsidiary reflected in the Condensed Consolidated Statement of Income. In the second quarter of 2004, the Company recorded an income tax expense of $79 relating to alternative minimum taxes on its U.S. operations.

10. COMMITMENTS AND CONTINGENCIES

As of July 2, 2005, the Company had open capital commitments to purchase approximately $1,147 of production machinery and equipment.

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 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 six months in 2005 were as follows:

Balance at December 31, 2004	$	326
Accruals for warranties issued		97
Settlements made		(50)
Balance at July 2, 2005	$	373

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, results of operations or cash flows 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. Through July 2, 2005, total costs incurred have amounted to approximately $100, none of which have been capitalized. 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 sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health (NYSDOH). The NYSDEC, with input from the NYSDOH, requested that the Company perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and the Company is awaiting approval of the work plan before the project commences. The Company's outside environmental consulting firm has estimated that the final cost to the Company to remediate the requested area will be approximately $22, based on the submitted work plan. The ultimate resolution of this matter may result in further additional costs to be incurred. At July 2, 2005 and December 31, 2004, the Company has $66 reserved for this matter.

11. BUSINESS SEGMENT INFORMATION

The Company reports its results in three operating segments: Non-rechargeable Batteries, Rechargeable Batteries, and Technology Contracts. The Non-rechargeable 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 Company looks at its segment performance at the gross margin level, and does not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these three segments and are not considered in the performance of the segments are considered to be Corporate charges.

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Three-Month Period Ended July 2, 2005

	Non-rechargeable Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	$ 17,692	$ 3,262	$ 649	$ —	$ 21,603
Segment contribution	3,709	439	57	(4,001)	204
Interest expense, net				(122)	(122)
Miscellaneous				(191)	(191)
Income taxes-current				(15)	(15)
Income taxes-deferred				(1,315)	(1,315)
Net loss					$ (1,439)
Total assets	$ 41,661	$ 4,346	$ 476	$ 34,570	$ 81,053

Three-Month Period Ended June 26, 2004

	Non-rechargeable Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	$ 26,321	$ 1,691	$ 427	$ —	$ 28,439
Segment contribution	7,048	(82)	82	(3,418)	3,630
Interest expense, net				(83)	(83)
Write-down of UTI investment and note receivable				(3,951)	(3,951)
Miscellaneous				32	32
Income taxes				—	—
Net loss					$ (372)
Total assets	$ 48,928	$ 4,179	$ 243	$ 4,809	$ 58,159

Six-Month Period Ended July 2, 2005

	Non-rechargeable Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	$ 30,500	$ 5,390	$ 1,076	$ —	$ 36,966
Segment contribution	5,649	490	89	(7,748)	(1,520)
Interest expense, net				(255)	(255)
Miscellaneous				(194)	(194)
Income taxes-current				2	2
Income taxes-deferred				(1,022)	(1,022)
Net loss					$ (2,989)
Total assets	$ 41,661	$ 4,346	$ 476	$ 34,570	$ 81,053

Six-Month Period Ended June 26, 2004

	Non-rechargeable Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	$ 51,643	$ 3,065	$ 719	$ —	$ 55,427
Segment contribution	13,822	(567)	125	(6,392)	6,988
Interest expense, net				(188)	(188)
Write-down of UTI investment and note receivable				(3,951)	(3,951)
Miscellaneous				93	93

	Non-rechargeable Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Income taxes				(79)	(79)
Net income					$ 2,863
Total assets	$ 48,928	$ 4,179	$ 243	$ 4,809	$ 58,159

The significant increase in total assets for Corporate from June 26, 2004 to July 2, 2005 is the result of the recognition of a deferred tax asset in December 2004.

12. FIRES AT MANUFACTURING FACILITIES

In May 2004 and June 2004, the Company experienced two fires that damaged certain inventory and property at its facilities. The May 2004 fire occurred at the Company's U.S. facility and was caused by cells that shorted out when a forklift truck accidentally tipped the cells over in an oven in an enclosed area. Certain inventory, equipment and a small portion of the building where the fire was contained were damaged. The June 2004 fire happened at the Company's U.K. location and mainly caused damage to various inventory and the U.K. company's leased facility. The fire was contained mainly in a bunkered, non-manufacturing area designed to store various material, and there was additional smoke and water damage to the facility and its contents. It is unknown how the U.K. fire was started. The fires caused relatively minor disruptions to the production operations, and had no impact on the Company's ability to meet customer demand during that quarter.

The total amount of the two losses and related expenses associated with Company-owned assets is expected to be in the range of $2,000. Of this total, $450 is related to machinery and equipment, $750 is related to inventory and $800 is required to repair and clean up the facilities. The insurance claim related to the fire at the Company's U.S. facility was finalized in March 2005. The claim related to the fire at the U.K. facility remains open. Through July 2, 2005, the Company has received approximately $1,655 in cash from the insurance companies to compensate it for these losses. In the fourth quarter of 2004, the Company recorded a gain of $214 on the replacement of equipment destroyed in the fires. The Company expects the remaining impact on the Consolidated Statement of Operations and the net cash outflows from the Company to be negligible. For financial reporting purposes, the impairment loss and probable reimbursement are netted within the Consolidated Statement of Operations. The Company maintains replacement cost insurance on the property and equipment it owns or rents, with relatively low deductibles. The Company is continuing to work closely with the insurance companies on the remaining matters, and it expects to be fully reimbursed by the insurance companies for these losses. At July 2, 2005, the Company's current assets in its Consolidated Balance Sheet included a receivable from insurance companies for approximately $472, representing remaining proceeds to be received.

13. RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In June 2005, the FASB issued FASB Staff Position No. FAS 143-1 (FSP FAS 143-1), Accounting for Electronic Equipment Waste Obligations. FSP FAS 143-1 addresses the accounting for obligations associated with the Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). FSP FAS 143-1 is effective the later of the first reporting period that ends after June 8, 2005 or the date that the EU-member country adopts the law. As of July 2, 2005, no EU-member country in which the Company has significant operations had adopted the law.

In June 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154 (SFAS 154), Accounting Changes and Error Corrections-a replacement of APB No.20 and FAS No.3. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle and applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting

changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will apply the provisions of this statement effective January 1, 2006. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

In March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143” (“FIN 47”). This statement clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred, if the liability’s fair value can be reasonably estimated. The provisions of FIN 47 are effective for fiscal years ending after December 15, 2005. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

In December 2004, the FASB issued SFAS No. 123R, “Share-Based Payment”. This statement is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB opinion No. 25, “Accounting for Stock Issued to Employees”. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The provisions of this statement were previously to become effective for interim or annual periods beginning after June 15, 2005. However, in April 2005, the Securities and Exchange Commission announced the adoption of a new rule which amends the effective date for SFAS No. 123R. As a result, the Company will adopt the accounting provisions of SFAS No. 123R as of January 1, 2006. The Company currently accounts for stock option-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, and has adopted the disclosure-only alternative of SFAS 123 and SFAS 148. The Company is currently evaluating the provisions of SFAS No. 123R to determine the impact on its consolidated financial statements. It is, however, expected to have a negative effect on consolidated net income, when it is adopted.

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004 (H.R. 4520). The Act contains numerous corporate tax provisions that could affect the Company’s current and future tax provisions. The Company is assessing any potential impact of these provisions.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — an amendment of ARB No. 43, Chapter 4,” (“SFAS 151”) in an effort to conform U.S. accounting standards for inventories to International Accounting Standards. SFAS 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the relevant production facilities. SFAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is assessing any potential impact of these provisions.

14. SUBSEQUENT EVENTS AND DEBT CLASSIFICATION

On August 5, 2005, the Company amended its $25,000 credit facility with JPMorgan Chase and M&T Bank. The amendment provides for a waiver of the financial covenant violations as of the end of the second quarter of 2005, and changes the financial metrics that must be met to remain in compliance with the debt covenants for the third quarter of 2005 and thereafter, to accommodate the Company’s revised financial outlook. As a result of the near-term uncertainty of the Company’s ability to comply with the financial covenants, the Company reclassified $6,000 of this debt from long-term to current on the Consolidated Balance Sheet as of July 2, 2005. The Company intends to reassess the classification of the debt at the end of each fiscal quarter. While the Company believes relations with its lenders are good and has received waivers as necessary in the past, there can be no assurance that such waivers can always be obtained. In such case, the Company believes it has sufficient cash, cash generation capabilities from operations, working capital and financing alternatives at its disposal, including but not limited to alternative borrowing arrangements and other available lenders, to fund operations in the normal course.

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, future demand for the Company's products and services, addressing the process of U.S. military procurement of batteries, the successful commercialization of the Company's advanced rechargeable batteries, general economic conditions, government and environmental regulation, finalization of non-bid government contracts, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in 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 Form 10-K for the year ended December 31, 2004.

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

General

Ultralife Batteries, Inc. is a global provider of power solutions for diverse applications. The Company develops, manufactures and markets a wide range of non-rechargeable and rechargeable batteries, charging systems and accessories for use in military, industrial and consumer portable electronic products. Through its range of standard products and engineered solutions, Ultralife is able to provide the next generation of power systems. 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 reports its results in three operating segments: Non-rechargeable Batteries, Rechargeable Batteries, and Technology Contracts. The Non-rechargeable 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 Company looks at its segment performance at the gross margin level, and does not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these three segments and are not considered in the performance of the segments are considered to be Corporate charges.

Results of Operations (in thousands, except per share amounts)

Three-month periods ended July 2, 2005 and June 26, 2004

Revenues. Consolidated revenues for the three-month period ended July 2, 2005 amounted to $21,603, a decrease of $6,836, or 24%, from the $28,439 reported in the same quarter in the prior year. Non-rechargeable battery sales decreased $8,629, or 33%, from $26,321 last year to $17,692 this year, primarily as a result of lower shipments of BA-5390 batteries to the U.S. military, related to a transition of battery procurement responsibility within the military from the U.S. Army / CECOM to the Defense Logistics Agency (DLA). Partially offsetting the decline in BA-5390 shipments were higher sales of small cylindrical products and 9-volt batteries. Rechargeable revenues rose $1,571, or 93%, from $1,691 to $3,262, due to higher shipments of rechargeable battery packs and charger systems. Technology Contract revenues were $649 in the second quarter of 2005, an increase of $222 over the $427 reported in the second quarter of 2004 mainly attributable to the timing of work on the Company's development contract with General Dynamics.

Cost of Products Sold. Cost of products sold totaled $17,398 for the quarter ended July 2, 2005, a decrease of $3,993, or 19%, over the same three-month period a year ago. The gross margin on consolidated revenues for the quarter was $4,205, a decrease of $2,843 over the $7,048 reported in the same quarter in the prior year, mainly due to lower large cylindrical battery production volumes and shipments. As a percentage of revenues, gross margins amounted to 19% in the second quarter of 2005, a decrease from 25% reported in the second quarter of 2004. Non-rechargeable battery margins were $3,709, or 21%, for the second quarter of 2005 compared with $7,048, or 27%, in the same period in 2004, due to the decline in BA-5390 battery production. In the Company's Rechargeable operations, gross margin amounted to $439 in the second quarter of 2005, or 13% of revenues, compared to a loss of $82 in 2004, an improvement of $521 related to the higher revenue base and favorable sales mix within the product line. The impairment charge related to certain rechargeable assets that was recorded in the fourth quarter of 2004 resulted in lower depreciation and lease expenses of approximately $145 in the second quarter of 2005. Gross margins in the Technology Contract segment were $57, or 9%, in the second quarter of 2005, compared to $82, or 19%, in 2004, a decrease of $25 mainly due to varying margins realized under different technology contracts.

Operating Expenses. Operating expenses for the three-month period ended July 2, 2005 totaled $4,001, a $583 increase over the prior year's amount of $3,418. Research and development charges increased $499 to $1,059 in 2005 as the Company continued to invest in new product development. In addition to the R&D line shown in Operating Expenses, the Company also considers its efforts in the Technology Contracts segment to be related to key battery development efforts. Selling, general, and administrative expenses increased $84 to $2,942 due mainly to higher audit fees related to requirements under the Sarbanes-Oxley Act, as well as additional administrative expenses necessary to support the Company's growth objectives. Overall, operating expenses as a percentage of sales increased to 19% in the second quarter of 2005 from 12% in 2004. As quarterly revenues from the U.S. military have declined recently from the first half of 2004, the Company is committed to continuing to develop other areas of the business, particularly in commercial markets such as search and rescue, automotive telematics, and medical, where sales and development of new products are growing. While the Company monitors its costs closely during the temporary decline in revenues, it remains committed to ensuring that sufficient resources are in place to support the additional growth it expects in the near future.

Other Income (Expense). Interest expense, net, for the second quarter of 2005 was $122, an increase of $39 from the comparable period in 2004, mainly as a result of slightly higher debt outstanding related to the term loan that resulted from the refinancing of the Company's credit facility in June 2004. Miscellaneous income / expense amounted to an expense of $191 for the second quarter of 2005 compared with income of $32 for the same period in 2004. This change resulted mostly due to losses from foreign currency translations, related to the Company's U.S. dollar-denominated loan with its UK subsidiary. In June 2004, the Company recorded a $3,951 non-cash, non-operating charge related to the

Company's ownership interest in Ultralife Taiwan, Inc. ("UTI") that consisted of a write-off of its $2,401 note receivable from UTI, including accrued interest, and the book value of its $1,550 equity investment in UTI.

Income Taxes. The Company reflected a tax provision of $1,330 for the second quarter of 2005 compared with $0 in the second quarter of 2004. Of the $1,330, $1,063 resulted from a change in the New York State income tax law in the second quarter of 2005, which caused a revision to the associated deferred tax asset. In April 2005, legislation was enacted in New York State that changed the apportionment methodology for corporate income from a "three factor formula" comprised of payroll, property and sales, to one which uses only sales. This change is to be phased in beginning in 2006, and the change is fully effective for the tax year 2008 and thereafter. It is expected that this legislative change will result in a reduction in the Company's New York State effective tax rate from approximately 2.46% to 0.03%. The remaining income tax expense in the second quarter of $267 related mainly to the income reported for U.S. operations during the period. In the second quarter of 2004, the Company had not yet recognized a deferred tax asset on the Consolidated Balance Sheet due to the uncertainty as to whether it was more likely than not that it would be able to utilize the net operating loss (NOL) carryforwards in the future. In December 2004, the Company reached a conclusion to record a deferred tax asset (see Note 9 for additional information).

Net (Loss)/Income. Net loss and loss per share were $1,439 and $0.10, respectively, for the three months ended July 2, 2005, compared to net loss and loss per share of $372 and $0.03, 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 from 14,115 in the second quarter of 2004 to 14,450 in 2005 mainly due to stock option exercises.

Six-month periods ended July 2, 2005 and June 26, 2004

Revenues. Consolidated revenues for the six-month period ended July 2, 2005 amounted to $36,966, a decrease of $18,461, or 33%, from the $55,427 reported in the same six months in 2004. Non-rechargeable battery sales decreased $21,143, or 41%, from $51,643 in the first half of last year to $30,500 in the same period this year, primarily as a result of lower shipments of BA-5390 batteries. Partially offsetting the decline in BA-5390 shipments were higher sales of small cylindrical products and 9-volt batteries. Rechargeable revenues rose $2,325, or 76%, from $3,065 to $5,390, due to higher shipments of rechargeable battery and charger systems. Technology Contract revenues were $1,076 in the first half of 2005, an increase of $357 over the $719 reported in the first half of 2004 mainly attributable to the timing of work on the Company's development contract with General Dynamics.

Cost of Products Sold. Cost of products sold totaled $30,738 for the six-month period ended July 2, 2005, a decrease of $11,309, or 27%, over the same six-month period a year ago. The gross margin on consolidated revenues for the quarter was $6,228, a decrease of $7,152 over the $13,380 reported in the same quarter in the prior year, due to lower large cylindrical battery production volumes and shipments. As a percentage of revenues, gross margins amounted to 17% in the first half of 2005, a decrease from 24% reported in the first half of 2004. Non-rechargeable battery margins were $5,649, or 19%, for the first six-month period of 2005 compared with $13,822, or 27%, in the same six-month period in 2004. This decline is attributable to decreased large cylindrical production volumes. In the Company's Rechargeable operations, gross margin amounted to $490 in the first half of 2005, or 9% of revenues, compared to a loss of $567 in 2004, an improvement of $1,057 primarily related to the higher revenue base and a favorable product mix. The impairment charge related to certain rechargeable assets that was recorded in the fourth quarter of 2004 resulted in lower depreciation and lease expenses of approximately $291 in the first six month period of 2005. Gross margins in the Technology Contract segment were $89, or 8%, in the first six month period of 2005, compared to $125, or 17%, in 2004, a decrease of $36 mainly due to the timing of recognizing revenues and varying margins realized under different technology contracts.

Operating Expenses. Operating expenses for the six-month period ended July 2, 2005 totaled $7,748, a $1,356 increase over the prior year's amount of $6,392. Research and development charges increased $842 to $1,905 in 2005 due to additional resources committed to new product development. In addition to the R&D line shown in Operating Expenses, the Company also considers its efforts in the Technology Contracts segment to be related to key battery development efforts. Selling, general, and administrative expenses increased $514 to $5,843 due mainly to higher audit fees related to requirements under the Sarbanes-Oxley Act, as well as additional administrative expenses necessary to support the Company's growth objectives. Overall, operating expenses as a percentage of sales increased to 21% in the first half of 2005 from 12% in 2004 mainly due to a lower revenue base. As quarterly revenues from the military market have declined recently from high levels in the first half of 2004, the Company is committed to continuing to develop other areas of the business, particularly in commercial markets such as search and rescue, automotive telematics, and medical, where sales and development of new products are growing. While the Company monitors its costs closely during the temporary decline in revenues, it remains committed to ensuring that sufficient resources are in place to support the additional growth it expects in the near future.

Other Income (Expense). Interest expense, net, for the first six month period of 2005 was $255, an increase of $67 from the comparable period in 2004, mainly as a result of slightly higher debt outstanding related to the term loan that resulted from the refinancing of the Company's credit facility in June 2004. Miscellaneous income / expense amounted to an expense of $194 for the first half of 2005 compared with income of $93 for the same period in 2004. This change resulted mostly due to losses from foreign currency translations, related to the Company's U.S. dollar-denominated loan with its UK subsidiary. In June 2004, the Company recorded a $3,951 non-cash, non-operating charge related to the Company's ownership interest in Ultralife Taiwan, Inc. ("UTI") that consisted of a write-off of its $2,401 note receivable from UTI, including accrued interest, and the book value of its $1,550 equity investment in UTI.

Income Taxes. The Company reflected a tax provision of $1,020 for the first half of 2005 compared with $79 in the first half of 2004. Included in the 2005 provision is a $1,063 impact from a change in the New York State income tax law in the second quarter of 2005, which caused a revision to the associated deferred tax asset. In April 2005, legislation was enacted in New York State that changed the apportionment methodology for corporate income from a "three factor formula" comprised of payroll, property and sales, to one which uses only sales. This change is to be phased in beginning in 2006, and the change is fully effective for the tax year 2008 and thereafter. It is expected that this legislative change will result in a reduction in the Company's New York State effective tax rate from approximately 2.46% to 0.03%. In the first six months of 2004, the Company had not yet recognized a deferred tax asset on the Consolidated Balance Sheet due to the uncertainty as to whether it was more likely than not that it would be able to utilize the net operating loss (NOL) carryforwards in the future. In December 2004, the Company reached a conclusion to record a deferred tax asset (see Note 9 for additional information).

Net (Loss)/Income. Net loss and loss per share were $2,989 and $0.21, respectively, for the six month period ended July 2, 2005, compared to net income and diluted earnings per share of $2,863 and $0.19, respectively, for the same period last year, primarily as a result of the reasons described above. Average common shares outstanding used to compute basic earnings per share increased from 13,930 in the first half of 2004 to 14,413 in 2005 mainly due to stock option exercises.

Liquidity and Capital Resources (in thousands of dollars)

As of July 2, 2005, cash and cash equivalents totaled $8,168. During the six month period ended July 2, 2005, the Company used $1,399 of cash from operating activities as compared to providing $1,819 for the six month period ended June 24, 2004, mainly due to a decrease in net income, offset by smaller increases in accounts receivable and inventory balances and a larger increase in accounts payable and other liabilities. The Company used $962 in cash from investing activities during the first half of 2005

compared with a $2,613 use of cash in the same period in 2004. The Company used $1,972 to purchase plant, property and equipment in 2005, down from $2,628 for the same period in 2004. In addition, certain investments were converted to cash equivalents during the first half of 2005 resulting in an increase of $1,000. During the six month period ended July 2, 2005, the Company generated $62 in funds from financing activities compared to generating $847 in funds in the first half of 2004. The financing activities in 2005 included inflows from the issuance of stock, mainly as stock options were exercised during the period, offset by outflows for principal payments of term debt under the Company's main credit facility. During the first six months of 2005, the Company issued 198 shares of common stock, primarily as a result of exercises of stock options, and the Company received approximately $1,100 in cash proceeds as a result of these transactions.

Inventory turnover for the first six months of 2005 was an annualized rate of approximately 4 turns per year, a decline from the 5.6 turns reflected during the full year of 2004, mainly due to the timing of production and shipments, including the impact from a decision to continue to manufacture and build inventory in anticipation of orders for BA-5390 batteries. The Company's Days Sales Outstanding (DSOs) was an average of 39 days for the first six months of 2005, an improvement from the 46 days reflected for the full 12-month period in 2004, as the timing of collections improved.

At July 2, 2005, the Company had a capital lease obligation outstanding of $68 for the Company's Newark, New York offices and manufacturing facilities.

As of July 2, 2005, the Company had open capital commitments to purchase approximately $1,147 of production machinery and equipment.

On June 30, 2004, the Company closed on a new $25,000 credit facility, comprised of a five-year $10,000 term loan component and a three-year $15,000 revolving credit component. The facility is collateralized by essentially all of the assets of the Company, including its subsidiary in the U.K. The term loan component is paid in equal monthly installments over 5 years. The rate of interest, in general, is based upon either a LIBOR rate or Prime, plus a Eurodollar spread (dependent upon a debt to earnings ratio within a predetermined grid). This facility replaced the Company's $15,000 credit facility that expired on the same date. Availability under the revolving credit component is subject to a debt to earnings ratio, whereas availability under the previous facility was limited by various asset values. The lenders of the new credit facility are JP Morgan Chase Bank and Manufacturers and Traders Trust Company, with JP Morgan Chase Bank acting as the administrative agent. The Company is required to meet certain financial covenants, including a debt to earnings ratio, an EBIT to interest expense ratio, and a current assets to total liabilities ratio.

On June 30, 2004, the Company drew down the full $10,000 term loan. The proceeds of the term loan, to be repaid in equal monthly installments of $167 over five years, were used for the retirement of outstanding debt and capital expenditures. From June 30, 2004 through August 1, 2004, the interest rate associated with the term loan was based on LIBOR plus a 1.25% Eurodollar spread. On July 1, 2004, the Company entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. The Company received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by the Company is equal to the swap rate of 3.98% plus the Eurodollar spread stipulated in the predetermined grid associated with the term loan. From August 2, 2004 to September 30, 2004, the total rate of interest associated with the outstanding portion of the $10,000 term loan was 5.23%. On October 1, 2004, this adjusted rate increased to 5.33%, on January 1, 2005 the adjusted rate increased to 5.73%, and on April 1, 2005, the adjusted rate increased to 6.48%, the maximum amount under the current grid structure. Derivative instruments are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires that all derivative instruments be recognized in the financial statements at fair value. The fair value of this arrangement at July 2, 2005 resulted in an asset of $6, all of which was reflected as short-term.

On May 4, 2005, the Company amended its $25,000 credit facility with JPMorgan Chase and M&T Bank. The amendment provided for a waiver of the financial covenant violations as of the end of the first quarter of 2005, and changes the financial metrics that must be met to remain in compliance with the debt covenants for the second quarter of 2005 and after, in light of the lower than expected revenue quarters caused mainly by delays in contract awards from the U.S. military. In addition, the banks allowed for an adjustment to earnings in the definition of the financial covenants related to the $1,803 non-cash charge taken in the fourth quarter of 2004 for the impairment of certain of the Company's rechargeable assets.

As of July 2, 2005, the Company had $8,000 outstanding under the term loan component of its credit facility with its primary lending bank and nothing was outstanding under the revolver component. The Company has no additional borrowing capacity under the revolver component of the credit facility, as revised, at July 2, 2005. At July 2, 2005, the Company again did not meet the minimum requirements for all of the financial ratios, specifically the debt to earnings ratio and the EBIT to interest expense ratio. On August 5, 2005, the Company amended this $25,000 credit facility, which provides for a waiver of the financial covenant violations as of the end of the second quarter of 2005, and changes the financial metrics that must be met to remain in compliance with the debt covenants for the third quarter of 2005 and thereafter, to accommodate the Company's revised financial outlook. As a result of the timing of the amendment and the near-term uncertainty of the Company's ability to meet the revised financial covenants, the Company reclassified $6,000 of this debt from long-term to current on the Consolidated Balance Sheet as of July 2, 2005. The Company intends to reassess the classification of the debt at the end of each fiscal quarter. While the Company believes relations with its lenders are good and has received waivers as necessary in the past, there can be no assurance that such waivers can always be obtained. In such case, the Company believes it has sufficient cash, cash generation capabilities from operations, working capital, and financing alternatives at its disposal, including but not limited to alternative borrowing arrangements and other available lenders, to fund operations in the normal course. (See Note 14 concerning an amendment to this facility.)

As of July 2, 2005, the Company's wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd., had approximately $469 outstanding under its revolving credit facility with a commercial bank in the U.K. This credit facility provides the Company's U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility are collateralized with that company's outstanding accounts receivable balances. There was approximately $402 in additional borrowing capacity under this credit facility as of July 2, 2005.

The Company has provided prepayments to Ultralife Taiwan Inc. ("UTI") to assist that company with the purchase of raw materials and the payment of payroll costs applicable to manufacturing the products made for the Company. At July 2, 2005, the net amount of prepayments made to UTI on products ordered was approximately $196. If UTI continues to have financial difficulty, it is possible that the Company may not receive shipments of product for which prepayments have been made, which could have a material adverse effect on the Company's business, financial condition and results of operations.

During the first six-month periods of 2005 and 2004, the Company issued 198 and 623 shares of common stock, respectively, as a result of exercises of stock options and warrants. The Company received approximately $1,100 in 2005 and $3,703 in 2004 in cash proceeds as a result of these transactions.

The Company continues to be optimistic about its future prospects and growth potential. The improvement in the Company's financial position over the past few years has enhanced the Company's ability to acquire additional financing. The Company continually explores various sources of capital, including leasing alternatives, issuing new or refinancing existing debt, and raising equity through private or public offerings. Although it stays abreast of such financing 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. Management does not believe the ultimate resolution of this matter will have a significant adverse impact on the Company's financial condition and 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 thousands of dollars)

Management is adjusting its guidance for the second half of 2005 as a result of the continued uncertainty of the timing of BA-5390 order flow. Management still anticipates that its commercial business will continue to grow in the second half of the year in key target markets such as automotive telematics, search and rescue, and medical.

Based on the latest input from the U.S. military, management still anticipates receiving orders for the BA-5390, but at modest revenue levels. As previously stated, management anticipates that BA-5390 order flow will become more predictable following qualification under the Next Gen II, Phase IV award, which is expected to occur in the third quarter. In addition, management believes that the new version of the BA-5390, with the state-of-charge indicator, will strengthen the Company's competitive advantage and support continued market share gains, contributing to sequential revenue growth in the fourth quarter.

As a result, management currently projects revenues of approximately $21 million for the third quarter, including modest BA-5390 battery shipments, generating positive operating income. Management projects fourth quarter revenue to increase to approximately $25 million, with operating margins improving in line with revenue growth. Overall, revenues for the full year of 2005 are now projected to be approximately $83 million, compared with previous guidance indicating that revenues would be in a range between 2004's level of $98.2 million and up to 10% growth.

Over the next three to four years, with anticipated growth in various target markets, such as military, medical, automotive telematics, and search and rescue, the Company has set a target of reaching $200,000 in revenues. While the Company's revenues were comprised of approximately 58% from U.S. military sales in 2004, the reliance on military sales as a percentage of total revenues is expected to decline over time as the Company generates increased sales from customers in commercial and industrial markets.

As revenues grow, manufacturing efficiencies are realized, and investments in operating expenses (R&D and SG&A) are closely monitored, the Company believes it can generate favorable returns to scale in the range of 30% to 40% on incremental revenues, depending on product mix. Conversely, decreasing volumes will likely result in the opposite effect. Within the next several quarters, the Company believes that its gross margins can reach a range of 26%-27% as it nears approximately $35,000 in quarterly revenues, resulting from ongoing improvements in operating efficiencies and an increase in the mix of products with higher margins. Management has set an overall target of 30% gross margins for the longer-term, as revenues reach a range of approximately $50,000 per quarter.

While the Company continues to monitor its operating costs very closely, SG&A costs are expected to increase in order to support the needs of a growing business. Within the next several quarters, the Company believes that its operating expenses will trend toward a range of 11%-12% of revenues at the point where revenues are in the range of $35,000 per quarter, and it has set a target to reach 10% of revenues in the longer-term when total sales amount to approximately $50,000 per quarter.

As gross margins improve and as the Company continues to control its operating expenses, operating income as a percentage of revenues is projected to be in the range of 15% at a revenue level of approximately $35,000 per quarter, with a longer-term target of 20% at a revenue level of approximately $50,000 per quarter.

At December 31, 2004, the Company had approximately $74,887 in net operating loss (NOL) carryforwards available to offset current and future taxable income, of which $60,956 related to U.S. operations and $13,931 related to U.K. operations. The Company recorded a deferred tax asset in December of 2004 arising from the Company's conclusion that it is more likely than not that it will be able to utilize its U.S. net operating loss carryforwards that have accumulated over time. The amount of the net deferred tax asset is considered realizable; however, such amount could be reduced in the near term if actual or expected future U.S. income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences. Achieving business plan targets, particularly those relating to revenue and profitability, is integral to the Company's assessment regarding the recoverability of its net deferred tax asset. The amount of the net deferred tax assets is considered realizable, however, such amount could be reduced in the near term if actual future U.S. income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences. Income taxes are being recognized through the Consolidated Statement of Operations related to the Company's U.S. operations, using an effective income tax rate in the range of approximately 37%, excluding a $1,063 one-time, second quarter 2005 adjustment related to a change in the New York State income tax law discussed above. For the Company's U.K. operation, however, income taxes are not being reflected at this time since a deferred tax asset has not been recognized, due to the uncertainty of being able to utilize the benefit from these NOLs in the future. A consolidated effective income tax rate is significantly dependent on the relationship of income or loss at each of the Company's operations. Regardless of the income tax expense reflected on the Consolidated Statement of Income, the Company expects that the majority of any income tax expense in 2005, and for some time into the future, will be a non-cash expense as it utilizes the benefit from the NOL carryforwards.

In addition, in early 2004, the Company determined that a change in ownership, as defined under Internal Revenue Code Section 382, had occurred during the fourth quarter of 2003, resulting in an annual limitation on the utilization of the net operating loss carryforwards. The Company currently estimates that the amount of such limitation will be in the range of approximately $22,000 annually. If the Company's U.S. taxable income were to exceed this annual limitation, it could result in a higher than anticipated current tax expense for any year in which this occurs.

During 2005, the Company projects that it will spend approximately $4,000 to $4,500 on capital expenditures for machinery and equipment. A portion of these expenditures will be to increase capacity at the Company's U.K. manufacturing facility for growth related to that facility's award of a portion of the Next Gen II Phase IV contract with the U.S. military. Other planned expenditures include energy savings projects and vertical integration programs to reduce material costs.

Recent Accounting Pronouncements and Developments

In June 2005, the FASB issued FASB Staff Position No. FAS 143-1 (FSP FAS 143-1), Accounting for Electronic Equipment Waste Obligations. FSP FAS 143-1 addresses the accounting for obligations associated with the Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the Directive) adopted by the European Union (EU). FSP FAS 143-1 is effective the later of the first reporting period that ends after June 8, 2005 or the date that the EU-member country adopts the law. As of July 2, 2005, no EU-member country in which the Company has significant operations had adopted the law.

In June 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154 (SFAS 154), Accounting Changes and Error Corrections-a replacement of APB No.20 and FAS No.3. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle and applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting changes and corrections

of errors made in fiscal years beginning after December 15, 2005. The Company will apply the provisions of this statement effective January 1, 2006. The Company is assessing any potential impact of these provisions.

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of SFAS No. 143" ("FIN 47"). This statement clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred, if the liability's fair value can be reasonably estimated. The provisions of FIN 47 are effective for fiscal years ending after December 15, 2005. The Company is currently evaluating what impact, if any, this statement will have on its financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment". This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The provisions of this statement were previously to become effective for interim or annual periods beginning after June 15, 2005. However, in April 2005, the Securities and Exchange Commission announced the adoption of a new rule which amends the effective date for SFAS No. 123R. As a result, the Company will adopt the accounting provisions of SFAS No. 123R as of January 1, 2006. The Company currently accounts for stock option-based awards to employees in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and has adopted the disclosure-only alternative of SFAS 123 and SFAS 148. The Company is currently evaluating the provisions of this statement to determine the impact on its consolidated financial statements. It is, however, expected to have a negative effect on consolidated net income.

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004 (H.R. 4520). The Act contains numerous corporate tax provisions that could affect the Company's current and future tax provisions. The Company is assessing any potential impact of these provisions.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4," ("SFAS 151") in an effort to conform U.S. accounting standards for inventories to International Accounting Standards. SFAS 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the relevant production facilities. SFAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is assessing any potential impact of these provisions.

Critical accounting policies

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

During the first half of 2005, there were no significant changes in the manner in which the Company's significant accounting policies were applied or in which related assumptions and estimates were developed. Additionally, no new significant accounting policies were adopted.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (in whole dollars)

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. In July 2004, the Company entered into an interest rate swap arrangement in connection with the term loan component of its new credit facility. Under the swap arrangement, effective August 2, 2004, the Company received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years and will be adjusted accordingly for a Eurodollar spread incorporated in the agreement. As of July 2, 2005, a one basis point move in the Eurodollar spread would have a $1,550 value change. (See Note 8 in Notes to Condensed Consolidated Financial Statements for additional information.)

The Company is subject to foreign currency risk, due to fluctuations in currencies relative to the U.S. dollar. The Company monitors the relationship between the U.S. dollar and other currencies on a continuous basis and adjusts sales prices for products and services sold in these foreign currencies as appropriate to safeguard against the fluctuations in the currency effects relative to the U.S. dollar.

The Company maintains manufacturing operations in the U.S. and the U.K., and exports products to various countries. The Company purchases materials and sells its products in foreign currencies, and therefore currency fluctuations may impact the Company's pricing of products sold and materials purchased. In addition, the Company's foreign subsidiary maintains its books in local currency, which is translated into U.S. dollars for its consolidated financial statements.

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 Control Over Financial Reporting – There has been no change in the internal control 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 control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings (Dollars in thousands)

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. Through July 2, 2005, total costs incurred have amounted to approximately $100, none of which have been capitalized. 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 sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health (NYSDOH). The NYSDEC, with input from the NYSDOH, requested that the Company perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and the Company is awaiting approval of the work plan before the project commences. The Company's outside environmental consulting firm has estimated that the final cost to the Company to remediate the requested area will be approximately $22, based on the submitted work plan. The ultimate resolution of this matter may result in further additional costs to be incurred. At July 2, 2005 and December 31, 2004, the Company has $66 reserved for this matter.

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

(a) On June 9, 2005 an Annual Meeting of Shareholders of the Company was held.

(b) At the Annual Meeting, the Shareholders of the Company elected to the Board of Directors all seven nominees for Director with the following votes:

DIRECTOR	FOR	AGAINST
Patricia C. Barron	12,105,752	258,820
Anthony J. Cavanna	12,106,301	258,271
Paula H. J. Cholmondeley	12,201,166	163,406
Daniel W. Christman	12,106,222	258,350
John D. Kavazanjian	12,228,190	136,382
Carl H. Rosner	12,224,439	140,133
Ranjit C. Singh	12,228,614	135,958

(c) At the Annual Meeting, the Shareholders of the Company voted for the ratification of PricewaterhouseCoopers LLP as its independent registered public accounting firm for 2005 with the following votes:

FOR	AGAINST
12,294,084	36,701

Item 6. Exhibits

(a) Exhibits

10.1 Amendment Number Three to Credit Agreement

31.1 Section 302 Certification — CEO

31.2 Section 302 Certification — CFO

32 Section 906 Certifications

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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: August 11, 2005	By: /s/ John D. Kavazanjian John D. Kavazanjian President and Chief Executive Officer
Date: August 11, 2005	By: /s/ Robert W. Fishback Robert W. Fishback Vice President — Finance and Chief Financial Officer

Index to Exhibits

10.1	Amendment Number Three to Credit Agreement
31.1	Section 302 Certification — CEO
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Exhibit 10.1

AMENDMENT NUMBER THREE
TO
CREDIT AGREEMENT

dated as of August 5, 2005

between

ULTRALIFE BATTERIES, INC.

and

THE LENDERS PARTY THERETO

and

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

AMENDMENT NUMBER THREE TO CREDIT AGREEMENT

This Amendment is dated as of August 5, 2005, is made by and between ULTRALIFE BATTERIES, INC. (the "Borrower") and the Lenders party to the Credit Agreement and JPMORGAN CHASE BANK, N.A. (formerly known as JPMorgan Chase Bank) as Administrative Agent for the Lenders (in such capacity, the "Agent").

Statement of the Premises

The Borrower, the Lenders and the Agent have previously entered into, among other agreements, a Credit Agreement, dated as of June 30, 2004, which was amended by Amendment Number One dated as of September 24, 2004 and Amendment Number Two dated as of May 4, 2005 (the "Credit Agreement"). The Borrower, the Lenders and the Agent desire to amend the Credit Agreement as referenced herein.

Statement of Consideration

Accordingly, in consideration of the premises and under the authority of Section 5-1103 of the New York General Obligations Law, the parties agree as follows:

Agreement

1. **Defined Terms**. The terms "this Agreement," "hereunder" and similar references in the Credit Agreement shall be deemed to refer to the Credit Agreement as amended by this Amendment Number Three. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

2. **Amendment**. Effective upon the satisfaction of all conditions specified in Section 5 hereof, the Credit Agreement is hereby amended as follows:

A. Section 6.09(a), Debt to Earnings Ratio, is superseded and replaced in its entirety and amended to read:

(a) Debt to Earnings Ratio. The Borrower shall maintain the ratio:

at the Fiscal Quarter ending October 1, 2005 of (i) Consolidated Total Funded Debt measured at the subject Fiscal Quarter end, to (ii) EBITDA measured at the Fiscal Quarter ending October 1, 2005 multiplied by 4, at or below 2.50 to 1;

at the Fiscal Quarter ending December 31, 2005 of (I) Consolidated Total Funded Debt measured at the subject Fiscal Quarter end, to (II) the aggregate EBITDA for the two Fiscal Quarters ending October 1, 2005 and December 31, 2005 multiplied by 2, at or below 2.50 to 1;

at the Fiscal Quarter ending April 1, 2006 of (x) Consolidated Total Funded Debt measured at the subject Fiscal Quarter end, to (y) the aggregate EBITDA for the three Fiscal Quarters ending in October 1, 2005, December 31, 2005 and April 1, 2006 multiplied by 1.3333, at or below 2.50 to 1;

thereafter at each Fiscal Quarter end of (X) Consolidated Total Funded Debt measured at the subject Fiscal Quarter end, to (Y) EBITDA, measured for the four Fiscal Quarter period then ended, taken together as a single accounting period, at or below 2.00 to 1.

B. Section 6.09(b), EBIT to Interest Expense Ratio, is superseded and replaced in its entirety and amended to read:

(b) EBIT to Interest Expense Ratio. The Borrower shall maintain the ratio:

at the Fiscal Quarter ending December 31, 2005 of (i) the aggregate EBIT for the two Fiscal Quarters ending October 1, 2005 and December 31, 2005, multiplied by 2 to (ii) the aggregate interest expense for the two Fiscal Quarters ending October 1, 2005 and December 31, 2005, multiplied by 2, at or above 5.00 to 1;

at the Fiscal Quarter ending April 1, 2006 of (x) the aggregate EBIT for the three Fiscal Quarters ending October 1, 2005, December 31, 2005 and April 1, 2006, multiplied by 1.333, to (y) the aggregate interest expense for the three Fiscal Quarters ending in October 1, 2005, December 31, 2005 and April 1, 2006 multiplied by 1.3333, at or above 5.00 to 1;

thereafter at each Fiscal Quarter end of (I) EBIT, measured for the four Fiscal Quarter period then ended, taken together as a single accounting period to (II) interest expense, measured for the four Fiscal Quarter period then ended, taken together as a single accounting period, at or above 5.00 to 1.

3. **Representations**. The Borrower hereby represents and warrants to the Lenders and the Agent that: (i) the covenants, representations and warranties set forth in the Credit Agreement are true and correct on and as of the date of execution hereof as if made on and as of said date and as if each reference therein to the Credit Agreement were a reference to the Credit Agreement as amended by this Amendment; (ii) except the Existing Event of Default, defined and waived herein below, no Default or Event of Default specified in the Credit Agreement has occurred and is continuing, (iii) since the date of the Credit Agreement, there has been no material adverse change in the financial condition or business operations of the Borrower which has not been disclosed to Agent; (iv) the making and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action; and (v) the security interests and charges granted by the Borrower and its Subsidiary pursuant to the Security Agreements continue to constitute valid, binding and enforceable, first in priority Liens on the Collateral, subject only to Liens permitted under the terms of the Security Agreements and Credit Agreement.

4. **Waiver of Existing Covenant Violations**. The Borrower has advised the Agent that it is not in compliance with its financial covenant obligations under Sections 6.09(a) and 6.09(b) of the Credit Agreement for the fiscal quarter ending July 2, 2005 (the "Existing Event of Default"). The Agent, on behalf of the Lenders, hereby waives the Existing Event of Default, together with the right as a consequence thereof to assert an Event of Default under the Credit Agreement. Nothing herein shall be construed as a waiver of any other condition, event or act which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

5. **Conditions of Effectiveness**. This Amendment shall become effective when and only when Agent shall have received counterparts of this Amendment executed by Borrower, Lenders and Agent, and Agent shall have additionally received the following:

A. A secretarial certificate of the Borrower in a form reasonably acceptable to Agent, certifying that the June 30, 2004 secretary's certificate of Borrower is true and correct as of the date of execution hereof, and the authorizing resolutions and the incumbency of officers of the Borrower remain in full force and effect.

B. An Amendment Fee of $10,000, for the ratable benefit of the Lenders.

6. **Reference to and Effect on Loan Documents.**

A. Upon the effectiveness hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import, and each reference in the other Loan Documents to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended hereby.

B. Except as specifically amended above, the Credit Agreement, and all other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

C. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent and Lenders under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

7. **Governing Law**. This Amendment shall be governed and construed in accordance with the laws of the State of New York without regard to any conflicts-of-laws rules which would require the application of the laws of any other jurisdiction.

8. **Headings**. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

9. **Execution in Counterparts**. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all or which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective representatives thereunto duly authorized as of the date first above written.

ULTRALIFE BATTERIES, INC.

By: /s/ Robert W. Fishback
Name: Robert W. Fishback
Title: VP – Finance & CFO

[Additional Signature Pages follow]

JPMORGAN CHASE BANK, N.A.

By: /s/ Virginia Allen
Virginia Allen, Vice President

ADMINISTRATIVE AGENT:

JPMORGAN CHASE BANK, N.A., as Agent

By: /s/ Virginia Allen
Virginia Allen, Vice President

[Additional Signature Page follows]

MANUFACTURERS AND TRADERS TRUST COMPANY

By: /s/ Jon Fogle
Jon Fogle, Vice President

Exhibit 31.1

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: August 11, 2005

/s/ John D. Kavazanjian
John D. Kavazanjian
President and Chief Executive Officer

Exhibit 31.2

I, Robert W. Fishback, certify that:

1. I have reviewed this 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: August 11, 2005

/s/ Robert W. Fishback

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

Exhibit 32

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 July 2, 2005 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: August 11, 2005

/s/ John D. Kavazanjian
John D. Kavazanjian President and Chief Executive Officer

Date: August 11, 2005

/s/ Robert W. Fishback
Robert W. Fishback
Vice President – Finance and Chief Financial Officer