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 March 29, 2009

or

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

for the transition period from ________________ to ________________

Commission file number 0-20852

ULTRALIFE CORPORATION

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

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

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

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

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

Common stock, $.10 par value — 16,959,144 shares of common stock outstanding, net of 1,358,507 treasury shares, as of May 3, 2009.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 29, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 943	$ 1,878
Trade accounts receivable (less allowance for doubtful accounts of $1,000 at March 29, 2009 and $1,086 at December 31, 2008)	32,040	30,588
Inventories	48,076	40,465
Deferred tax asset — current	441	441
Prepaid expenses and other current assets	1,714	1,801
Total current assets	83,214	75,173
Property, plant and equipment, net	18,095	18,465
Other assets:		
Goodwill	26,176	22,943
Intangible assets, net	13,605	12,925
Security deposits and other long-term assets	100	81
	39,881	35,949
Total Assets	$ 141,190	$ 129,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$ 17,576	$ 1,425
Accounts payable	20,453	20,255
Income taxes payable	15	582
Other current liabilities	11,383	9,974
Total current liabilities	49,427	32,236
Long-term liabilities:		
Debt and capital lease obligations	4,029	4,670
Deferred tax liability — long-term	3,983	3,894
Other long-term liabilities	686	634
Total long-term liabilities	8,698	9,198
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Ultralife equity:		
Preferred stock, par value $0.10 per share, authorized 1,000,000 shares; none issued and outstanding	—	—
Common stock, par value $0.10 per share, authorized 40,000,000 shares; issued — 18,290,672 at March 29, 2009 and 18,227,009 at December 31, 2008	1,821	1,815
Capital in excess of par value	168,031	167,259
Accumulated other comprehensive income	(1,977)	(1,930)
Accumulated deficit	(77,292)	(74,780)
	90,583	92,364
Less —Treasury stock, at cost — 1,358,507 and 942,202 shares outstanding, respectively	7,558	4,232
Total Ultralife equity	83,025	88,132
Noncontrolling interest	40	21
Total shareholders' equity	83,065	88,153
Total Liabilities and Shareholders' Equity	$ 141,190	$ 129,587

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

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

	Three-Month Periods Ended	
	March 29, 2009	March 29, 2008
Revenues	$ 39,803	$ 49,587
Cost of products sold	32,022	38,712
Gross margin	7,781	10,875
Operating expenses:		
Research and development (including $110 and $159 respectively, of amortization of intangible assets)	1,980	1,609
Selling, general, and administrative (including $231 and $361 respectively, of amortization of intangible assets)	8,058	6,903
Total operating expenses	10,038	8,512
Operating income (loss)	(2,257)	2,363
Other income (expense):		
Interest income	3	11
Interest expense	(182)	(329)
Gain on insurance settlement	—	39
Gain on debt conversion	—	313
Miscellaneous	11	69
Income (loss) before income taxes	(2,425)	2,466
Income tax provision-current	2	54
Income tax provision (benefit)-deferred	89	(9)
Total income taxes	91	45
Net income (loss)	(2,516)	2,421
Net loss attributable to noncontrolling interest	4	13
Net income (loss) attributable to Ultralife	$ (2,512)	$ 2,434
Net income (loss) attributable to Ultralife common shareholders — basic	$ (0.15)	$ 0.14
Net income (loss) attributable to Ultralife common shareholders — diluted	$ (0.15)	$ 0.14
Weighted average shares outstanding — basic	17,115	17,027
Weighted average shares outstanding — diluted	17,115	17,441

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

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

	Three-Month Periods Ended	
	March 29, 2009	March 29, 2008
OPERATING ACTIVITIES		
Net income (loss)	$ (2,516)	$ 2,421
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization of financing fees	942	998
Amortization of intangible assets	341	520
(Gain) loss on asset disposal	—	(2)
Gain on insurance settlement	—	(39)
Foreign exchange (gain) loss	(14)	(52)
Gain on debt conversion	—	(313)
Non-cash stock-based compensation	536	487
Changes in deferred income taxes	89	9
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(1,361)	(12,812)
Inventories	(5,286)	(5,074)
Prepaid expenses and other current assets	46	1,636
Insurance receivable relating to fires	—	197
Income taxes payable	(567)	—
Accounts payable and other liabilities	1,075	8,765
Net cash used in operating activities	(6,715)	(3,259)
INVESTING ACTIVITIES		
Purchase of property and equipment	(393)	(376)
Payments for acquired companies, net of cash acquired	(6,763)	(21)
Net cash used in investing activities	(7,156)	(397)
FINANCING ACTIVITIES		
Net change in revolving credit facilities	16,600	896
Proceeds from issuance of common stock	242	1,775
Principal payments on debt and capital lease obligations	(612)	(555)
Purchase of treasury stock	(3,326)	—
Net cash provided from financing activities	12,904	2,116
Effect of exchange rate changes on cash	32	29
Change in cash and cash equivalents	(935)	(1,511)
Cash and cash equivalents at beginning of period	1,878	2,245
Cash and cash equivalents at end of period	$ 943	$ 734
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	$ 605	$ —
Cash paid for interest	$ 136	$ 428
Noncash investing and financing activities:		
Purchase of property and equipment via notes payable	$ 102	$ 66
Conversion of convertible notes into shares of common stock	$ —	$ 10,500

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Ultralife Corporation and our subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to 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 our Form 10-K for the twelve-month period ended December 31, 2008.

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

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

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

2. ACQUISITIONS AND JOINT VENTURES

2009 Activity

We accounted for the following acquisitions in accordance with the purchase method of accounting provisions of Statement of Financial Accounting Standards (“SFAS”) No. 141(revised 2007), “Business Combinations,” whereby the purchase price paid to effect an acquisition is allocated to the acquired tangible and intangible assets and liabilities at fair value.

AMTI Brand

On March 20, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of the tactical communications products business of Science Applications International Corporation. The tactical communications products business (“AMTI”), located in Virginia Beach, Virginia, designs, develops and manufactures tactical communications products including amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment that will be sold by Ultralife Corporation under the current products’ brand name of AMTI.

Under the terms of the asset purchase agreement for AMTI, the purchase price consisted of $5,717 in cash.

The results of operations of AMTI and the estimated fair value of assets acquired and liabilities assumed are included in our Condensed Consolidated Financial Statements beginning on the

acquisition date. Pro forma information has not been presented, as it would not be materially different from amounts reported. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $3,598 was recorded as goodwill in the amount of $2,119. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill will be assigned to the Communications Systems segment and is expected to be fully deductible for income tax purposes.

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

ASSETS	
Current assets:	
Cash	$ —
Trade accounts receivable, net	696
Inventories	2,350
Total current assets	3,046
Property, plant and equipment, net	206
Goodwill	2,119
Intangible Assets:	
Trademarks	480
Patents and Technology	513
Customer Relationships	319
Total assets acquired	6,683
LIABILITIES	
Current liabilities:	
Accounts payable	801
Other current liabilities	165
Total current liabilities	966
Long-term liabilities:	
Other long-term liabilities	—
Total liabilities assumed	966
Total Purchase Price	$ 5,717

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

2008 Activity

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

Ultralife Batteries India Private Limited

In March 2008, we formed a joint venture, named Ultralife Batteries India Private Limited (“India JV”), with our distributor partner in India. The India JV assembles Ultralife power solution products

and manages local sales and marketing activities, serving commercial, government and defense customers throughout India. We have invested $86 in cash into the India JV, as consideration for our 51% ownership stake in the India JV.

U.S. Energy Systems, Inc. and U.S. Power Services, Inc.

On November 10, 2008, we acquired certain assets of U.S. Energy Systems, Inc., and its services affiliate U.S. Power Services, Inc. ("USE" collectively), a nationally recognized standby power installation and power management services business. USE is located in Riverside, California. The acquired assets of USE have been incorporated into our Stationary Power Services, Inc. subsidiary.

Under the terms of the asset purchase agreements for USE, the initial purchase price consisted of $2,865 in cash. In addition, on the achievement of certain post-acquisition financial milestones over a period of up to four years, we will issue up to an aggregate amount of 200,000 unregistered shares of our common stock. The contingent stock issuances will be recorded as an addition to the purchase price when the financial milestones are attained. We incurred $62 in acquisition related costs, which are included in the initial cost of the USE investment of $2,927.

The results of operations of USE and the estimated fair value of assets acquired and liabilities assumed are included in our Condensed Consolidated Financial Statements beginning on the acquisition date. Pro forma information has not been presented, as it would not be materially different from amounts reported. The estimated excess of the purchase price over the net tangible and intangible assets acquired of $1,559 was recorded as goodwill in the amount of $1,368. We are in the process of completing the valuations of certain tangible and intangible assets acquired with the new business. The final allocation of the excess of the purchase price over the net assets acquired is subject to revision based upon our final review of valuation assumptions. The acquired goodwill has been assigned to the Design and Installation Services segment and is expected to be fully deductible for income tax purposes.

As a result of revisions to the preliminary asset valuations during the first quarter of 2009, values assigned to the tangible and intangible assets have been revised. The adjustments to the values for tangible and intangible assets from those reported for the year ended December 31, 2008 were as follows: property, plant and equipment increased by $30, trademarks decreased by $383, patents and technology increased by $130 and customer relationships decreased by $34. These adjustments resulted in an increase to goodwill of $257.

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

ASSETS	
Current assets:	
Cash	$ —
Total current assets	—
Property, plant and equipment, net	306
Goodwill	1,368
Intangible Assets:	
Patents and Technology	260
Customer Relationships	1,320
Total assets acquired	3,254

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LIABILITIES	
Current liabilities:	
Current portion of long-term debt	56
Other current liabilities	43
Total current liabilities	99
Long-term liabilities:	
Debt	228
Total liabilities assumed	327
Total Purchase Price	$ 2,927

The intangible assets related to patents and technology and customer relationships are being amortized as the economic benefits of the intangible assets are being utilized over their weighted-average estimated useful life of fifteen years.

3. INVENTORIES

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

	March 29, 2009	December 31, 2008
Raw materials	$34,777	$29,352
Work in process	9,875	9,087
Finished goods	6,572	4,876
	51,224	43,315
Less: Reserve for obsolescence	3,148	2,850
	$48,076	$40,465

4. PROPERTY, PLANT AND EQUIPMENT

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

	March 29, 2009	December 31, 2008
Land	$ 123	$ 123
Buildings and leasehold improvements	5,245	5,274
Machinery and equipment	42,436	42,172
Furniture and fixtures	1,759	1,669
Computer hardware and software	2,966	2,808
Construction in progress	2,035	2,023
	54,564	54,069
Less: Accumulated depreciation	36,469	35,604
	$18,095	$18,465

Depreciation expense for property, plant and equipment was $921 and $976 for the three-month periods ended March 29, 2009 and 2008, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the three-month periods ended March 29, 2009 and 2008:

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Total
Balance at December 31, 2007	$1,703	$4,287	$10,460	$4,730	$21,180
Adjustments to purchase price allocation	—	6	—	(116)	(110)
Effect of foreign currency translations	71	—	—	—	71
Balance at March 29, 2008	1,774	4,293	10,460	4,614	21,141
Adjustments to purchase price allocation	250	43	—	350	643
Acquisition of US Energy	—	—	—	1,111	1,111
Effect of foreign currency translations	48	—	—	—	48
Balance at December 31, 2008	2,072	4,336	10,460	6,075	22,943
Adjustments to purchase price allocation	—	20	—	1,095	1,115
Acquisition of AMTI	—	—	2,119	—	2,119
Effect of foreign currency translations	(1)	—	—	—	(1)
Balance at March 29, 2009	$2,071	$4,356	$12,579	$7,170	$26,176

On February 9, 2009, we entered into Amendment No. 1 to the RedBlack Communications, Inc. stock purchase agreement, which eliminated the up to $2,000 in additional cash consideration contingent on the achievement of certain sales milestones provision, in exchange for a one time final payment of $1,020. The one time final payment of $1,020 was made in February 2009, and resulted in an increase to goodwill of $838 (net of the $182 amount that was accrued during the third quarter of 2008) in the first quarter of 2009, and a revised total cost of the investment of $2,104.

Through March 29, 2009, we have accrued $20 for the 2009 portion of the contingent cash consideration in connection with the purchase price for RPS Powers Systems, Inc., which is included in the other current liabilities line on our Condensed Consolidated Balance Sheet. This accrual resulted in an increase to goodwill of $20.

b. Intangible Assets

The composition of intangible assets was:

	March 29, 2009		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 4,885	$ —	$ 4,885
Patents and technology	4,871	2,422	2,449
Customer relationships	9,191	3,136	6,055
Distributor relationships	352	189	163
Non-compete agreements	393	340	53
Total intangible assets	$19,692	$6,087	$13,605

	December 31, 2008		
	Gross Assets	Accumulated Amortization	Net
Trademarks	$ 4,789	$ —	$ 4,789
Patents and technology	4,229	2,313	1,916
Customer relationships	8,906	2,934	5,972
Distributor relationships	352	180	172
Non-compete agreements	393	317	76
Total intangible assets	$18,669	$5,744	$12,925

Amortization expense for intangible assets was $341 and $520 for the three-month periods ended March 29, 2009 and 2008, respectively.

The change in the cost value of total intangible assets from December 31, 2008 to March 29, 2009 is a result of the 2009 acquisition, changes in the valuation of intangible assets in connection with the 2008 acquisition and the effect of foreign currency translations.

6. DEBT

Our primary credit facility consists of both a term loan component and a revolver component, and the facility is collateralized by essentially all of our assets, including those of our subsidiaries. The lenders of the credit facility are JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company (together, the “Lenders”), with JP Morgan Chase Bank acting as the administrative agent. The current revolver loan commitment is $35,000. Availability under the revolving credit component is subject to meeting certain financial covenants, including a debt to earnings ratio and a fixed charge coverage ratio. In addition, we are required to meet certain non-financial covenants. The rate of interest, in general, is based upon either the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points.

On June 30, 2004, we drew down on a $10,000 term loan under the credit facility. The term loan is being repaid in equal monthly installments of $167 over five years. On July 1, 2004, we entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. We received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by us is equal to the swap rate of 3.98% plus the applicable Eurodollar spread associated with the term loan. During the full year of 2008, the adjusted rate ranged from 5.73% to 6.48%. During the first three months of 2009, the adjusted rate was 6.48%. 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 March 29, 2009 resulted in a liability of $5, all of which was reflected as a short-term liability.

There have been several amendments to the credit facility during the past few years, including amendments to authorize acquisitions and modify financial covenants. Effective April 23, 2008, we entered into Amendment Number Ten to Credit Agreement (“Amendment Ten”) with the banks. Amendment Ten increased the amount of the revolving credit facility from $15,000 to $22,500, an increase of $7,500. Additionally, Amendment Ten amended the applicable revolver and term rates under the Credit Agreement from a variable pricing grid based on quarterly financial ratios to a set interest rate structure based on either the current prime rate, or a LIBOR rate plus 250 basis points.

Effective January 27, 2009, we entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") with the Lenders. The Restated Credit Agreement reflects the previous ten amendments to the original Credit Agreement dated June 30, 2004 between us and the Lenders and modifies certain of those provisions. The Restated Credit Agreement among other things (i) increased the revolver loan commitment from $22,500 to $35,000, (ii) extended the maturity date of the revolving credit component from January 31, 2009 to June 30, 2010, (iii) modified the interest rate, and (iv) modified certain covenants. The rate of interest is based, in general, upon either a LIBOR rate plus a Eurodollar spread or an Alternate Base Rate plus an ABR spread, as that term is defined in the Restated Credit Agreement, within a predetermined grid, which is dependent upon whether Earnings Before Interest and Taxes for the most recently completed fiscal quarter is greater than or less than zero. Generally, borrowings under the Restated Credit Agreement bear interest based primarily on the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points. Additionally, among other covenant modifications, the Restated Credit Agreement modified the financial covenants by (i) revising the debt to earnings ratio and fixed charge coverage ratio and (ii) deleting the current assets to liabilities ratio. As of March 29, 2009, we were in compliance with all of the credit facility covenants, as amended.

As of March 29, 2009, we had $667 outstanding under the term loan component of our credit facility with our primary lending bank and $16,600 was outstanding under the revolver component. At March 29, 2009, the interest rate on the revolver component was 3.75%. As of March 29, 2009, the revolver arrangement provided for up to $35,000 of borrowing capacity, including outstanding letters of credit. At March 29, 2009, we had no outstanding letters of credit related to this facility, leaving $18,400 of additional borrowing capacity.

On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell Research, Ltd. relating to the initial purchase price of that company, which related to various operational issues that arose during the first several months following the July 2006 acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible notes initially issued in that transaction from $20,000 to $14,000, and eliminating a $1,889 liability related to a purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. Upon payment of the $3,500 in November 2007, we reported a one-time, non-operating gain of approximately $7,550 to account for the purchase price reduction, net of certain adjustments related to the change in the interest rate on the convertible notes. Based on the facts and circumstances surrounding the settlement agreement, there was not a clear and direct link to the purchase price; therefore, we recorded the settlement as an adjustment to income in accordance with SFAS No. 141. In January 2008, the remaining $10,500 principal balance on the convertible notes was converted in full into 700,000 shares of our common stock, and the remaining $313 that pertained to the change in the interest rate on the notes was recorded in other income as a gain on debt conversion.

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

Continuing volatility in the debt capital markets may affect our ability to access those markets. Notwithstanding these adverse market conditions, we believe that current cash and cash equivalent balances and cash generated from operations, together with access to external sources of funds from the revolving credit facility, will be sufficient to meet our operating and capital needs in the foreseeable future.

7. SHAREHOLDERS' EQUITY

a. Common Stock

In February 2009, we issued 4,388 unrestricted shares of common stock to our non-employee directors, valued at $37.

b. Treasury Stock

At March 29, 2009 and December 31, 2008, we had 1,358,507 and 942,202 shares, respectively, of treasury stock outstanding, valued at $7,558 and $4,232, respectively. The increase in treasury shares related to shares that were repurchased under our share repurchase program.

In October 2008, the Board of Directors authorized a share repurchase program of up to $10,000 to be implemented over the course of a six-month period. Repurchases may be made from time to time at management's discretion, either in the open market or through privately negotiated transactions. The repurchases will be made in compliance with Securities and Exchange Commission guidelines and will be subject to market conditions, applicable legal requirements, and other factors. We have no obligation under the program to repurchase shares and the program may be suspended or discontinued at any time without prior notice. We intend to fund the purchase price for shares acquired primarily with current cash on hand and cash generated from operations, in addition to borrowing from our credit facility, if necessary. Through March 29, 2009, we have spent $5,141 to repurchase 628,000 shares of common stock, at an average price of approximately $8.15 per share, under this share purchase program. As of March 29, 2009, approximately $4,859 remained of the $10,000 approved repurchase amount. In April 2009, this share repurchase program expired. Under this share repurchase program, we have made the following share repurchases:

	Three Months Ended March 29,	
	2009	**2008**
Shares of common stock repurchased	416,305	—
Value of common stock repurchased	$ 3,326	$ —

c. Stock Options

We have various stock-based employee compensation plans, for which we follow the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

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

In December 2000, our shareholders approved a 2000 stock option plan for grants to key employees, directors and consultants. The shareholders approved reservation of 500,000 shares of common stock for grant under the plan. In December 2002, the shareholders approved an amendment to the plan increasing the number of shares of common stock reserved by 500,000, to a total of 1,000,000.

In June 2004, our shareholders adopted the 2004 Long-Term Incentive Plan ("LTIP") pursuant to which we were authorized to issue up to 750,000 shares of common stock and grant stock options,

restricted stock awards, stock appreciation rights and other stock-based awards. In June 2006, the shareholders approved an amendment to the LTIP, increasing the number of shares of common stock by an additional 750,000, bringing the total shares authorized under the LTIP to 1,500,000. In June 2008, the shareholders approved another amendment to the LTIP, increasing the number of shares of common stock by an additional 500,000, bringing the total shares authorized under the LTIP to 2,000,000.

Stock options granted under the amended 2000 stock option plan and the LTIP are either Incentive Stock Options ("ISOs") or Non-Qualified Stock Options ("NQSOs"). Key employees are eligible to receive ISOs and NQSOs; however, directors and consultants are eligible to receive only NQSOs. Most ISOs vest over a three- or five-year period and expire on the sixth or seventh anniversary of the grant date. All NQSOs issued to non-employee directors vest immediately and expire on either the sixth or seventh anniversary of the grant date. Some NQSOs issued to non-employees vest immediately and expire within three years; others have the same vesting characteristics as options given to employees. As of March 29, 2009, there were 1,563,423 stock options outstanding under the amended 2000 stock option plan and the LTIP.

On December 19, 2005, we granted the current CEO an option to purchase shares of common stock at $12.96 per share outside of any of our equity-based compensation plans, subject to shareholder approval. Shareholder approval was obtained on June 8, 2006. The option to purchase 48,000 shares of common stock is exercisable in annual increments of 16,000 shares over a three-year period commencing December 19, 2006. The option expires on June 8, 2013.

On March 7, 2008, in connection with becoming employed with us, we granted an executive officer an option to purchase shares of common stock at $12.74 per share outside of any of our equity-based compensation plans. The option to purchase 50,000 shares of common stock is exercisable in annual increments of 16,667 shares over a three-year period commencing March 7, 2009. The option expires on March 7, 2015.

In conjunction with SFAS 123R, we recorded compensation cost related to stock options of $412 and $326 for the three-month periods ended March 29, 2009 and 2008, respectively. As of March 29, 2009, there was $959 of total unrecognized compensation costs related to outstanding stock options, which is expected to be recognized over a weighted average period of 0.98 years.

We use the Black-Scholes option-pricing model to estimate the fair value of stock-based awards. The following weighted average assumptions were used to value options granted during the three-month periods ended March 29, 2009 and 2008:

	Three-Month Periods Ended	
	March 29, 2009	**March 29, 2008**
Risk-free interest rate	1.24%	3.30%
Volatility factor	67.65%	52.74%
Dividends	0.00%	0.00%
Weighted average expected life (years)	3.57	3.76

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

Stock option activity for the first three months of 2009 is summarized as:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Shares under option at January 1, 2009	1,651,007	$12.33		
Options granted	59,820	12.18		
Options exercised	(40,805)	5.00		
Options forfeited	(3,599)	10.47		
Options expired	(5,000)	15.05		
Shares under option at March 29, 2009	1,661,423	$12.50	3.94 years	$195
Vested and expected to vest as of March 29, 2009	1,572,910	$12.55	3.89 years	$195
Options exercisable at March 29, 2009	1,118,507	$12.91	3.31 years	$195

The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the three-month period ended March 29, 2009 was $224.

SFAS 123R requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised options in excess of the deferred tax asset attributable to stock compensation costs for such options. We did not record any excess tax benefits in the first three months of 2009 and 2008. Cash received from option exercises under our stock-based compensation plans for the three-month periods ended March 29, 2009 and 2008 was $119 and $766, respectively.

d. Warrants

On May 19, 2006, in connection with our acquisition of ABLE New Energy Co., Ltd., we granted warrants to acquire 100,000 shares of common stock. The exercise price of the warrants is $12.30 per share and the warrants have a five-year term. In January 2008, 82,000 warrants were exercised, for total proceeds received of $1,009. In January 2009, 10,000 warrants were exercised, for total proceeds received of $123. At March 29, 2009, there were 8,000 warrants outstanding.

e. Restricted Stock Awards

There were no restricted stock grants awarded during the three-month period ended March 29, 2008.

Restricted stock grants awarded during the three-month period ended March 29, 2009 had the following values:

	Three-Month Period Ended March 29, 2009
Number of shares awarded	16,286
Weighted average fair value per share	$ 11.33
Aggregate total value	$ 185

The activity of restricted stock awards of common stock for the first three months of 2009 is summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2008	69,864	$ 11.36
Granted	16,286	11.33
Vested	(23,000)	11.51
Forfeited	—	—
Unvested at March 29, 2009	63,150	$ 11.30

We recorded compensation cost related to restricted stock grants of $87 and $161 for the three-month periods ended March 29, 2009 and 2008, respectively. As of March 29, 2009, we had $502 of total unrecognized compensation expense related to restricted stock grants, which is expected to be recognized over the remaining weighted average period of approximately 1.52 years. The total fair value of these grants that vested during the three-month period ended March 29, 2009 was $161.

8. INCOME TAXES

The asset and liability method, prescribed by SFAS No. 109, “Accounting for Income Taxes”, is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

For the three-month period ended March 29, 2009, we recorded $91 in income tax expense primarily due to the deferred tax provision for the establishment of additional deferred tax liabilities for temporary items that may not reverse in the carryforward period. For the three-month period ended March 29, 2008, we recorded $45 in income tax expense primarily due to the income reported for U.S. operations during the period.

The effective tax rate for the total consolidated company was (3.8%) and 1.8% for the three-month periods ended March 29, 2009 and 2008, respectively. The overall effective rate is the result of the combination of income and losses in each of our tax jurisdictions, which is particularly influenced by the fact that we have not recognized a deferred tax asset pertaining to cumulative historical losses for our U.S. operations and our U.K. subsidiary, as management does not believe, at this time, it is more likely than not that we will realize the benefit of these losses. We have substantial net operating loss carryforwards which offset taxable income in the United States. However, we remain subject to the alternative minimum tax in the United States. The alternative minimum tax limits the amount of net operating loss available to offset taxable income to 90% of the current year income. This limitation did have an impact on income taxes determined for 2008 and may have an impact on income taxes to be determined for 2009. As a result, we did incur the alternative minimum tax in 2008 and expect to incur the alternative minimum tax in 2009. The tax provision includes a provision for the U.S. alternative minimum tax as well as state income taxes, for states which we do not have the ability to utilize net operating loss carryforwards. Normally, the payment of the alternative minimum tax results in the establishment of a deferred tax asset. However, we have established a valuation allowance for our net U.S. deferred tax asset. Therefore, the expected payment of the alternative minimum tax does not result in a net deferred tax asset.

As of December 31, 2008, we have foreign and domestic net operating loss carryforwards totaling approximately $58,403 available to reduce future taxable income. Foreign loss carryforwards of approximately $8,963 can be carried forward indefinitely. The domestic net operating loss

carryforwards of $49,440 expires from 2018 through 2027. The domestic net operating loss carryforwards include approximately $2,687 of the net operating loss carryforwards for which a benefit will be recorded in capital in excess of par value when realized.

During the fiscal quarter ended December 31, 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination, at that time, that it was more likely than not that we would not be able to utilize our U.S. and U.K. net operating loss carryforwards (“NOL’s”) that had accumulated over time. At March 29, 2009, we continue to recognize a valuation allowance on our U.S. deferred tax asset, to the extent that we believe, that it is more likely than not that we will not be able to utilize that portion of our U.S. NOL’s that had accumulated over time. A U.S. valuation allowance is not required for the portion of the deferred tax asset that will be realized by the reversal of temporary differences related to deferred tax liabilities to the extent those temporary differences are expected to reverse in our carryforward period. At March 29, 2009, we continue to recognize a full valuation allowance on our U.K. net deferred tax asset, as we believe, at this time, that it is more likely than not that we will not be able to utilize our U.K. NOL’s that had accumulated over time. We continually monitor the assumptions and performance results to assess the realizability of the tax benefits of the U.S. and U.K. net operating losses and other deferred tax assets.

We have adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). We have recorded no liability for income taxes associated with unrecognized tax benefits during 2008 and 2009, and as such, have not recorded any interest or penalty in regard to any unrecognized benefit. Our policy regarding interest and/or penalties related to income tax matters is to recognize such items as a component of income tax expense (benefit). It is possible that a liability associated with our unrecognized tax benefits will increase or decrease within the next twelve months.

We file a consolidated income tax return in the U.S. federal jurisdiction and consolidated and separate income tax returns in many state and foreign jurisdictions. Our U.S. tax matters for the years 2005 through 2008 remain subject to examination by the Internal Revenue Service (“IRS”). Our U.S. tax matters for the years 2004 through 2008 remain subject to examination by various state and local tax jurisdictions. Our tax matters for the years 2004 through 2008 remain subject to examination by the respective foreign tax jurisdiction authorities.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred during 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 and $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. We believe such limitation will not impact our ability to realize the deferred tax asset. In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for 2009. However, this limitation did have an impact of $54 on income taxes determined for 2008. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center.

9. EARNINGS PER SHARE

On January 1, 2009, we adopted the provisions of FASB Staff Position No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“FSP No. EITF 03-6-1”). FSP No. EITF 03-6-1 requires that all outstanding unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (such as restricted stock awards granted by us) be considered participating securities. Because the restricted stock awards are participating securities, we are required to apply the two-class method of

computing basic and diluted earnings per share (the "Two-Class Method"). The retrospective application of the provisions of FSP No. EITF 03-6-1 did not change the prior period earnings per share ("EPS") amounts.

Basic EPS is determined using the Two-Class Method and is computed by dividing earnings attributable to Ultralife common shareholders by the weighted-average shares outstanding during the period. The Two-Class Method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Diluted EPS includes the dilutive effect of securities, if any, and reflects the more dilutive EPS amount calculated using the treasury stock method or the Two-Class Method. For the three-month periods ended March 29, 2009 and 2008, both the Two-Class Method and the treasury stock method calculations for diluted EPS yielded the same result.

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

	Three-Month Periods Ended March 29,	
	2009	2008
Net Income (Loss) attributable to Ultralife	$ (2,512)	$ 2,434
Net Income (Loss) attributable to participating securities (unvested restricted stock awards) (-0- and 87,000 shares, respectively)	—	(12)
Net Income (Loss) attributable to Ultralife common shareholders (a)	(2,512)	2,422
Effect of Dilutive Securities:		
Convertible Notes Payable	—	—
Net Income (Loss) attributable to Ultralife common shareholders — Adjusted (b)	$ (2,512)	$ 2,422
Average Common Shares Outstanding — Basic (c)	17,115,000	17,027,000
Effect of Dilutive Securities:		
Stock Options / Warrants	—	414,000
Convertible Notes Payable	—	—
Average Common Shares Outstanding — Diluted (d)	17,115,000	17,441,000
EPS — Basic (a/c)	$ (0.15)	$ 0.14
EPS — Diluted (b/d)	$ (0.15)	$ 0.14

There were 1,717,073 and 270,286 outstanding stock options, warrants and restricted stock awards for the three-month periods ended March 29, 2009 and 2008, respectively, that were not included in EPS as the effect would be anti-dilutive. We also had 253,776 and 266,667 shares of common stock for the three-month periods ended March 29, 2009 and 2008, respectively, reserved under convertible notes payable, which were not included in EPS as the effect would be anti-dilutive. The dilutive effect of -0- and 1,555,488 outstanding stock options, warrants and restricted stock awards were included in the dilution computation for the three-month periods ended March 29, 2009 and 2008, respectively.

10. COMPREHENSIVE INCOME

The components of our total comprehensive income (loss) were:

	Three-Month Periods Ended March 29,	
	2009	2008
Net income (loss) attributable to Ultralife	$(2,512)	$2,434
Foreign currency translation adjustments	(54)	165
Change in fair value of derivatives	7	(32)
Total comprehensive income (loss)	$(2,559)	$2,567

11. COMMITMENTS AND CONTINGENCIES

a. Purchase Commitments

As of March 29, 2009, we have made commitments to purchase approximately $542 of production machinery and equipment.

b. Product Warranties

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the first three months of 2009 were as follows:

Balance at December 31, 2008	$ 1,010
Accruals for warranties issued	114
Settlements made	(99)
Balance at March 29, 2009	$ 1,025

c. Contingencies and Legal Matters

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

In October 2008, we filed a summons and complaint against one of our vendors seeking to recover at least $3,600 in damages, plus interest resulting from the vendor's breach of contract and failure to perform by failing to timely deliver product and delivering product that failed to conform to the contractual requirements. The vendor filed an answer and counterclaim in November 2008 denying liability to us for breach of contract and asserting various counterclaims for non-payment, fraud, unjust enrichment, unfair and deceptive trade practices, breach of covenant of good faith and fair dealing, negligent misrepresentation, and tortuous interference with contract and prospective economic advantage. In its answer and counterclaims, the vendor claims damages in excess of $3,500 plus interest and other incidental, consequential and punitive damages. We strongly dispute the vendor's allegations and we intend to vigorously pursue our claim and defend against the vendor's claims. We have $3,500 reflected in the accounts payable line on our Condensed Consolidated Balance Sheets relating to this matter. No additional accrual has been made or reflected in the Condensed Consolidated Financial Statements as of March 29, 2009.

In January 2008, we filed a summons and complaint against one of our customers seeking to recover $162 in unpaid invoices, plus interest for product supplied to the customer under a Master Purchase Agreement (“MPA”) between the parties. The customer filed an answer and counterclaim in March 2008 alleging that the product did not conform with a material requirement of the MPA. The customer claims restitution, cost of cover, and incidental and consequential damages in an approximate amount of $2,800. We strongly dispute the customer’s allegations and we intend to vigorously pursue our claim and defend against the customer’s claims. Accordingly, no accrual has been made or reflected in the Condensed Consolidated Financial Statement as of March 29, 2009.

In conjunction with our purchase/lease of our Newark, New York facility in 1998, we entered into a payment-in-lieu of tax agreement, which provided us with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment, which revealed the existence of contaminated soil and ground water around one of the buildings. We retained an engineering firm, which estimated that the cost of remediation should be in the range of $230. In February 1998, we entered into an agreement with a third party which provides that we and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse us for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. We have fully reserved for our portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (“NYSDEC”) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. We responded by submitting a work plan to NYSDEC, which was approved in April 2002. We sought proposals from engineering firms to complete the remedial work contained in the work plan. A firm was selected to undertake the remediation and in December 2003 the remediation was completed, and was overseen by the NYSDEC. The report detailing the remediation project, which included the test results, was forwarded to NYSDEC and to the New York State Department of Health (“NYSDOH”). The NYSDEC, with input from the NYSDOH, requested that we perform additional sampling. A work plan for this portion of the project was written and delivered to the NYSDEC and approved. In November 2005, additional soil, sediment and surface water samples were taken from the area outlined in the work plan, as well as groundwater samples from the monitoring wells. We received the laboratory analysis and met with the NYSDEC in March 2006 to discuss the results. On June 30, 2006, the Final Investigation Report was delivered to the NYSDEC by our outside environmental consulting firm. In November 2006, the NYSDEC completed its review of the Final Investigation Report and requested additional groundwater, soil and sediment sampling. A work plan to address the additional investigation was submitted to the NYSDEC in January 2007 and was approved in April 2007. Additional investigation work was performed in May 2007. A preliminary report of results was prepared by our outside environmental consulting firm in August 2007 and a meeting with the NYSDEC and NYSDOH took place in September 2007. As a result of this meeting, NYSDEC and NYSDOH requested additional investigation work. A work plan to address this additional investigation was submitted to and approved by the NYSDEC in November 2007. Additional investigation work was performed in December 2007. Our environmental consulting firm has prepared and submitted a Final Investigation Report to the NYSDEC for review. The results of the additional investigation requested by the NYSDEC may increase the estimated remediation costs modestly. Through March 29, 2009, total costs incurred have amounted to approximately $236, none of which has been capitalized. At March 29, 2009 and December 31, 2008, we had $50 and $52, respectively, reserved for this matter.

From August 2002 through August 2006, we participated in a self-insured trust to manage our workers’ compensation activity for our employees in New York State. All members of this trust have, by design, joint and several liability during the time they participate in the trust. In August 2006, we left the self-insured trust and have obtained alternative coverage for our workers’ compensation program through a third-party insurer. In the third quarter of 2006, we confirmed that

the trust was in an underfunded position (i.e. the assets of the trust were insufficient to cover the actuarially projected liabilities associated with the members in the trust). In the third quarter of 2006, we recorded a liability and an associated expense of $350 as an estimate of our potential future cost related to the trust's underfunded status based on our estimated level of participation. On April 28, 2008, we, along with all other members of the trust, were served by the State of New York Workers' Compensation Board ("Compensation Board") with a Summons with Notice that was filed in Albany County Supreme Court, wherein the Compensation Board put all members of the trust on notice that it would be seeking approximately $1,000 in previously billed and unpaid assessments and further assessments estimated to be not less than $25,000 arising from the accumulated estimated under-funding of the trust. The Summons with Notice did not contain a complaint or a specified demand. We timely filed a Notice of Appearance in response to the Summons with Notice. On June 16, 2008, we were served with a Verified Complaint. The Verified Complaint estimates that the trust was underfunded by $9,700 during the period of December 1, 1997 — November 30, 2003 and an additional $19,400 for the period December 1, 2003 — August 31, 2006. The Verified Complaint estimates our pro-rata share of the liability for the period of December 1, 1997 — November 30, 2003 is $195. The Verified Complaint did not contain a pro-rata share liability estimate for the period of December 1, 2003-August 31, 2006. Further, the Verified Complaint states that all estimates of the underfunded status of the trust and the pro-rata share liability for the period of December 1, 1997-November 30, 2003 are subject to adjustment based on a forensic audit of the trust that is currently being conducted on behalf of the Compensation Board by a third-party audit firm. We timely filed our Verified Answer with Affirmative Defenses on July 24, 2008. While the potential of joint and several liability exists, we have paid all assessments that have been levied against us to date during our participation in the trust. In addition, our liability is limited to the extent that the trust was underfunded for the years of our participation. As of March 29, 2009, we have determined that our $350 reserve for this potential liability continues to be reasonable. The final amount may be more or less, depending upon the ultimate settlement of claims that remain in the trust for the period of time we were a member. It may take several years before resolution of outstanding workers' compensation claims are finally settled. We will continue to review this liability periodically and make adjustments accordingly as new information is collected.

d. Post-Audits of Government Contracts

We have had certain "exigent", non-bid contracts with the U.S. government, which have been subject to an audit and final price adjustment, which have resulted in decreased margins compared with the original terms of the contracts. As of March 29, 2009, there were no outstanding exigent contracts with the government. As part of its due diligence, the government has conducted post-audits of the completed exigent contracts to ensure that information used in supporting the pricing of exigent contracts did not differ materially from actual results. In September 2005, the Defense Contracting Audit Agency ("DCAA") presented its findings related to the audits of three of the exigent contracts, suggesting a potential pricing adjustment of approximately $1,400 related to reductions in the cost of materials that occurred prior to the final negotiation of these contracts. We have reviewed these audit reports, have submitted our response to these audits and believe, taken as a whole, the proposed audit adjustments can be offset with the consideration of other compensating cost increases that occurred prior to the final negotiation of the contracts. While we believe that potential exposure exists relating to any final negotiation of these proposed adjustments, we cannot reasonably estimate what, if any, adjustment may result when finalized. In addition, in June 2007, we received a request from the Office of Inspector General of the Department of Defense ("DoD IG") seeking certain information and documents relating to our business with the Department of Defense. We continue to cooperate with the DCAA audit and DoD IG inquiry by making available to government auditors and investigators our personnel and furnishing the requested information and documents. At this time we have no basis for assessing whether we might face any penalties or liabilities on account of the DoD IG inquiry. The aforementioned DCAA-related adjustments could reduce margins and, along with the aforementioned DoD IG inquiry, could have an adverse effect on our business, financial condition and results of operations.

e. Government Grants/Loans

We have been able to obtain certain grants/loans from government agencies to assist with various funding needs. In November 2001, we received approval for a $300 grant/loan from New York State. The grant/loan was to fund capital expansion plans that we expected would lead to job creation. In this case, we were to be reimbursed after the full completion of the particular project. This grant/loan also required us to meet and maintain certain levels of employment. During 2002, since we did not meet the initial employment threshold, it appeared unlikely at that time that we would be able to gain access to these funds. However, during 2006, our employment levels had increased to a level that exceeded the minimum threshold, and we received these funds in April 2007. This grant/loan required us to not only meet, but maintain, our employment levels for a pre-determined time period. Our employment levels met the specified levels as of December 31, 2007 and 2008. As a result of meeting the employment levels as of December 31, 2008, we have satisfied all of the requirements for the grant/loan, and no amounts are owed on such grant/loan.

In conjunction with the City of West Point, Mississippi, we applied for a Community Development Block Grant ("CDBG") from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The CDBG was awarded and as of March 29, 2009, approximately $484 has been distributed under the grant. Under an agreement with the City of West Point, we have agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs must be filled or made available to low or moderate income families, within three years of completion of the CDBG improvement activities. In addition, we have agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. In the event we fail to honor these commitments, we are obligated to reimburse all amounts received under the CDBG to the City of West Point, Mississippi.

In conjunction with Clay County, Mississippi, we applied for a Mississippi Rural Impact Fund Grant ("RIFG") from the State of Mississippi for infrastructure improvements to our leased facility that is owned by the City of West Point, Mississippi. The RIFG was awarded and as of March 29, 2009, approximately $150 has been distributed under the grant. Under an agreement with Clay County, we have agreed to employ at least 30 full-time employees at the facility, of which 51% of the jobs must be filled or made available to low or moderate income families, within three years of completion of the RIFG improvement activities. In addition, we have agreed to invest at least $1,000 in equipment and working capital into the facility within the first three years of operation of the facility. In the event we fail to honor these commitments, we are obligated to reimburse all amounts received under the RIFG to Clay County, Mississippi.

12. BUSINESS SEGMENT INFORMATION

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

Three-Month Period Ended March 29, 2009

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 15,572	$ 13,854	$ 4,236	$ 6,141	$ —	$ 39,803
Segment contribution	2,822	3,438	1,040	481	(10,038)	(2,257)
Interest expense, net					(179)	(179)
Gain on debt conversion					—	—
Miscellaneous					11	11
Income taxes-current					(2)	(2)
Income taxes-deferred					(89)	(89)
Non controlling interest					4	4
Net loss attributable to Ultralife						$ (2,512)
Total assets	$ 46,004	$ 28,669	$ 39,240	$ 22,395	$ 4,882	$ 141,190

Three-Month Period Ended March 29, 2008

	Non-Rechargeable Products	Rechargeable Products	Communications Systems	Design and Installation Services	Corporate	Total
Revenues	$ 14,616	$ 6,738	$ 24,054	$ 4,179	$ —	$ 49,587
Segment contribution	3,056	1,201	6,121	497	(8,512)	2,363
Interest expense, net					(318)	(318)
Gain on debt conversion					313	313
Miscellaneous					108	108
Income taxes-current					(54)	(54)
Income taxes-deferred					9	9
Non controlling interest					13	13
Net income attributable to Ultralife						$ 2,434
Total assets	$ 46,166	$ 23,154	$ 45,544	$ 16,050	$ 4,927	$ 135,841

13. FIRE AT MANUFACTURING FACILITY

In November 2006, we experienced a fire that damaged certain inventory and property at our facility in China, which began in a battery storage area. Certain inventory and portions of buildings were damaged. We believe we maintain adequate insurance coverage for this operation. The total amount of the loss pertaining to assets and the related expenses was approximately $849. The majority of the insurance claim is related to the recovery of damaged inventory. In July 2007, we received approximately $637 as a partial payment on our insurance claim, which resulted in no gain or loss being recognized. In March 2008, we received a final settlement payment of $191, which offset the outstanding receivable of approximately $152 and resulted in a non-operating gain of approximately $39.

14. RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In June 2008, the Financial Accounting Standards Board ("FASB") ratified the consensus reached on Emerging Issues Task Force Issue No. 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF Issue No. 07-5"). EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing

instrument is not permitted. The adoption of this pronouncement did not have a significant impact on our financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP No. APB 14-1”). FSP No. APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, “Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants.” Additionally, FSP No. APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. SFAS 142-3, “Determination of the Useful Life of Intangible Assets.” (“FSP No. SFAS 142-3”). FSP No. SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” FSP FAS 142-3 intends to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), “Business Combinations”, and other U.S. generally accepted accounting principles. FSP No. SFAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133”. The statement amends and expands the disclosure requirements of SFAS No. 133 to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, results of operations, and cash flows. The statement also requires (i) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure, (ii) information about the volume of derivative activity, (iii) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement, and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (iv) disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years or interim periods beginning after November 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

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

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

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, the FASB issued FASB Staff Position SFAS No. 157-2, “Effective Date of FASB Statement No. 157” (“FSP”). The FSP delayed, for one year, the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis. As such, we partially adopted the provisions of SFAS No. 157 effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We adopted the deferred provisions of SFAS No. 157 effective January 1, 2009 which impacts the way in which we calculate fair value for assets and liabilities initially measured at fair value in a business combination, our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the additional disclosures that are required.

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 our products and services, addressing the process of U.S. military procurement, the successful commercialization of our products, the successful integration of our acquired businesses, general domestic and global economic conditions, including the recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally, government and environmental regulation, finalization of non-bid government contracts, competition and customer strategies, technological innovations in the non-rechargeable and rechargeable battery industries, changes in our business strategy or development plans, capital deployment, business disruptions, including those caused by fires, raw material supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein as anticipated, believed, estimated or expected or words of similar import. For further discussion of certain of the matters described above, see Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008.

The following discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2008.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in thousands of dollars, except for share and per share amounts.

General

We offer products and services ranging from portable and standby power solutions to communications and electronics systems. Through our engineering and collaborative approach to problem solving, we serve government, defense and commercial customers across the globe. We design, manufacture, install and maintain power and communications systems including: rechargeable and non-rechargeable batteries, standby power systems, communications and electronics systems and accessories, and custom engineered systems, solutions and services. We sell our products worldwide through a variety of trade channels, including original equipment manufacturers ("OEMs"), industrial and retail distributors, national retailers and directly to U.S. and international defense departments. (See Note 12 in the Notes to Condensed Consolidated Financial Statements for additional information.)

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

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

In March 2008, we formed a joint venture, named Ultralife Batteries India Private Limited ("India JV"), with our distributor partner in India. The India JV assembles Ultralife power solution products and manages local sales and marketing activities, serving commercial, government and defense customers throughout India. We have invested $86 in cash into the India JV, as consideration for our 51% ownership stake in the India JV.

In June 2008, we changed our corporate name from Ultralife Batteries, Inc. to Ultralife Corporation. The purpose of the name change was to align our corporate name more closely with the business now being conducted by us, as we are no longer exclusively a battery manufacturing company.

On November 10, 2008, we acquired certain assets of U.S. Energy Systems, Inc. and its service affiliate, U.S. Power Services, Inc. ("USE" collectively), a nationally recognized standby power installation and power management services business. USE is located in Riverside, California. Under the terms of the agreement, the initial purchase price consisted of $2,865 in cash. In addition, on the achievement of certain post-acquisition financial milestones, we will issue up to an aggregate amount of 200,000 unregistered shares of our common stock, over a period of four years. (See Note 2 in the Notes to Condensed Consolidated Financial Statements for additional information.)

On March 20, 2009, we acquired substantially all of the assets and assumed substantially all of the liabilities of the tactical communications products business of Science Applications International Corporation. The tactical communications products business ("AMTI"), located in Virginia Beach, Virginia, designs, develops and manufactures tactical communications products including amplifiers, man-portable systems, cables, power solutions and ancillary communications equipment. Under the terms of the asset purchase agreement for AMTI, the purchase price consisted of $5,717 in cash. (See Note 2 in the Notes to Condensed Consolidated Financial Statements for additional information.)

Results of Operations

Three-month periods ended March 29, 2009 and March 29, 2008

Revenues. Consolidated revenues for the three-month period ended March 29, 2009 amounted to $39,803, a decrease of $9,784, or 19.7%, from the $49,587 reported in the same quarter in the prior year.

Non-Rechargeable product sales increased $956, or 6.5%, from $14,616 last year to $15,572 this year. The increase in Non-Rechargeable revenues was mainly attributable to higher shipments of our BA-5390 batteries to government/defense customers, offset in part by a decline in sales to automotive telematics customers.

Rechargeable product sales increased $7,116, or 105.6%, from $6,738 last year to $13,854 this year. The increase in Rechargeable revenues was mainly attributable to strong demand for batteries and charging systems from U.S. defense customers.

Communications Systems revenues decreased $19,818, or 82.4%, from $24,054 last year to $4,236 this year, due to deliveries of SATCOM-on-the-Move and other advanced communications systems in 2008 resulting primarily from the sizeable orders we received during the latter part of 2007, that did not reoccur in 2009.

Design and Installation Services revenues increased $1,962, or 46.9%, from $4,179 last year to $6,141 this year, mainly due to the added revenue base provided from the acquisition of USE in the fourth quarter of 2008.

Cost of Products Sold. Cost of products sold totaled $32,022 for the quarter ended March 29, 2009, a decrease of $6,690, or 17.3%, from the $38,712 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 78.1% for the three-month period ended March 29, 2008 to 80.5% for the three-month period ended March 29, 2009. Correspondingly, consolidated gross margin was 19.5% for the three-month period ended March 29, 2009, compared with 21.9% for the three-month period ended March 29, 2008, generally attributable to the margin decreases in the Non-Rechargeable Products, Communications Systems and Design and Installation Services segments, offset by improvements in the Rechargeable Products segment.

In our Non-Rechargeable Products segment, the cost of products sold increased $1,190, from $11,560 in the three-month period ended March 29, 2008 to $12,750 in 2009. Non-Rechargeable gross margin for 2009 was $2,822, or 18.1% of revenues, a decrease of $234 from 2008's gross margin of $3,056, or 20.9% of revenues. Non-Rechargeable gross margin declined for the three-month period ended March 29, 2009, primarily as a result of lower production volumes, in comparison to the three-month period ended March 29, 2008, that resulted in unfavorable overhead absorption.

In our Rechargeable Products segment, the cost of products sold increased $4,879, from $5,537 in the three-month period ended March 29, 2008 to $10,416 in 2009. Rechargeable gross margin for 2009 was $3,438, or 24.8% of revenues, an increase of $2,237 from 2008's gross margin of $1,201, or 17.8% of revenues. Rechargeable gross margin improved primarily as a result of higher sales volumes and favorable product mix, as well as lower costs for material and component parts.

In our Communications Systems segment, the cost of products sold decreased $14,737, from $17,933 in the three-month period ended March 29, 2008 to $3,196 in 2009. Communications Systems gross margin for 2009 was $1,040, or 24.6% of revenues, a decrease of $5,081 from 2008's gross margin of $6,121, or 25.4% of revenues. The decrease in the gross margin for Communications Systems resulted mainly from the change in the overall sales mix in this segment.

In our Design and Installation Services segment, the cost of sales increased $1,978, from $3,682 in the three-month period ended March 29, 2008 to $5,660 in 2009. Design and Installation Services gross margin for 2009 was $481, or 7.8% of revenues, a decrease of $16 from 2008's gross margin of $497, or 11.9% of revenues. Gross margin in this particular segment was weaker than expected due to expected short-term price competition with component suppliers, relatively low margin jobs that carried over from year-end, and ongoing integration efforts related to the USE acquisition.

Operating Expenses. Total operating expenses for the three-month period ended March 29, 2009 totaled $10,038, an increase of $1,526 from the prior year's amount of $8,512. Overall, operating expenses as a percentage of sales increased to 25.2% in the first quarter of 2009 from 17.1% reported in the prior year, due to the overall expense increase over a lower revenue base. Amortization expense associated with intangible assets related to our acquisitions was $341 for 2009 ($231 in selling, general and administrative expenses and $110 in research and development costs), compared with $520 for 2008 ($361 in selling, general, and administrative expenses and $159 in research and development costs). Research and development costs were $1,980 in 2009, an increase of $371, or 23.1%, over the $1,609 reported in 2008 as we increased our investment in product development and design activity. Selling, general, and administrative expenses increased $1,155, or 16.7%, to $8,058. This increase was comprised of costs related to recently acquired companies, in addition to higher sales and marketing expenses related to development of new territories for the standby power business and generally higher administrative costs.

Other Income (Expense). Other income (expense) totaled ($168) for the first quarter of 2009, compared to $103 for the first quarter of 2008. Interest expense, net of interest income, decreased $139,

to $179 for the first quarter of 2009 from $318 for the comparable period in 2008, mainly as a result of lower average borrowings under our revolving credit facility and lower interest rates. In 2008, we recognized a gain of $313 on the early conversion of the $10,500 convertible notes held by the sellers of McDowell, which related to an increase in the interest rate on the notes from 4.0% to 5.0% in October 2007. Miscellaneous income/expense amounted to income of $11 for the first quarter of 2009 compared with income of $108 for the same period in 2008. This decrease was primarily due to transactions impacted by changes in foreign currencies relative to the U.S. dollar.

Income Taxes. We reflected a tax provision of $91 for the first quarter of 2009 compared with $45 in the first quarter of 2008. The effective consolidated tax rate for the first quarter of 2009 was (3.8%) compared with 1.8% for the same period in 2008.

During the fiscal quarter ended December 31, 2006, we recorded a full valuation allowance on our net deferred tax asset, due to the determination, at that time, that it was more likely than not that we would not be able to utilize our U.S. and U.K. net operating loss carryforwards (“NOL’s”) that had accumulated over time. At March 29, 2009, we continue to recognize a valuation allowance on our U.S. deferred tax asset, to the extent that we believe, that it is more likely than not that we will not be able to utilize that portion of our U.S. NOL’s that had accumulated over time. A U.S. valuation allowance is not required for the portion of the deferred tax asset that will be realized by the reversal of temporary differences related to deferred tax liabilities to the extent those temporary differences are expected to reverse in our carryforward period. At March 29, 2009, we continue to recognize a full valuation allowance on our U.K. net deferred tax asset, as we believe, at this time, that it is more likely than not that we will not be able to utilize our U.K. NOL’s that had accumulated over time. (See Note 8 in the Notes to Condensed Consolidated Financial Statements for additional information.) We continually monitor the assumptions and performance results to assess the realizability of the tax benefits of the U.S. and U.K. NOL’s and other deferred tax assets, in accordance with the applicable accounting standards.

We have determined that a change in ownership, as defined under Internal Revenue Code Section 382, occurred in 2005 and 2006. As such, the domestic NOL carryforward will be subject to an annual limitation estimated to be in the range of approximately $12,000 to $14,500. The unused portion of the annual limitation can be carried forward to subsequent periods. We believe such limitation will not impact our ability to realize the deferred tax asset.

In addition, certain of our NOL carryforwards are subject to U.S. alternative minimum tax such that carryforwards can offset only 90% of alternative minimum taxable income. This limitation did not have an impact on income taxes determined for the first quarter of 2009. However, this limitation did have an impact of $54 on income taxes determined for the first quarter of 2008. The use of our U.K. NOL carryforwards may be limited due to the change in the U.K. operation during 2008 from a manufacturing and assembly center to primarily a distribution and service center. For further discussion, see Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008.

Net Income (Loss) Attributable to Ultralife. Net loss attributable to Ultralife and loss attributable to Ultralife common shareholders per diluted share were $2,512 and $0.15, respectively, for the three months ended March 29, 2009, compared to a net income attributable to Ultralife and earnings attributable to Ultralife common shareholders per diluted share of $2,434 and $0.14, respectively, for the same quarter last year, primarily as a result of the reasons described above. Average common shares outstanding used to compute diluted earnings per share decreased from 17,441,000 in the first quarter of 2008 to 17,115,000 in 2009, mainly due to the share repurchase program we initiated in the fourth quarter of 2008, offset by stock option and warrant exercises and restricted stock grants.

Adjusted EBITDA

In evaluating our business, we consider and use Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA as net income

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

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

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

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

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

	Three-Month Period Ended	
	March 29, 2009	March 29, 2008
Net income (loss) attributable to Ultralife	$ (2,512)	$ 2,434
Add: interest expense, net	179	318
Add: income tax provision	91	45
Add: depreciation expense	942	998
Add: amortization expense	341	520
Add: stock-based compensation expense	536	487
Less: gain on debt conversion	—	(313)
Adjusted EBITDA	$ (423)	$ 4,489

Liquidity and Capital Resources

As of March 29, 2009, cash and cash equivalents totaled $943, a decrease of $935 from the beginning of the year. During the three-month period ended March 29, 2009, we used $6,715 of cash from operating activities as compared to a usage of $3,259 for the three-month period ended March 29, 2008. The use of cash from operating activities in 2009 resulted mainly from increased working capital requirements, including higher balances of inventory, as we prepared to deliver on anticipated contract awards and to meet the anticipated delivery schedules for those awards.

We used $7,156 in cash for investing activities during the first three-month period of 2009 compared with $397 in cash used for investing activities in the same period in 2008. In 2009, we spent $393 to purchase plant, property and equipment, and $6,763 was used in connection with the acquisition of AMTI, as well as contingent purchase price payouts related to RedBlack and RPS. In 2008, we spent $376 to purchase plant, property and equipment.

During the three-month period ended March 29, 2009, we generated $12,904 in funds from financing activities compared to the generation of $2,116 in funds in the same period of 2008. The financing activities in 2009 included a $16,600 inflow from drawdowns on the revolver portion of our primary credit facility, and an inflow of cash from stock option and warrant exercises of $242, offset by an outflow of $612 for principal payments on term debt under our primary credit facility and capital lease obligations, and an outflow of $3,326 for the purchase of treasury shares related to our share repurchase program.

Inventory turnover for the first three months of 2009 was an annualized rate of approximately 2.6 turns per year, a decrease from the 4.6 turns for the full year of 2008. The decrease in this metric is mainly due to a buildup in inventory in anticipation of certain orders from the U.S. Government that have been delayed, as well as the decrease in the sales volumes during the quarter. Our Days Sales Outstanding (DSOs) was an average of 63 days for the first three months of 2009, an increase from the 2008 average of 53 days, mainly due to the overall domestic and global recessionary economic conditions.

As of March 29, 2009, we had made commitments to purchase approximately $542 of production machinery and equipment, which we expect to fund through operating cash flows or the use of debt.

Debt Commitments

Our primary credit facility consists of both a term loan component and a revolver component, and the facility is collateralized by essentially all of our assets, including those of our subsidiaries. The lenders of the credit facility are JP Morgan Chase Bank, N.A. and Manufacturers and Traders Trust Company (together, the "Lenders"), with JP Morgan Chase Bank acting as the administrative agent. The current revolver loan commitment is $35,000. Availability under the revolving credit component is subject to meeting certain financial covenants, including a debt to earnings ratio and a fixed charge coverage ratio. In addition, we are required to meet certain non-financial covenants. The rate of interest, in general, is based upon either the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points.

On June 30, 2004, we drew down on a $10,000 term loan under the credit facility. The term loan is being repaid in equal monthly installments of $167 over five years. On July 1, 2004, we entered into an interest rate swap arrangement in the notional amount of $10,000 to be effective on August 2, 2004, related to the $10,000 term loan, in order to take advantage of historically low interest rates. We received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years. The total rate of interest paid by us is equal to the swap rate of 3.98% plus the applicable Eurodollar spread associated with the term loan. During the full year of 2008, the adjusted rate ranged from 5.73% to 6.48%. During the first three months of 2009, the adjusted rate was 6.48%. 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 March 29, 2009 resulted in a liability of $5, all of which was reflected as a short-term liability.

There have been several amendments to the credit facility during the past few years, including amendments to authorize acquisitions and modify financial covenants. Effective April 23, 2008, we entered into Amendment Number Ten to Credit Agreement ("Amendment Ten") with the banks. Amendment Ten increased the amount of the revolving credit facility from $15,000 to $22,500, an increase of $7,500. Additionally, Amendment Ten amended the applicable revolver and term rates under the Credit Agreement from a variable pricing grid based on quarterly financial ratios to a set interest rate structure based on either the current prime rate, or a LIBOR rate plus 250 basis points.

Effective January 27, 2009, we entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") with the Lenders. The Restated Credit Agreement reflects the previous ten amendments to the original Credit Agreement dated June 30, 2004 between us and the Lenders and modifies certain of those provisions. The Restated Credit Agreement among other things (i) increased the revolver loan commitment from $22,500 to $35,000, (ii) extended the maturity date of the revolving credit component from January 31, 2009 to June 30, 2010, (iii) modified the interest rate, and (iv) modified certain covenants. The rate of interest is based, in general, upon either a LIBOR rate plus a Eurodollar spread or an Alternate Base Rate plus an ABR spread, as that term is defined in the Restated Credit Agreement, within a predetermined grid, which is dependent upon whether Earnings Before Interest and Taxes for the most recently completed fiscal quarter is greater than or less than zero. Generally, borrowings under the Restated Credit Agreement bear interest based primarily on the Prime Rate plus 50 to 200 basis points or LIBOR plus 300 to 500 basis points. Additionally, among other covenant modifications, the Restated Credit Agreement modified the financial covenants by (i) revising the debt to earnings ratio and fixed charge coverage ratio and (ii) deleting the current assets to liabilities ratio. As of March 29, 2009, we were in compliance with all of the credit facility covenants, as amended.

As of March 29, 2009, we had $667 outstanding under the term loan component of our credit facility with our primary lending bank and $16,600 was outstanding under the revolver component. At March 29, 2009, the interest rate on the revolver component was 3.75%. As of March 29, 2009, the revolver arrangement provided for up to $35,000 of borrowing capacity, including outstanding letters of credit. At March 29, 2009, we had no outstanding letters of credit related to this facility, leaving $18,400 of additional borrowing capacity.

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

Continuing volatility in the debt capital markets may affect our ability to access those markets. Notwithstanding these adverse market conditions, we believe that current cash and cash equivalent balances and cash generated from operations, together with access to external sources of funds from the revolving credit facility, will be sufficient to meet our operating and capital needs in the foreseeable future.

Equity Transactions

During the first three-month periods of 2009 and 2008, we issued 43,000 and 157,000 shares of common stock, respectively, as a result of exercises of stock options and warrants. We received approximately $242 in 2009 and $1,775 in 2008 in cash proceeds as a result of these transactions.

On November 16, 2007, we finalized a settlement agreement with the sellers of McDowell Research, Ltd. relating to the initial purchase price of that company, which related to various operational issues that arose during the first several months following the July 2006 acquisition that significantly reduced our profit margins. The settlement agreement reduced the overall purchase price by approximately $7,900, by reducing the principal amount on the convertible notes initially issued in that transaction from $20,000 to $14,000, and eliminating a $1,889 liability related to a purchase price adjustment. In addition, the interest rate on the convertible notes was increased from 4% to 5% and we made prepayments totaling $3,500 on the convertible notes. Upon payment of the $3,500 in November 2007, we reported a one-time, non-operating gain of approximately $7,550 to account for the purchase price reduction, net of certain adjustments related to the change in the interest rate on the convertible notes. Based on the facts and circumstances surrounding the settlement agreement, there was not a clear and direct link to the purchase price; therefore, we recorded the settlement as an adjustment to income in accordance with SFAS No. 141. In January 2008, the remaining $10,500 principal balance on the convertible notes was converted in full into 700,000 shares of our common stock, and the remaining $313 that pertained to the change in the interest rate on the notes was recorded in other income as a gain on debt conversion.

Other Matters

We continue to be optimistic about our future prospects and growth potential. We continually explore various sources of liquidity to ensure financing flexibility, including leasing alternatives, issuing new or refinancing existing debt, and raising equity through private or public offerings. Although we stay abreast of such financing alternatives, we believe we have the ability during the next 12 months to finance our operations primarily through internally generated funds or through the use of additional financing that currently is available to us. In the event that we are unable to finance our operations with the internally generated funds or through the use of additional financing that currently is available to us, we may need to seek additional credit or access capital markets for additional funds. We can provide no assurance, given the current state of credit markets, that we would be successful in this regard.

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

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

With respect to our battery products, we typically offer warranties against any defects due to product malfunction or workmanship for a period up to one year from the date of purchase. With respect to our communications accessory products, we typically offer a four-year warranty. We also offer a 10-year warranty on our 9-volt batteries that are used in ionization-type smoke detector applications. We provide for a reserve for these potential warranty expenses, which is based on an analysis of historical warranty issues. There is no assurance that future warranty claims will be consistent with past history, and in the event we experience a significant increase in warranty claims, there is no assurance that our reserves will be sufficient. This could have a material adverse effect on our business, financial condition and results of operations.

Outlook

As a result of the delays in government/defense programs, mainly related to our communications systems business, we have lowered our revenue guidance for 2009 from $250,000 to approximately $230,000 and reduced our operating income estimate from approximately $20,000 to approximately $13,000. Although we still expect orders for our advanced communications systems and rechargeable batteries and charging systems to be released against government/defense programs in 2009, our assumption is that administrative delays will cause implementation of these programs to be one quarter later than previously anticipated. The margins on the delayed sales relate to higher margin products in the Communications Systems segment.

Recent Accounting Pronouncements and Developments

In June 2008, the Financial Accounting Standards Board ("FASB") ratified the consensus reached on Emerging Issues Task Force Issue No. 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF Issue No. 07-5"). EITF Issue No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". EITF Issue No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The adoption of this pronouncement did not have a significant impact on our financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP No. APB 14-1"). FSP No. APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." Additionally, FSP No. APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP No. APB 14-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. SFAS 142-3, "Determination of the Useful Life of Intangible Assets." ("FSP No. SFAS 142-3"). FSP No. SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP

FAS 142-3 intends to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), "Business Combinations", and other U.S. generally accepted accounting principles. FSP No. SFAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". The statement amends and expands the disclosure requirements of SFAS No. 133 to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The statement also requires (i) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure, (ii) information about the volume of derivative activity, (iii) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement, and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (iv) disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years or interim periods beginning after November 15, 2008. The adoption of this pronouncement did not have a significant impact on our financial statements.

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

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption encouraged. In February 2008, the FASB issued FASB Staff Position SFAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP"). The FSP delayed, for one year, the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in

the financial statements on at least an annual basis. As such, we partially adopted the provisions of SFAS No. 157 effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We adopted the deferred provisions of SFAS No. 157 effective January 1, 2009 which impacts the way in which we calculate fair value for assets and liabilities initially measured at fair value in a business combination, our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets. The adoption of this pronouncement did not have a significant impact on our financial statements, except for the additional disclosures that are required.

Critical Accounting Policies

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

During the first three months of 2009, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
(Dollars in thousands)

We are exposed to various market risks in the normal course of business, primarily interest rate risk and foreign currency risk. Our primary interest rate risk is derived from our outstanding variable-rate debt obligations. In July 2004, we hedged this risk by entering into an interest rate swap arrangement in connection with the term loan component of our credit facility. Under the swap arrangement, effective August 2, 2004, we received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years and will be adjusted accordingly for a Eurodollar spread incorporated in the agreement. As of March 29, 2009, a one basis point change in the Eurodollar spread would have a less than $1 value change. (See Note 6 in Notes to Condensed Consolidated Financial Statements for additional information.)

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

We maintain manufacturing operations in North America, Europe and Asia, and export products internationally. We purchase materials and sell our products in foreign currencies, and therefore currency fluctuations may impact our pricing of products sold and materials purchased. In addition, our foreign subsidiaries maintain their books in local currency, which is translated into U.S. dollars for our Condensed Consolidated Financial Statements.

Item 4. CONTROLS AND PROCEDURES

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

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In October 2008, the Board of Directors authorized a share repurchase program of up to $10,000 to be implemented over the course of a six-month period. Repurchases may be made from time to time at management’s discretion, either in the open market or through privately negotiated transactions. The repurchases will be made in compliance with Securities and Exchange Commission guidelines and will be subject to market conditions, applicable legal requirements, and other factors. We have no obligation under the program to repurchase shares and the program may be suspended or discontinued at any time without prior notice. We intend to fund the purchase price for shares acquired primarily with current cash on hand and cash generated from operations, in addition to borrowing from our credit facility, if necessary. In April 2009, this share repurchase program expired. Common stock repurchases in the first quarter of 2009 were as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May yet Be Purchased Under The Plans or Programs
January 1, 2009 — February 1, 2009	—	$ —	—	$8,185
February 2, 2009 — March 1, 2009	101,458	8.13	101,458	7,360
March 2, 2009 — March 29, 2009	314,847	7.95	314,847	4,859
Total First Quarter of 2009	416,305		416,305	

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Item 6. Exhibits

Exhibit Index	Description of Document	Incorporated By Reference from:
10.1	Amended and Restated Credit Agreement dated as of January 27, 2009, with the Lenders Party Hereto and JPMorgan Chase Bank, N.A. as Administrative Agent	Exhibit 99.1 of the Form 8-K filed on February 2, 2009
10.2	Amendment No.1 to the Stock Purchase Agreement by and among Innovative Solutions Consulting, Inc., Michele A. Aloisio, Marc DeLaVergne, Thomas R. Knowlton, Kenneth J. Wood, W. Michael Cooper, and the Registrant, dated September 12, 2007	Exhibit 99.1 of the Form 8-K filed on February 13, 2009
10.3	Amended and Restated Subordinated Promissory Note with William Maher effective March 28, 2009	Filed herewith
31.1	CEO 302 Certifications	Filed herewith
31.2	CFO 302 Certifications	Filed herewith
32.1	906 Certifications	Filed herewith

SIGNATURES

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

ULTRALIFE CORPORATION
(Registrant)

Date: May 7, 2009

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

Date: May 7, 2009

By: /s/ Robert W. Fishback
Robert W. Fishback
Vice President — Finance and Chief Financial Officer

Index to Exhibits

10.3	Amended and Restated Subordinated Promissory Note with William Maher effective March 28, 2009
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 10.3

THE SECURITY REPRESENTED BY THIS INSTRUMENT WAS ORIGINALLY ISSUED ON NOVEMBER 16, 2007, AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE TRANSFER OF SUCH SECURITY IS SUBJECT TO THE CONDITIONS SPECIFIED IN THE STOCK PURCHASE AGREEMENT, DATED AS OF OCTOBER 30, 2007, AS AMENDED AND MODIFIED FROM TIME TO TIME, BY AND AMONG ULTRALIFE CORPORATION F/K/A ULTRALIFE BATTERIES, INC. (THE "COMPANY"), WILLIAM MAHER AND STATIONARY POWER SERVICES, INC., AND THE COMPANY RESERVES THE RIGHT TO REFUSE THE TRANSFER OF SUCH SECURITY UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED WITH RESPECT TO SUCH TRANSFER. UPON WRITTEN REQUEST, A COPY OF SUCH CONDITIONS SHALL BE FURNISHED BY THE COMPANY TO THE HOLDER HEREOF WITHOUT CHARGE.

THIS AMENDED AND RESTATED NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND MAY NOT BE OFFERED OR SOLD EXCEPT: (i) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT (ii) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER THE ACT RELATING TO THE DISPOSITION OF SECURITIES), OR (iii) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL FOR THE COMPANY, AND AN EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE.

AMENDED AND RESTATED
THREE-YEAR SUBORDINATED
CONVERTIBLE PROMISSORY NOTE

$3,419,920 **Newark, New York**

FOR VALUE RECEIVED**, ULTRALIFE CORPORATION f/k/a ULTRALIFE BATTERIES, INC.**, a Delaware corporation with offices at 2000 Technology Parkway, Newark, New York 14513 (the "Company"*)*, hereby promises to pay to the order of **WILLIAM MAHER**, a natural person with an address of 525 Tallahassee Drive, St. Petersburg, FL 33702 or his registered assigns *(*"Holder"*)* the principal sum of $3,419,920, or such lesser principal amount to which this Amended and Restated Note shall have been adjusted in accordance with the provisions of the Stock Purchase Agreement, together with interest thereon calculated from the date hereof, in accordance with the provisions of this Amended and Restated Note.

This Amended and Restated Note, amends and restates in its entirety, the Note originally issued on November 16, 2007 pursuant to the Stock Purchase Agreement, dated as of October 30, 2007 (the "Purchase Agreement"), by and among the Company, Holder and Stationary Power Services, Inc. and the applicable provisions thereof are hereby incorporated herein in full by reference. This Amended and Restated Note confirms the parties' agreement to reduce the

principal amount under the original Note by an amount equal to $580,080, as an offset for such amounts owed by WMSP Holdings, LLC (an entity wholly owned by Holder) to the Company's wholly owned subsidiary, Stationary Power Services, Inc. pursuant to Invoice #45699. Except for one outstanding interest only payment due on April 1, 2009 (which the parties agree shall be paid by the Company to Holder within five (5) business days of the date hereof without penalty or recourse), the Holder hereby confirms that all amounts due, prior to and on the date hereof, under the original Note and this Amended and Restated Note have been paid in full by the Company, and the Holder further waives and releases the Company from any and all claims, causes of action, costs or expenses with respect to the Company's failure to pay any installment of principal or interest prior to the date hereof including, without limitation, any claim of default for the failure to pay the aforementioned interest installment pursuant to the terms of the original Note. The Purchase Agreement contains terms governing the rights of the Holder of this Amended and Restated Note and the Holder is entitled to the benefits thereof. All capitalized terms used herein and not otherwise defined shall have the meanings given thereto in the Purchase Agreement.

1. *Interest*. Except as otherwise expressly provided herein, interest shall accrue on the unpaid principal amount of this Amended and Restated Note outstanding from the date hereof until such time as payment thereof is actually delivered to the Holder (including after acceleration, maturity, or judgment) at the rate of 5% per annum. All interest shall be calculated on the basis of actual days elapsed divided by a 365 day year.

After the occurrence of Event of Default, the Holder may, upon one day's written notice but without demand, declare all or any portion of the unpaid principal amount of this Amended and Restated Note, any unpaid and accrued interest thereon and any applicable late fees, to be immediately due and payable and may otherwise take action to enforce this Amended and Restated Note. Upon the occurrence of an Event of Default, at Holder's option interest on the outstanding principal hereunder shall accrue at a rate per annum from time to time equal to the rate of interest then in effect on this Amended and Restated Note plus 5% per annum. Any increase in the interest rate shall be in addition to the Holder's other available remedies.

Holder does not intend or expect to pay, nor does Company intend or expect to charge, accept or collect any interest which shall be in excess of the highest lawful rate allowable under the laws of the State of New York or the United States of America, whichever is lower. Should any charges upon the earning of interest be in excess of the highest lawful rate allowable under the laws of the State of New York or the United States of America, whichever is lower, then any and all such excess is hereby waived and shall be applied against the remaining principal balance, if any, and thereafter refunded to Holder.

2. *Payments.* Interest shall be due and payable quarterly in arrears of each year that this Amended and Restated Note is outstanding, commencing on July 1, 2009 and continuing on the first day of each calendar quarter thereafter until the principal hereof shall have become due and payable, and on the Maturity Date hereof.

If Holder has not received the full amount of any installment by the end of fifteen (15) calendar days from the date it is due, Company shall pay a late charge to Holder. The amount of

the late charge will be five percent (5%) of the amount of the payment due. The late charge shall be due and payable immediately but shall be paid only once on each late payment.

All unpaid accrued interest and all outstanding principal shall be due and payable in full on the third anniversary of the Closing (the "Maturity Date").

3. ***Voluntary Prepayments*****.** This Amended and Restated Note may be prepaid by the Company in whole or in part at any time after 60 days prior written notice to Holder (during which period Holder may exercise its conversion rights hereunder).

4. ***Conversion Rights*****.**

(a) The Holder may convert the outstanding principal amount of this Amended and Restated Note (or a portion of such outstanding principal amount as provided in Section 4(c)) into fully paid and nonassessable shares of Common Stock of the Company (the "Conversion Shares") at any time prior to the time the outstanding principal amount of this Amended and Restated Note is paid in full (subject to the notice periods and conversion rights related thereto described elsewhere in this Amended and Restated Note), at the Conversion Price (defined below) then in effect (collectively, the "Conversion Rights"). The initial per share conversion price (the "Conversion Price") shall be $15.00. The Conversion Price is subject to adjustment as provided in Section 5.

(b) The provisions of this Amended and Restated Note that apply to conversion of the outstanding principal amount of this Amended and Restated Note also apply to a partial conversion of this Amended and Restated Note. The Holder is not entitled to any rights of a holder of Conversion Shares until the Holder has converted this Amended and Restated Note (or a portion thereof) into Conversion Shares, and only to the extent that this Amended and Restated Note is deemed to have been converted into Conversion Shares under this Section 4.

(c) To convert all or a portion of this Amended and Restated Note, the Holder must (a) complete and sign a notice of election to convert substantially in the form of Exhibit I hereto (each, a "Conversion Notice"), (b) surrender the Note to the Company, and (c) furnish appropriate endorsements or transfer documents if required by the Company. The date on which the Holder satisfies all of such requirements is the conversion date (the "Conversion Date"). As soon as practicable, and in any event within 10 business days after the Conversion Date, the Company will deliver, or cause to be delivered, to the Holder a certificate for the number of whole Conversion Shares issuable upon such conversion and a check for any fractional Conversion Share determined pursuant to Section 4(d). The person in whose name the certificate for Conversion Shares is to be registered shall become the stockholder of record on the Conversion Date and, as of the Conversion Date, the rights of the Holder as to this Amended and Restated Note shall cease as to the portion thereof so converted; provided, however, that no surrender of a Note on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person entitled to receive the Conversion Shares upon such conversion as the stockholder of record of such Conversion Shares on such date, but such surrender shall be effective to constitute the person entitled to receive such Conversion Shares as the stockholder of record thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided further that such conversion shall be

at the Conversion Price in effect on the date that this Amended and Restated Note shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed.

In the case of a partial conversion of this Amended and Restated Note, upon such conversion, the Company shall execute and deliver to the Holder, at the expense of the Company, a new Note in an aggregate principal amount equal to the unconverted portion of the principal amount.

(d) No fractional Conversion Shares shall be issued upon exercise of the Conversion Rights. Instead of any fractional Conversion Share which would otherwise be issuable upon conversion of this Amended and Restated Note, the Company shall calculate and pay a cash adjustment in respect of such fraction (calculated to the nearest 1/100th of a share) in an amount equal to the same fraction of the Conversion Price at the close of business on the Conversion Date.

(e) The issuance of certificates for Conversion Shares upon exercise of any of the Conversion Rights shall be made without charge to the Holder for such certificates or for any tax in respect of the issuance of such certificates, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder; provided, however, that in the event that certificates for Conversion Shares are to be issued in a name or names other than the name of the Holder, such Note, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the Holder or his duly authorized attorney; and provided further, moreover, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name or names other than that of the Holder, and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

(f) The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized and unissued Common Stock, solely for the purpose of effecting the conversion of this Amended and Restated Note, the full number of Conversion Shares then issuable upon the conversion in full of this Amended and Restated Note. The Company hereby grants Holder piggyback registration rights as more particularly set forth in the Purchase Agreement and the Registration Rights Agreement entered into pursuant thereto.

(g) If the Company or an affiliate of the Company shall at any time after the date hereof and prior to the conversion of the Note in full issue any rights to subscribe for shares of Common Stock or any other securities of the Company or of such affiliate to all the stockholders of the Company, the Holder of the unconverted portion of the Note shall be entitled, in addition to the shares of Common Stock or other securities receivable upon the Conversion thereof, to receive such rights at the time such rights are distributed to the other stockholders of the Company, to be calculated on an as-converted basis.

5. *Adjustments to Conversion Rights*.

(a) *General*. In order to prevent dilution of the rights granted under this Amended and Restated Note, the Conversion Price and the number of Conversion Shares shall be subject to adjustment from time to time as provided in this Section 5(a). It is the intention of the Company that the Conversion Price shall at all times be the lower of (i) the Conversion Price on the date of this Amended and Restated Note and (ii) the Conversion Price determined by adjustment pursuant to the remainder of this Section 5(a). In the event that at any time the Common Stock of the Company shall be exchanged for, or changed into, a different kind and/or a number of shares of stock of the Company or of another corporation by reason of a merger, consolidation, sale of Stocks, recapitalization, reclassification, stock dividend, stock split-up or combination of shares or otherwise, then, until any further adjustment is required, there shall be issuable upon the conversion of the Note, in lieu of each share of Common Stock of the Company or of any other stock theretofore issued pursuant to the provisions of this Amended and Restated Note, the kind and/or number of shares of stock for which each share of Common Stock of the Company or such other stock shall be so exchanged, or into which each share of Common Stock of the Company or such other stock shall be so changed and the Conversion Price shall be automatically adjusted to a new Conversion Price as nearly equivalent as practicable to the adjustment in shares of stock, if by reason of such merger, consolidation, recapitalization, reclassification or otherwise the number of issued and outstanding shares of Common Stock of the Company shall have been exchanged for or changed into such new shares on other than a one-to-one basis. No adjustment in the Conversion Price shall be made for cash dividends on the shares of Common Stock of the Company or any other stock issued upon any conversion of the Note.

(b) *Notices.* Immediately upon any adjustment of the Conversion Price, the Company shall give written notice thereof to the Holder, setting forth in reasonable detail and certifying the calculation of such adjustment.

6. Company Right to Compel Conversion. Notwithstanding any other provisions of this Amended and Restated Note, the Company shall have the right, at the Company's sole discretion, to compel the Holder to convert the Note at the Conversion Price at any time within five (5) business days after the average "Value Weighted Average Price" of the Company's Common Stock, as published by The NASDAQ Stock Market, for the trailing 30 days exceeds $17.00 per share and subject to the provision that the Conversion Shares are registered under the Act on a registration statement that has been declared effective by the SEC. In such event, the Company shall provide the Holder with written notice of conversion, setting forth the basis upon which the conditions to compel the conversion were satisfied. Thereafter, the Note shall only represent the right to receive the Conversion Shares and any accrued but unpaid interest. In the event the Company fails to provide the Holder with written notice of conversion within the five (5) business day period set forth in the first sentence of this Section 6, the Company shall be deemed to have waived its right to compel conversion of this Amended and Restated Note at that time and shall be required to satisfy anew the conditions for a compelled conversion.

7. Subordination. The Holder agrees that the payment of the principal of and the interest on the Note is expressly subordinated to the payment of all Senior Indebtedness, to the extent and subject to the conditions set forth in this Section 7. As used herein, the term "Senior Indebtedness" shall mean the principal of, the interest on and the premium, if any, on all indebtedness of the Company for money borrowed by it from any financial institution including

banks, savings institutions or insurance companies and similar institutional lenders, and all renewals, extensions and refundings of any such indebtedness, whether such indebtedness shall have been incurred prior to, on, or subsequent to the date hereof, unless by the terms of the instruments creating or evidencing any such indebtedness it is provided that such indebtedness is not to be considered Senior Indebtedness for the purpose of this Amended and Restated Note.

(a) No interest or principal shall be paid on the Note without the consent of the holders of all outstanding Senior Indebtedness if, at the date fixed herein for such interest or principal payment, the Company shall be in default of payment of principal or interest upon such Senior Indebtedness. In the event any payment of interest or principal hereunder shall be prohibited pursuant to this Section 7(a), such payment shall be deemed to be deferred until the cure of all defaults in payment of principal or interest upon the Senior Indebtedness, and the payments hereon so deferred shall immediately become due and payable, with interest thereon, at the rate of 5% per annum, upon the cure of such defaults.

(b) In the event of any dissolution, winding up, liquidation or reorganization of the Company, whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors or in any other marshalling of the Stocks and liabilities of the Company the holders of all Senior Indebtedness shall first be entitled to receive payment in full of such Senior Indebtedness before the Holder shall be entitled to receive any payment upon the principal of, the interest on, or the premium, if any, on the indebtedness evidenced by the Note. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of Stocks of the Company of any kind or character, whether in cash, property or securities, to which the Holder would be entitled, except for the provisions of this Section 7, shall be made by the liquidating trustee or agent or such person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Holders of the Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures under which any instruments evidencing any such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to pay in full all such Senior Indebtedness remaining unpaid, after giving effect to all concurrent payments or distributions with respect to such Senior Indebtedness.

(c) In the event that, notwithstanding the provisions of Section 7(b), upon any such dissolution, or winding up, liquidation or reorganization, any payment or distribution of Stocks of the Company of any kind or character, whether in cash, property or securities, shall be received by the Holder before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representatives or to the trustee or trustees under any indenture or indentures referred to in Section 8(b), ratably as aforesaid, for the application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution with respect to such Senior Indebtedness.

(d) Subject to the payment in full of all Senior Indebtedness, the Holder to the extent permitted by law, shall be subrogated to the rights of each holder of Senior Indebtedness (to the extent of the payments or distributions made to such holder pursuant to the provisions of Sections 7(b) and 7(c)) to receive payments or distributions of Stocks of the Company applicable

to the Senior Indebtedness until the principal of, the interest on, and the premium, if any, on this Amended and Restated Note shall be paid in full, and each holder of Senior Indebtedness by accepting such payments or distributions shall be deemed to have agreed to said subrogation. No payments or distributions to the Senior Indebtedness pursuant to the provisions of Sections 7(b) and 7(c) shall, as between the Company, its creditors, other than the holders of the Senior Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of the Note, the provisions of this Section 7 being, and being intended, solely for the purpose of defining the relative rights of the Holder, on the one hand, and the holders of the Senior Indebtedness, on the other hand; and nothing contained in this Section 7 or elsewhere in this Amended and Restated Note is intended to or shall impair, as between the Company, the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, the obligations of the Company, which is unconditional and absolute, to pay to the Holder as and when the same shall become due and payable in accordance with the terms herein, or to affect the relative rights of the Holder and the other creditors of the Company, other than the holders of Senior Indebtedness, or to prevent the Holder from exercising all of the remedies otherwise permitted by applicable law upon default as provided for herein, subject to the rights, if any, under this Section 7 of the holders of the Senior Indebtedness in respect of any cash, property or securities of the Company received upon the exercise of any such remedy.

(e) In the event that this Amended and Restated Note shall be declared due and payable before the Maturity Date because of the occurrence of a default hereunder, the Company will give prompt notice in writing of such happening to the holders of the Senior Indebtedness, and any and all Senior Indebtedness shall forthwith become immediately due and payable upon demand by the respective holders thereof regardless of the express maturity dates thereof.

8. ***Events of Default.*** In the event that there shall be any Event of Default hereunder (other than subsections (a)(1) and (a)(2))and such Event of Default shall remain uncorrected or unremedied for a period of more than 30 days after the Holder shall have given the Company notice received notice of such Event of Default, then the full unpaid principal amount of the Note, together with any accrued but unpaid interest, may, at the option of the Holder, become immediately due and payable without further notice by the Holder. An Event of Default described in subsections (a)(1) and (a)(2) shall be deemed to occur fifteen (15) days after the due date of such installment of interest or principal is due and payable.

(a) "Event of Default" as used in this Section 8 shall mean and refer to any of the following:

(i) The failure of the Company to pay any installment of interest or principal on the Note when and as the same shall become due and payable, whether at maturity, by call for redemption, by declaration or otherwise;

(ii) The failure of the Company, to pay any installment of interest or principal on Senior Indebtedness when and as the same shall become due and payable, unless such payment shall have been deferred or waived by the terms of the instruments evidencing such Senior Indebtedness or by the holder thereof;

(iii) The breach of any representation or warranty of the Company or the failure of the Company to observe and perform all of the covenants and agreements on the part of the Company contained herein or in the Stock Purchase Agreement;

(iv) The failure of any representation or warranty made by the Company in the Stock Purchase Agreement to be truthful, accurate or correct;

(v) The adjudication of the Company as a bankrupt by a court of competent jurisdiction or the entry by a court of competent jurisdiction of an order approving a petition seeking reorganization of the Company under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or any other jurisdiction;

(vi) The appointment by a court of competent jurisdiction of a trustee or receiver or receivers of the Company of all or any substantial part of its property upon the application of any creditor in any insolvency or bankruptcy proceeding or other creditor suit, unless such appointment or decree or order shall be stayed upon appeal or otherwise;

(vii) The filing by the Company of a petition involuntary bankruptcy or the making by the Company of an assignment for the benefit of its creditors or the consenting by the Company to the appointment of a receiver or receivers for all or any substantial portion of the property of the Company;

(viii) The filing by the Company of a petition or answer seeking reorganization under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof or jurisdiction, or the filing by the Company of a petition to take advantage of any debtor’s act.

(b) Upon the occurrence of an Event of Default which shall remain uncorrected or unremedied for a period of more than 30 days after notice has been given to the Company from the Holder, the Holder shall at all times have the right to institute any suit, action or proceeding, in equity or at law, for the enforcement of rights as provided for herein, or in aid of the exercise of any right or power granted herein. The remedies of the Holder, as provided herein shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of the Holder, and may be exercised as often as occasion therefor shall arise.

(c) The Note shall be the obligation of the Company solely and there shall be no recourse had for the payment thereof or interest thereon against any stockholder, officer or director of the Company, either directly or through the Company, by reason of any matter prior to the delivery of the Note, or against any present or future officer or director of the Company, all such liability being expressly released by the Holder and by any subsequent holders hereof by the acceptance hereof and as part of the consideration for the issuance thereof.

The Holder shall also have any other rights which the Holder may have been afforded under any contract or agreement at any time and any other rights which such holder may have pursuant to applicable law. The Company hereby waives diligence, presentment and protest and expressly agrees that this Amended and Restated Note, or any payment hereunder, may be extended from time to time and that the Holder may accept security for this Amended and

Restated Note or release security for this Amended and Restated Note, all without in any way affecting the liability of the Company hereunder.

9. ***Amendment and Waiver.*** Except as otherwise expressly provided herein, the provisions of this Amended and Restated Note may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. ***Cancellation.*** After all principal and accrued interest at any time owed on this Amended and Restated Note has been paid in full, this Amended and Restated Note shall be surrendered to the Company for cancellation and shall not be reissued.

11. ***Payments.*** Unless otherwise expressly provided herein, all payments to be made to the Holders shall be made in the lawful money of the United States of America in immediately available funds which shall be delivered to the address designated by the Holder. Time is of the essence with respect to the terms, covenants and conditions contained herein.

12. ***Transfer of Note.*** This Amended and Restated Note may be transferred only in accordance with the terms of the Stock Purchase Agreement, and the Company shall treat the Person to whom this Amended and Restated Note is assigned in accordance therewith for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13*.* ***Business Days***. If any payment is due, or any time period for giving notice or taking action expires, on a day which is a Saturday, Sunday or legal holiday in the State of New York, the payment shall be due and payable on, and the time period shall automatically be extended to, the next business day immediately following such Saturday, Sunday or legal holiday, and interest shall continue to accrue at the required rate hereunder until any such payment is made.

14*.* ***Right of Offset.*** This Amended and Restated Note is subject to the Buyer’s rights of offset pursuant to the provisions of Section 2(e) and Section 8(f) of the Purchase Agreement.

15. ***Notices***. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Amended and Restated Note shall be given in accordance with the Purchase Agreement.

16. ***New York Law.*** This Amended and Restated Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the laws of such State.

17. ***Taxes***. Company shall pay all filing fees, recording costs, documentary stamp taxes, intangible or other similar taxes incurred in connection with this Amended and Restated Note or security given for its performance. Company further agrees to pay all costs of collection, including reasonable attorneys’ fees and litigation costs in case that sums due hereunder are not paid promptly when due, whether suit is brought or not.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has executed and delivered this Amended and Restated Note effective as of March 28, 2009.

ULTRALIFE CORPORATION

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

ACKNOWLEDGED AND AGREED TO:

/s/ William Maher
William Maher

EXHIBIT I
FORM OF CONVERSION NOTICE

The undersigned hereby irrevocably elects to exercise its right, pursuant to the Amended and Restated Subordinated Convertible Promissory Note effective as of March 28, 2009 (the "***Note***") of Ultralife Corporation f/k/a Ultralife Batteries, Inc. (the "***Company***") in the outstanding principal amount of $3,419,920, which Note is tendered herewith, to convert $___________ of the amount outstanding under the Note to ________________ shares of the common stock of the Company (the "***Shares***"), all in accordance with the terms of the Note. The undersigned requests that a Certificate for such Shares be registered in the name of _________, whose address is _________, and that such Certificate be delivered to _________, whose address is _________, [and that a replacement Note in the principal amount of $_________, representing the balance of the principal amount outstanding thereunder after giving effect to this conversion, be issued in the amount of $_________ and delivered to _________, whose address is _________].

Dated: __________________

Signature: ________________________________

(Signature must conform in all respects to name of holder as specified on the face of the Note.)

____

____
(Insert Taxpayer Identification, Social Security or
Other Identifying Number of Holder)

Exhibit 31.1

I, John D. Kavazanjian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultralife Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/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 Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2009

/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 Corporation, certify that (i) the Quarterly Report on Form 10-Q for the quarter ended March 29, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Ultralife Corporation.

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

Date: May 7, 2009

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

Date: May 7, 2009

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