
United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

July 3, 2006
(Date of Report)

ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

000-20852
(Commission File Number)

16-1387013
(IRS Employer Identification No.)

2000 Technology Parkway, Newark, New York
(Address of principal executive offices)

14513
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

A. Fifth Amendment to Credit Facility

Ultralife Batteries, Inc. (the “Registrant”) is party to a credit agreement, dated as of June 30, 2004, with certain lenders, which are currently JPMorgan Chase Bank, N.A., and Manufacturers and Traders Trust Company, and JPMorgan Chase Bank, N.A., as administrative agent for the lenders (the “Credit Agreement”). The Credit Agreement has been previously amended four times, on each of September 24, 2004, May 4, 2005, August 5, 2005 and November 1, 2005, and the Credit Agreement is subject to a waiver letter dated May 3, 2006. As so modified, the Credit Agreement is sometimes hereinafter referred to as the “Credit Facility.”

Effective on July 3, 2006, the Registrant entered into a fifth amendment to the Credit Agreement (the “Fifth Amendment”). The primary purposes of the Fifth Amendment are to modify the Credit Facility, in the manner described below, to facilitate the Registrant’s acquisition of substantially all of the assets of McDowell Research, Ltd. and to accommodate the holding company structure for the Registrant’s completed acquisition of Able New Energy Co. Ltd. Each of the acquisition transactions is described in the Registrant’s previous filings with the Securities and Exchange Commission.

The Fifth Amendment modifies the revolving credit component of the Credit Facility in a number of respects. The Fifth Amendment increases the commitment amount under the revolving component of the Credit Facility from \$15,000,000 to \$20,000,000. In addition, the Fifth Amendment extends the maturity date for revolving loans under the Credit Facility to June 30, 2008. The Fifth Amendment also revises the covenants regarding debt-to-earnings ratio and EBIT-to-interest-expense ratio. Finally, the Fifth Amendment changes, adds or supplements a number of defined terms in the Credit Facility. The Fifth Amendment also contains representations, conditions, covenants and other miscellaneous provisions that are customary for an agreement of this type. The Registrant expects to file the complete text of the Fifth Amendment as an exhibit to its quarterly report on Form 10-Q for the quarterly period ended September 30, 2006.

MR Acquisition Corporation, which is a wholly-owned subsidiary of the Registrant and the corporation that is holding the assets of McDowell Research, Ltd. acquired by the Registrant, is a guarantor of the Credit Facility and has granted the lenders a security interest in its assets to partially secure the obligations of the Registrant under the Credit Facility.

There are no material relationships between the Registrant or its affiliates and the lenders or the administrative agent, other than in respect of the Credit Facility.

B. Issuance of Subordinated Convertible Promissory Note

Effective on July 3, 2006, the Registrant issued a subordinated convertible promissory note (the “Note”) in the principal amount of \$20,000,000 to McDowell Research, Ltd., a Texas limited partnership engaged in the business of designing and developing power systems and battery chargers for sale to commercial customers (“McDowell”), in connection with the closing

of the Registrant's acquisition of substantially all of the assets of McDowell for an aggregate purchase price of approximately \$25,000,000 (the "McDowell Acquisition").

The principal amount of the Note matures and is payable on the fifth anniversary of the closing of the McDowell Acquisition. The Note bears interest at the rate of four percent per year, which rate can increase if an event of default defined within the Note occurs. The Note is cross-defaulted against the asset purchase agreement for the McDowell Acquisition, which was executed by the parties on May 1, 2006 (the "Purchase Agreement"). During the term of the Note, interest is payable in arrears on a quarterly basis. Subject to McDowell's conversion rights discussed below, the Registrant can satisfy all amounts outstanding under the Note before its maturity date by providing written notice to McDowell at least 60 days before the anticipated payoff date. The payment of principal and interest under the Note is subordinate to the rights of all commercial lenders that lend money to the Registrant, such as banks or other financial institutions, including JPMorgan Chase Bank, N.A. and Manufacturers and Traders Trust Company.

Subject to certain limitations, the Note is convertible into shares of the Registrant's common stock at any time prior to the time the outstanding principal amount of the Note is paid in full. The initial per share conversion price is \$15.00, and the conversion price is subject to customary anti-dilution adjustments. The Registrant has the right to compel McDowell to convert the Note at any time after the 30-day average closing price of the Registrant's common stock exceeds \$17.50 per share. The Registrant has undertaken to register the shares issuable upon a conversion of the Note on a registration statement to be filed with the Securities and Exchange Commission within 45 days of the closing of the McDowell Acquisition.

There are no material relationships between the Registrant or its affiliates and McDowell, other than in respect of the transaction documents for the McDowell Acquisition.

The Registrant expects to file the Note as an exhibit to its quarterly report on Form 10-Q for the quarter ended September 30, 2006.

C. Amendment of Purchase Agreement

In connection with the McDowell Acquisition, on May 1, 2006, the Registrant and its wholly-owned subsidiary, MR Acquisition Corporation, entered into the Purchase Agreement with McDowell, Thomas Hauke, Earl Martin, Sr., James Evans and Frank Alexander. The Registrant filed a current report on Form 8-K with the Securities and Exchange Commission on May 2, 2006 containing a brief description of the terms and conditions of the Purchase Agreement that are material to the Registrant.

Effective on July 5, 2006, the Registrant, MR Acquisition Corporation and McDowell, together with Hauke, Martin, Evans and Alexander, amended the Purchase Agreement to permit the Registrant to hold back \$750,000 from the cash portion of the purchase price payable under the Purchase Agreement until the Registrant receives a satisfactory written novation of a contract to be assigned to MR Acquisition Corporation in connection with the McDowell Acquisition. The July 5th amendment also shifted back to McDowell responsibility for certain warranty claims relating to the subject contract and gave McDowell both the responsibility for collecting, and the

economic benefit of, the account receivable associated with the subject contract. The Registrant expects to file the Purchase Agreement, as amended, as an exhibit to its quarterly report on Form 10-Q for the quarter ended July 1, 2006.

There are no material relationships between the Registrant or its affiliates and Seller, Hauke, Martin, Evans or Alexander, other than in respect of the McDowell Acquisition. Following the completion of the McDowell Acquisition, Hauke became an executive officer of the Registrant. In addition, the Registrant, MR Acquisition Corporation and a partnership owned by Hauke and Martin entered into a lease agreement pursuant to which MR Acquisition Corporation is leasing real property located in Waco, Texas from the partnership.

Item 3.02 Unregistered Sales of Equity Securities.

As described above in greater detail under Item 1.01(B) of this Report, effective on July 3, 2006, the Registrant issued the Note in the principal amount of \$20,000,000 to McDowell in connection with the closing of the McDowell Acquisition for an aggregate purchase price of approximately \$25,000,000. Subject to the holdback described under Item 1.01(C) of this Report, the balance of the purchase price was paid at closing in cash.

The Registrant issued the Note to McDowell without registration under Section 5 of the Securities Act of 1933 in reliance on the exemption from registration contained in Section 4(2) of the Securities Act. Section 4(2) of the Securities Act exempts from registration “transactions by an issuer not involving any public offering.” To qualify for this exemption, the purchasers of the securities must (1) have sufficient knowledge and experience in finance and business matters to evaluate the risks and merits of the investment or be able to bear the investment’s economic risk, (2) have access to the type of information normally provided in a prospectus and (3) agree not to resell or distribute the securities to the public absent an effective registration statement. In addition, the Registrant cannot use any form of public solicitation or general advertising in connection with the transaction.

The Registrant believes that all of the requirements to qualify to use the exemption from registration contained in Section 4(2) of the Securities Act have been satisfied in connection with the issuance of the Note to McDowell. Specifically, (1) the Registrant has determined that McDowell, through its management team, and together with their advisors, is knowledgeable and experienced in finance and business matters and thus is able to evaluate the risks and merits of acquiring the Note and, in the event the Note is converted, the Registrant’s common stock underlying the Note; (2) McDowell has advised the Registrant that it is able to bear the economic risk of acquiring the Note and, in the event the Note is converted, the Registrant’s common stock underlying the Note; (3) the Registrant has provided McDowell with access to the type of information normally provided in a prospectus; (4) McDowell has agreed not to resell or distribute the securities to the public except as permitted by the federal securities laws; and (5) the Registrant did not use any form of public solicitation or general advertising in connection with issuance of the Note.

Item 8.01 Other Events.

Effective on July 3, 2006, the Registrant completed the McDowell Acquisition. A copy of the press release issued by the Registrant in connection with the completion of the acquisition is attached as Exhibit 99.1 to this Report.

Item 9.01 Financial Statements and Exhibits.**(d) Exhibits.**

99.1 Press Release, dated July 10, 2006, announcing the acquisition of substantially all of the assets of McDowell Research, Ltd.

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 hereunto duly authorized.

Date: As of July 10, 2006

ULTRALIFE BATTERIES, INC.

/s/ Peter F. Comerford

Peter F. Comerford

Vice President of Administration & General Counsel

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Ultralife Batteries Completes Acquisition of McDowell Research

Newark, New York — July 10, 2006 — Ultralife Batteries, Inc. (NASDAQ: ULBI) has completed the acquisition of McDowell Research, a manufacturer of military communications accessories located in Waco, Texas. In conjunction with the closing of the acquisition, Mr. Tom Hauke has been named a corporate officer of Ultralife Batteries and will retain his title as president of McDowell Research.

Under the terms of the agreement, the purchase price of approximately \$25 million consists of \$5 million in cash and a \$20 million non-transferable convertible note held by the sellers. Ultralife's primary lending banks have assisted with financing the cash portion of the purchase price by enhancing the company's credit facility. The \$20 million convertible note carries a five-year term and is convertible at \$15 per share into 1.33 million shares of Ultralife common stock, with a forced conversion feature at \$17.50 per share.

Established in 1992, McDowell, which ranked 357th on Inc. Magazine's 2005 "Inc. 500" list of the fastest growing private companies in the U.S., designs and manufactures power solutions and accessories to support military communications systems including power supplies, RF Amplifiers, battery chargers, amplified speakers, equipment mounts, case equipment and integrated communication systems. In 2005 McDowell generated approximately \$1.6 million in operating income on approximately \$22 million in revenue. The 2005 operating income included \$1.6 million in non-recurring costs associated with a development function that is not part of the acquisition.

"We acquired McDowell to enhance our channels into the rapidly growing special operations area and to strengthen our presence in global military markets," said John D. Kavazanjian, Ultralife's president and chief executive officer. "This acquisition will significantly broaden our solutions offerings in the military and government sectors."

"This is a terrific move forward for us," said Hauke. "Our 140 local employees will continue to do the same great work making the quality products our customers know they can depend on. Joining forces with a recognized industry leader positions us for greater market share and product penetration. We will continue to do business as 'McDowell Research, an Ultralife Company,' with the combined skills and talents of both entities."

Mr. Hauke has been president of McDowell Research since founding the company in 1992. Prior to founding McDowell, Mr. Hauke was the general manager of Pats, Inc. from 1990 to 1992. From 1973 to 1990, Mr. Hauke was Vice President of the Avionics Electronic Warfare Systems Division of Chrysler Technologies Airborne Systems, Inc. Mr. Hauke has a B.S.E.E. from the Milwaukee School of Engineering and a M.S.E.E. from Southern Methodist University.

Information about McDowell Research is available at: www.mcdowellresearch.com.

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About Ultralife Batteries, Inc.

Ultralife is a global provider of high-energy power systems for diverse applications. The company develops, manufactures and markets a wide range of non-rechargeable and rechargeable batteries, charging systems and accessories for use in military, industrial and consumer portable electronic products.

Through its portfolio of standard products and engineered solutions, Ultralife is at the forefront of providing the next generation of power systems. Industrial, retail and government customers include General Dynamics, Philips Medical Systems, General Motors, Energizer, Kidde Safety, Lowe's, Radio Shack and the national defense agencies of the United States, United Kingdom, Germany and Australia, among others.

Ultralife's headquarters, principal manufacturing and research facilities are in Newark, New York, near Rochester. Ultralife's three other operating units are: Ultralife Batteries (UK) Ltd., in Abingdon, England; McDowell Research in Waco, Texas; and ABLE New Energy in Shenzhen, China. Detailed information on Ultralife is available at: www.ultralifebatteries.com.

This press release may contain forward-looking statements based on current expectations that involve a number of risks and uncertainties. The potential risks and uncertainties that could cause actual results to differ materially include: worsening global economic conditions, increased competitive environment and pricing pressures, disruptions related to restructuring actions and delays. Further information on these factors and other factors that could affect Ultralife's financial results is included in Ultralife's Securities and Exchange Commission (SEC) filings, including the latest Annual Report on Form 10-K.

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