

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 2002

or

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

\_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20852  
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ULTRALIFE BATTERIES, INC.  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----

16-1387013  
-----

(State or other jurisdiction  
of incorporation or organization)

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

2000 Technology Parkway, Newark, New York 14513  
-----

(Address of principal executive offices)  
(Zip Code)

(315) 332-7100  
-----

(Registrant's telephone number, including area code)

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

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

Indicate 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 - 12,652,269 shares  
outstanding as of October 31, 2002.

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PART I FINANCIAL INFORMATION  
Item 1. Financial Statements

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

ASSETS	September 28, 2002	June 30, 2002
	----- (unaudited)	-----
Current assets:		
Cash and cash equivalents	\$ 929	\$ 2,016
Restricted cash	201	201
Available-for-sale securities	2	2
Trade accounts receivable (less allowance for doubtful accounts of \$276 at September 28, 2002 and \$272 at June 30, 2002)	5,147	6,049
Inventories	5,235	4,633
Prepaid expenses and other current assets	1,059	845
	-----	-----
Total current assets	12,573	13,746
	-----	-----
Property, plant and equipment	15,648	16,134
Other assets:		
Technology license agreements (net of accumulated amortization of \$1,293 at September 28, 2002 and \$1,268 at June 30, 2002)	158	183
	-----	-----
Total Assets	\$ 28,379	\$ 30,063
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	\$ 2,841	\$ 3,148
Accounts payable	3,306	3,091
Accrued compensation	173	255
Accrued vacation	439	439
Other current liabilities	1,799	1,863
	-----	-----
Total current liabilities	8,558	8,796
Long-term liabilities:		
Debt and capital lease obligations	103	103
Grant	395	--
	-----	-----
	498	103
Commitments and Contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 40,000,000 shares; issued - 13,379,519 at September 28, 2002 and 13,379,519 at June 30, 2002)	1,338	1,338
Capital in excess of par value	107,891	107,891
Accumulated other comprehensive loss	(919)	(856)
Accumulated deficit	(88,684)	(86,906)
	-----	-----
	19,626	21,467
Less -- Treasury stock, at cost -- 27,250 shares	303	303
	-----	-----
Total shareholders' equity	19,323	21,164
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 28,379	\$ 30,063
	=====	=====

The accompanying Notes to Consolidated Financial Statements

are an integral part of these statements.

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

	Three Months Ended	
	September 28, 2002	September 30, 2001
Revenues	\$ 6,847	\$ 7,616
Cost of products sold	6,718	8,064
Gross margin	129	(448)
Operating and Other expenses:		
Research and development	477	1,182
Selling, general, and administrative	1,569	2,121
Total operating expenses	2,046	3,303
Operating loss	(1,917)	(3,751)
Other income (expense):		
Interest income	33	69
Interest expense	(115)	(82)
Equity loss in affiliate	--	--
Miscellaneous	221	122
Loss before income taxes	(1,778)	(3,642)
Income taxes	--	--
Net loss	\$ (1,778)	\$ (3,642)
Net loss per share, basic and diluted	\$ (0.14)	\$ (0.30)
Weighted average shares outstanding, basic and diluted	13,137	12,005

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

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

	Three Months Ended	
	September 28, 2002	September 30, 2001
<b>OPERATING ACTIVITIES</b>		
Net loss	\$(1,778)	\$(3,642)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	674	1,162
Loss on asset disposal	4	
Equity loss in affiliate	--	--
Changes in operating assets and liabilities:		
Accounts receivable	902	(1,832)
Inventories	(602)	411
Prepaid expenses and other current assets	(214)	(751)
Accounts payable and other current liabilities	69	625
	-----	-----
Net cash used in operating activities	(945)	(4,027)
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(101)	(613)
Proceeds from asset disposal	8	--
Purchase of securities	--	(7,765)
Sales of securities	--	7,153
	-----	-----
Net cash provided by investing activities	(93)	(1,225)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	--	6,360
Proceeds from grant	395	--
Principal payments on long-term debt and capital lease obligations	(307)	(270)
	-----	-----
Net cash provided by (used in) financing activities	88	6,090
	-----	-----
Effect of exchange rate changes on cash	(137)	(136)
	-----	-----
Decrease in cash and cash equivalents	(1,087)	702
Cash and cash equivalents at beginning of period	2,016	494
	-----	-----
Cash and cash equivalents at end of period	\$ 929	\$ 1,196
	=====	=====
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Unrealized gain on securities	\$ --	\$ (1)
	=====	=====
Interest paid	\$ 112	\$ 78
	=====	=====

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002.

As of July 1, 2002, the Company changed its monthly closing schedule, moving to a weekly-based cycle as opposed to a calendar month - based cycle. While the actual dates for the quarter-ends will change slightly each year, the Company believes that there will not be any material differences when making quarterly comparisons. In all cases, the Company's fiscal year-end will continue to be June 30.

2. NET LOSS PER SHARE

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Common stock options and warrants have not been included as their inclusion would be antidilutive. As a result, basic earnings per share is the same as diluted earnings per share.

3. COMPREHENSIVE INCOME (LOSS)

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

	(unaudited)	
	Three months ended	
	September 28, 2002	September 30, 2001
	-----	-----
Net loss	\$(1,778)	\$(3,642)
Unrealized (loss) gain on securities	--	(1)
Foreign currency translation adjustments	(63)	130
	-----	-----
Total comprehensive loss	<u>\$(1,841)</u>	<u>\$(3,513)</u>

#### 4. 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:

	(unaudited)	
	September 28, 2002	June 30, 2002
Raw materials	\$3,152	\$2,680
Work in process	1,292	1,338
Finished goods	1,279	1,022
	-----	-----
	5,723	5,040
Less: Reserve for obsolescence	488	407
	-----	-----
	\$5,235	\$4,633
	=====	=====

#### 5. PROPERTY, PLANT AND EQUIPMENT

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

	(unaudited)	
	September 28, 2002	June 30, 2002
Land	\$ 123	\$ 123
Buildings and leasehold improvements	1,619	1,619
Machinery and equipment	26,850	26,308
Furniture and fixtures	313	312
Computer hardware and software	1,347	915
Construction in progress	1,771	2,531
	-----	-----
	32,023	31,808
Less: Accumulated depreciation	16,375	15,674
	-----	-----
	\$15,648	\$16,134
	=====	=====

#### 6. COMMITMENTS AND CONTINGENCIES

As of September 28, 2002, the Company had \$201 in restricted cash with a certain lending institution primarily for letters of credit supporting leases for a building and some computer equipment.

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

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be refiled. The shareholder action was subsequently refiled, asserting substantially the same claims as in the prior pleading. The Company again moved to dismiss the complaint. By Opinion and Order dated September 28, 2000, the Court dismissed the action, this time with prejudice, thereby barring plaintiffs from any further amendments to



their complaint and directing that the case be closed. Plaintiffs filed a Notice of Appeal to the Third Circuit Court of Appeals and the parties submitted their briefs. Subsequently, the parties notified the Court of Appeals that they had reached an agreement in principle to resolve the outstanding appeal and settle the case upon terms and conditions which require submission to the District Court for approval. Upon application of the parties and in order to facilitate the parties' pursuit of settlement, the Court of Appeals issued an Order dated May 18, 2001 adjourning oral argument on the appeal and remanding the case to the District Court for further proceedings in connection with the proposed settlement.

Subsequent to the parties entering into the settlement agreement, the Company's insurance carrier commenced liquidation proceedings. The insurance carrier informed the Company that in light of the liquidation proceedings, it would no longer fund the settlement. In addition, the value of the insurance policy is in serious doubt. In April 2002, the Company and the insurance carrier for the underwriters offered to proceed with the settlement. Plaintiff's counsel has accepted the terms of the proposed settlement, amounting to \$175 for the Company, and the matter must now be approved by the Court and by the shareholders comprising the class. Based on the terms of the proposed settlement, the Company has established reserves for its share of the settlement costs and associated expenses.

In the event settlement is not reached, the Company will continue to defend the case vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. The Company has fully reserved for its portion of the estimated liability. Test sampling was completed in the spring of 2001. The next step is for the Company to submit a remediation plan to the New York State Department of Environmental Conservation for approval. Upon approval, the Company would have the authority to remediate the property. Because this is a voluntary remediation, there is no requirement for the Company to complete the project within any specific time frame. 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.

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

## 7. BUSINESS SEGMENT INFORMATION (unaudited)

The Company reports its results in four operating segments: Primary Batteries, Rechargeable Batteries, Technology Contracts and Corporate. The Primary Batteries segment includes 9-volt,

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

Three Months Ended September 28, 2002

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 6,678	\$169	\$ --	\$ --	\$ 6,847
Segment contribution	32	(380)	--	(1,569)	(1,917)
Interest, net				(82)	(82)
Equity loss in affiliate				--	--
Miscellaneous				221	221
Income taxes				--	--
Net loss					\$(1,778)
Total assets	\$20,428	\$4,076	\$ --	\$ 3,875	\$28,379

Three Months Ended September 30, 2001

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 7,274	\$ 135	\$207	\$ --	\$ 7,616
Segment contribution	727	(2,378)	21	(2,121)	(3,751)
Interest income, net				(13)	(13)
Equity loss in affiliate					-
Miscellaneous				122	122
Income taxes					-
Net loss					\$(3,642)
Total assets	\$21,049	\$20,604	\$312	\$ 8,440	\$50,405

#### 8. OTHER MATTERS

In March 1998, the Company received a \$500 grant from the Empire State Development Corporation to fund certain equipment purchases. The grant was contingent upon the Company achieving and maintaining minimum employment levels for a period of five years. If annual levels of employment are not maintained, a portion of the grant might become repayable. Through the first four years of the grant period, the Company has met the requirements. The Company has recognized revenue over the grant period ratably, dependent upon meeting certain employment criteria. The remaining unamortized balance of \$50 relating to the grant is included in other current liabilities in the accompanying Consolidated Balance Sheet as of June 30, 2002. It is possible that the Company may not meet the employment criteria at the end of the fifth year, and thus the Company may be required to repay one-fifth of the overall grant.

In November 2001, the Company received approval for a \$750 grant/loan from a federally sponsored small cities program. The grant/loan will assist in funding current capital expansion plans that the Company expects will lead to job creation. The Company will be reimbursed for approved capital as it incurs the cost. In August 2002, the \$750 small cities grant/loan documentation was finalized and the Company was reimbursed \$395 for costs it had incurred to date for equipment purchases applicable under this grant/loan. The remaining amount under this grant/loan will be

reimbursed as the Company incurs additional expenses and submits requests for reimbursement. Certain employment levels are required to be met during the initial three year period. If the Company does not meet its employment quota, it may adversely affect reimbursement requests, or the grant may be converted to a loan that will be repaid over a seven-year period. The Company is reflecting the proceeds from this grant/loan, as well as accrued interest at the stated rate of 5% per year, as a long-term liability, and will only amortize these proceeds into income as the certainty of meeting the employment criteria becomes definitive.

#### 9. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the Company adopted Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. The adoption of this pronouncement did not have any adverse effect on the Company's financial statements.

In July 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principle Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The adoption of this pronouncement did not have any adverse effect on the Company's financial statements.

In July 2002, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. The adoption of this pronouncement did not have any adverse effect on the Company's financial statements.

#### 10. INVESTMENT IN AFFILIATE

In December 1998, the Company announced the formation of a venture with PGT Energy Corporation (PGT), together with a group of investors, to produce Ultralife's polymer rechargeable batteries in Taiwan. This venture was named Ultralife Taiwan, Inc. ("UTI"). The Company does not guarantee the obligations of UTI and is not required to provide any additional funding. This investment is accounted for using the equity method of accounting. In 2001, the Company's equity investment had been written down to zero as the Company recorded its share of the ventures cumulative losses. In 2002, since UTI continued to report losses, the Company did not reflect these results in its financial results since the investment has already been written down to zero. As of September 28, 2002, the Company's equity interest in the venture was approximately 30%.

Summarized financial statement information for the unconsolidated venture is as follows:

Condensed Statements of Operations:	(unaudited)	
	Three Months Ended	
	September 30,	
	2002	2001
Net revenue	\$ 728	\$ --
Cost of Sales	(2,110)	--
Operating loss	(3,588)	(1,694)
Net loss	(4,130)	(1,752)

#### 11. SUBSEQUENT EVENT

On October 23, 2002, the Company exchanged an aggregate of 42,500,000 shares of Ultralife Taiwan, Inc. ("UTI") stock to UTI and PGT Energy Corporation ("PGT") for total consideration of \$2,400 and the return of 700,000 shares of Ultralife common stock. Ultralife and PGT were the two most significant investors when UTI was formed in 1999. Under the terms of the transaction, Ultralife will receive \$2,400 in a series of 5 cash payments beginning October 30, 2002 and ending no later than mid-December 2002. In addition, over the next 3 years Ultralife will have reserved access to 10% of UTI's high volume capacity for rechargeable lithium battery products and the rights to utilize UTI's LSB (Large Scale Battery) technology for the production of large capacity lithium ion batteries for government and military markets in the U.S. and the U.K. As a result of the transaction, Ultralife's ownership interest in UTI will decline from approximately 30% to approximately 10.6%. In addition, the Company expects to record a non-operating gain of at least \$2,400 in its second fiscal quarter and to record an increase in treasury stock to reflect the return of its 700,000 common shares. This will result in reducing the issued and outstanding common shares of Ultralife to 12,652,269 as of the date of this transaction.

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

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes thereto contained herein and the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K as of and for the year ended June 30, 2002.

#### General

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

For several years, the Company has incurred net operating losses primarily as a result of funding research and development activities and, to a lesser extent, incurring manufacturing and selling, general and administrative costs. During fiscal 2002, the Company realigned its resources to bring costs more in line with revenues, moving the Company closer to its targets of operating cash breakeven and profitability. In addition, the Company refined its rechargeable strategy to allow it to be more effective in the marketplace.

The Company believes that its current growth strategy will be successful in the long-term. However, at the present time, the status of the Company's cash and credit situation is of serious concern, and much of the Company's ability to succeed in the near-term is dependent upon continued revenue growth and a favorable product mix that will generate positive cash flows. If the Company is unsuccessful in growing the business sufficiently in the near-term to generate adequate levels of cash, it will need to find alternative sources of funds to allow it to continue to operate in its current capacity. The Company is evaluating possible funding alternatives including obtaining additional debt or equity financing and/or selling assets. While the Company has been successful at raising funds in the past and is optimistic that it will be able to do so again if necessary, there is no assurance that the Company will be able to do so under the current circumstances. See "Liquidity and Capital Resources" for additional information.

As of July 1, 2002, the Company changed its monthly closing schedule, moving to a weekly-based cycle as opposed to a calendar month - based cycle. While the actual dates for the quarter-ends will change slightly each year, the Company believes that there will not be any material differences when making quarterly comparisons. In all cases, the Company's fiscal year-end will continue to be June 30.

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

## Results of Operations

Three months ended September 28, 2002 and September 30, 2001

Consolidated revenues were \$6,847,000 for the three-month period ended September 28, 2002, a decrease of \$769,000, or 10%, from the \$7,616,000 reported in the same quarter in the prior year. Primary battery sales decreased \$596,000, or 8%, from \$7,274,000 last year to \$6,678,000 this year, mainly as a result of lower 9-volt battery shipments as customers adjusted their inventory levels, as well as lower military battery sales related to a decline in orders for small cylindrical batteries. Technology Contract revenues declined \$207,000 due to the completion of certain non-renewable government contracts.

Cost of products sold totaled \$6,718,000 for the first quarter of fiscal 2003, a decrease of \$1,346,000, or 17% over the same three-month period a year ago. The gross margin on consolidated revenues for the quarter was \$129,000, or 2% of revenues, an improvement of \$577,000 from the gross margin loss of \$448,000, or 6%, in the prior year. The gross margin loss attributable to rechargeable battery operations was \$291,000, an improvement of \$1,122,000 from last year's reported loss of \$1,413,000. This improvement resulted from the cost savings actions that the Company took in the second and third quarters of fiscal year 2002, as well as lower depreciation expense that resulted from the write-down of rechargeable fixed assets in the fourth quarter of fiscal 2002. Gross margins in the Company's primary battery operations were \$420,000, a decrease of \$524,000 from the \$944,000 reported in the same period last year. As a percentage of sales, primary battery gross margins declined from 13% last year to 6% this year. This decline was primarily attributable to lower production volumes in conjunction with lower sales, as well as start-up costs associated with the production of new military batteries.

Operating and other expenses totaled \$2,046,000 for the three months ended September 28, 2002, a decrease of \$1,257,000, or 38%, compared to \$3,303,000 in the prior year. Research and development expenses declined \$705,000, while selling, general and administrative expenses declined \$552,000. The decrease in R&D expenses resulted from the Company's revised rechargeable strategy and the cost savings initiatives that were implemented during fiscal 2002, in addition to lower depreciation expense related to the rechargeable fixed asset impairment charge that occurred in June 2002. SG&A expenses also declined due mainly to lower compensation and related costs from the Company's cost savings initiatives taken during last fiscal year.

Interest expense, net, increased \$69,000 from \$13,000 in the first quarter of fiscal 2002 to \$82,000 in the first quarter of fiscal 2003. This increase is principally the result of lower average cash balances. Miscellaneous income (expense) increased \$99,000 in the quarter, from \$122,000 in fiscal 2002 to \$221,000 in fiscal 2003. This change relates primarily to foreign currency transaction gains, mainly the strengthening of the U.K. British pound versus the U.S. dollar.

Net losses were \$1,778,000, or \$0.14 per share, for the first quarter of fiscal 2003 compared to \$3,642,000, or \$0.30 per share, for the same quarter last year primarily as a result of the reasons described above.

#### Liquidity and Capital Resources

At September 28, 2002, cash and cash equivalents and available for sale securities totaled \$1,132,000. Of this amount, \$201,000 was restricted to support certain outstanding letters of credit. During the first three months of fiscal 2003, the Company used \$945,000 of cash in operating activities. This use of cash related primarily to an EBITDA loss of \$1,243,000 (Operating Loss plus depreciation and amortization). In addition, changes in working capital during the quarter resulted in a increase of approximately \$150,000, mainly due to reductions in outstanding accounts receivable. The Company spent \$101,000 for capital expenditures and \$307,000 on debt and capital lease principal payments during the first quarter of fiscal 2003. In addition, the Company received an initial \$395,000 in proceeds from its government grant/loan program, as reimbursement for previous expenditures on machinery and equipment.

At September 28, 2002, the Company had short and long-term debt and capital lease obligations totaling \$3,339,000. Of this total, \$498,000 was considered long-term. The following discussion provides additional information on these obligations.

As of September 28, 2002, the Company had \$2,200,000 outstanding under the term loan component of its 3-year, \$15,000,000 credit facility, and no borrowings were outstanding under the revolver component of the credit facility. The Company's additional borrowing capacity under the revolver component of the credit facility as of September 28, 2002 was approximately \$500,000, net of outstanding letters of credit of \$3,800,000. Since the facility expires in June 2003, the outstanding amount is classified as short-term on the Consolidated Balance Sheet. As of September 2002, the Company had been concerned about violating its debt covenant requiring a minimum net worth of approximately \$19,200,000. As a result of the exchange of a portion of the Company's investment in Ultralife Taiwan, Inc. in October 2002, the Company expects a \$2,400,000 gain which will ultimately increase net worth (see further discussion below). The Company is currently working with its primary lending institution to arrange an extension of this credit facility well beyond the end of the current fiscal year, although there is no assurance that the Company will be able to do so.

In April 2002, the Company closed on a \$3,000,000 private placement consisting of common equity and a \$600,000 convertible note. Initially, 801,333 shares were issued. The note, which was issued to one of the Company's directors, will convert automatically into an additional 200,000 shares if the Company's shareholders vote to approve the conversion of the note into common shares at the Company's Annual Meeting in December 2002, and all accrued interest will be forgiven. If shareholder approval is not obtained, the Company is obligated to repay the note on December 31, 2002, with accrued interest at 10% per year. All shares will be issued at \$3.00 per share.

In March 1998, the Company received a \$500,000 grant from the Empire State Development Corporation to fund certain equipment purchases. The grant was contingent upon the Company achieving and maintaining minimum employment levels for a period of five years. If annual levels of employment are not maintained, a portion of the grant might become repayable. Through the first four years of the grant period, the Company has met the requirements. The Company has recognized revenue over the grant period ratably, dependent upon meeting certain employment criteria. The remaining unamortized balance of \$50,000 relating to the grant is included in other current liabilities in the accompanying Consolidated Balance Sheet as of June 30, 2002. It is possible that the Company may not meet the

employment criteria at the end of the fifth year, and thus the Company may be required to repay one-fifth of the overall grant.

In November 2001, the Company received approval for a \$750,000 grant/loan from a federally sponsored small cities program. The grant/loan will assist in funding current capital expansion plans that the Company expects will lead to job creation. The Company will be reimbursed for approved capital as it incurs the cost. In August 2002, the \$750,000 small cities grant/loan documentation was finalized and the Company was reimbursed \$395,000 for costs it had incurred to date for equipment purchases applicable under this grant/loan. The remaining amount under this grant/loan will be reimbursed as the Company incurs additional expenses and submits requests for reimbursement. Certain employment levels are required to be met during the initial three year period. If the Company does not meet its employment quota, it may adversely affect reimbursement requests, or the grant may be converted to a loan that will be repaid over a seven-year period. The Company is reflecting the proceeds from this grant/loan, as well as accrued interest at the stated rate of 5% per year, as a long-term liability, and will only amortize these proceeds into income upon the certainty of meeting the employment criteria.

On October 23, 2002, the Company exchanged an aggregate of 42,500,000 shares of Ultralife Taiwan, Inc. ("UTI") stock to UTI and PGT Energy Corporation ("PGT") for total consideration of \$2,400,000 and the return of 700,000 shares of Ultralife common stock. Ultralife and PGT were the two most significant investors when UTI was formed in 1999. Under the terms of the transaction, Ultralife will receive \$2,400,000 in a series of 5 cash payments beginning October 30, 2002 and ending no later than mid-December 2002. In addition, over the next 3 years Ultralife will have reserved access to 10% of UTI's high volume capacity for rechargeable lithium battery products and the rights to utilize UTI's LSB (Large Scale Battery) technology for the production of large capacity lithium ion batteries for government and military markets in the U.S. and the U.K. As a result of the transaction, Ultralife's ownership interest in UTI will decline from approximately 30% to approximately 10.6%. In addition, the Company expects to record a non-operating gain of at least \$2,400,000 in its second fiscal quarter and to record an increase in treasury stock to reflect the return of its 700,000 common shares. This will result in reducing the issued and outstanding common shares of Ultralife to 12,652,269 as of the date of this transaction.

While the Company remains optimistic about its long-term future prospects and growth potential, the timing aspect of near-term revenue and profitability is unclear. The Company's future liquidity depends on its ability to successfully generate positive cash flows from operations and to achieve operational savings.

The Company also is continuing to explore other sources of capital, including utilizing its unleveraged assets as collateral for additional borrowing capacity, selling assets that are not core to the Company's long-term strategic initiatives, and raising equity through a private or public offering. Although the Company is confident that it will be successful in arranging adequate financing, there can be no assurance that the Company will have sufficient cash flows to meet its working capital and capital expenditure requirements during the course of fiscal 2003. Therefore, this could have a material adverse effect on the Company's business, financial position and results of operations.

As of September 28, 2002, the Company had capital commitments, principally for purchases of machinery and equipment, of approximately \$169,000.

#### Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect amounts reported therein.



The estimates that require management's most difficult, subjective or complex judgments are described below.

#### Revenue recognition:

**Battery Sales** - Revenues from the sale of batteries are recognized when products are shipped. A provision is made at that time for warranty costs expected to be incurred.

**Technology Contracts** - The Company recognizes revenue using the percentage of completion method based on the relationship of costs incurred to date to the total estimated cost to complete the contract. Elements of cost include direct material, labor and overhead. If a loss on a contract is estimated, the full amount of the loss is recognized immediately. The Company allocates costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred. Under certain research and development arrangements with the U.S. Government, the Company may be required to transfer technology developed to the U.S. Government. The Company has accounted for the contracts in accordance with SFAS No. 68, "Research and Development Arrangements". The Company, where appropriate, has recognized a liability for amounts that may be repaid to third parties, or for revenue deferred until expenditures have been incurred.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements". This guidance summarizes the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. This staff bulletin had no significant impact on the Company's revenue recognition policy or results of operations.

#### Warranties:

The Company maintains provisions related to normal warranty claims by customers. The Company evaluates these reserves monthly based on actual experience with warranty claims to date.

#### Impairment of Long-Lived Assets:

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable on an undiscounted cash flow basis.

#### Environmental Issues:

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate, in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities". Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

#### Outlook

The Company expects revenues in its second quarter of fiscal 2003 to increase from the first fiscal quarter, likely reaching in excess of \$9,000,000. At this time, indications are that 9-volt orders have strengthened from the level in the first quarter, and the interest level in the Company's military batteries is growing, particularly in the BA-5390 battery, which is an alternative to the main communications battery

by military forces. Although the activity surrounding the rechargeable battery products is increasing significantly, the Company is conservatively projecting modest revenues in this area.

The Company believes that quarterly revenues of approximately \$9,000,000 to \$9,500,000 will allow it to achieve operating cash breakeven, depending on the Company's overall product mix. The Company also believes that quarterly revenues in the range of \$10,500,000 should allow the Company to be able to report a profit. While the Company was able to significantly reduce costs during fiscal 2002, it still maintains a substantial fixed cost infrastructure to support its overall operations. Increasing volumes of sales and production will generate favorable returns due to economies of scale, but similarly, decreasing volumes will result in the opposite effect.

While the Company believes that it will be able to achieve its operating cash breakeven target in the near future, it expects that changes in working capital for increasing sales volumes and inventory levels will be able to be financed by its revolving credit facility.

For the full fiscal year, the Company is maintaining its target of achieving a 35% revenue growth over fiscal 2002. While the first quarter's revenues were lower than the Company's initial projections, it cannot determine at this time whether the full year's results will be adversely impacted. The revenue growth each quarter is subject to significant fluctuations as the timing of customer orders is not easily predictable. In particular, 9-volt revenues are dependent upon continued demand from the Company's customers, some of which are dependent upon retail sell-through. Similarly, revenues from sales of cylindrical products, primarily to military customers, are dependent upon a variety of factors, including the timing of the battery solicitation process within the military, the Company's ability to successfully win contract awards, successful qualification of the Company's products in the applicable military applications, and the timing of order releases against such contracts. Some of these factors are outside of the Company's direct control.

The Company continues to believe that spending for capital projects during fiscal 2003 will continue to be relatively modest. The Company carefully evaluates such projects and will only make capital investments when necessary and when there is typically a timely payback. Certain capital equipment acquisitions during the upcoming fiscal year will be financed by the remaining availability under the capital equipment grant/loan the Company recently finalized.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

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

### Item 4. Controls and Procedures

Within the 90 days prior to the date of this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the company's management, including the Company's president and chief executive officer, along with the Company's vice president - finance and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act 13a-14. Based upon that evaluation, the Company's president and chief executive officer, along with the Company's vice president - finance and chief financial officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information related to the Company (including its consolidated subsidiaries) required to be

included in the Company's periodic filings with the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

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

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be refiled. The shareholder action was subsequently refiled, asserting substantially the same claims as in the prior pleading. The Company again moved to dismiss the complaint. By Opinion and Order dated September 28, 2000, the Court dismissed the action, this time with prejudice, thereby barring plaintiffs from any further amendments to their complaint and directing that the case be closed. Plaintiffs filed a Notice of Appeal to the Third Circuit Court of Appeals and the parties submitted their briefs. Subsequently, the parties notified the Court of Appeals that they had reached an agreement in principle to resolve the outstanding appeal and settle the case upon terms and conditions which require submission to the District Court for approval. Upon application of the parties and in order to facilitate the parties' pursuit of settlement, the Court of Appeals issued an Order dated May 18, 2001 adjourning oral argument on the appeal and remanding the case to the District Court for further proceedings in connection with the proposed settlement.

Subsequent to the parties entering into the settlement agreement, the Company's insurance carrier commenced liquidation proceedings. The insurance carrier informed the Company that in light of the liquidation proceedings, it would no longer fund the settlement. In addition, the value of the insurance policy is in serious doubt. In April 2002, the Company and the insurance carrier for the underwriters offered to proceed with the settlement. Plaintiff's counsel has accepted the terms of the proposed settlement, amounting to \$175,000 for the Company, and the matter must now be approved by the Court and by the shareholders comprising the class. Based on the terms of the proposed settlement, the Company has established reserves for its share of the settlement costs and associated expenses.

In the event settlement is not reached, the Company will continue to defend the case vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230,000. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. The Company has fully reserved for its portion of the estimated liability. Test sampling was completed in

the spring of 2001. The next step is for the Company to submit a remediation plan to the New York State Department of Environmental Conservation for approval. Upon approval, the Company would have the authority to remediate the property. Because this is a voluntary remediation, there is no requirement for the Company to complete the project within any specific time frame. 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.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Stock Purchase Agreement with Ultralife Taiwan, Inc.

99 CEO & CFO Certifications

(b) Reports on Form 8-K

Report on Form 8-K, dated October 23, 2002 reporting on Item 5. Other Events, relating to the exchange of shares of Ultralife Taiwan, Inc. stock for cash and the return of shares of the Company's common stock.

SIGNATURES

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

ULTRALIFE BATTERIES, INC.  
(Registrant)

Date: November 12, 2002  
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By: /s/ John D. Kavazanjian  
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John D. Kavazanjian  
President and Chief Executive Officer

Date: November 12, 2002  
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By: /s/ Robert W. Fishback  
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Robert W. Fishback  
Vice President - Finance and Chief  
Financial Officer

I, John D. Kavazanjian, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ John D. Kavazanjian

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John D. Kavazanjian,  
President and Chief Executive Officer

I, Robert W. Fishback, certify that:

1. I have reviewed this quarterly report on 10-Q of Ultralife Batteries, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Robert W. Fishback

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



## STOCK PURCHASE AGREEMENT

This Agreement dated as of October 23, 2002 ("Effective Date") is entered into by and among Ultralife Taiwan, Inc., a corporation existing under the laws of the Republic of China ("ROC"), having a place of business located at No.2-3, Industry E. Road II, Science-Based Industrial Park, Hsinchu, Taiwan, ROC ("UTI"),

Ultralife Batteries, Inc., a corporation organized under the laws of the State of Delaware, United States of America, having a place of business located at 2000 Technology Parkway, Newark, NY 14513 USA ("UBI"), and

PGT Energy Corporation, a corporation existing under the laws of the ROC, having a place of business located at 7F-1, No.67, Tze-You Road, Hsinchu, Taiwan, ROC ("Purchaser").

(UTI, UBI and Purchaser hereinafter referred to collectively as the "Parties" and individually as a "Party.")

WHEREAS, UTI owns certain shares of common stock issued by UBI and intends to transfer such shares to UBI through certain third parties;

WHEREAS, UBI owns Sixty Million Three Hundred Three Thousand and Ninety Three (60,303,093) shares of common stock issued by UTI and intends to surrender to UTI certain portion of such shares acquired by UBI for UBI's contribution in kind to UTI in exchange for transfer of the shares of common stock in UBI held by UTI and certain obligations committed by UTI hereunder;

WHEREAS, UBI intends to sell to Purchaser certain shares of common stock in UTI which UBI acquires due to UBI's cash contribution; and

WHEREAS, the Parties will cooperate to complete the transactions contemplated herein according to the terms and condition set forth hereunder.

NOW, THEREFORE, in consideration of the foregoing and of the covenants and agreements herein contained and intending to be legally bound, the Parties agree as follows:

#### Article 1. Agreement to Sell and Purchase UBI Shares and UTI Shares.

1.1 Upon the terms and subject to the conditions of this Agreement, on the Closing Date (as defined in Article 2), UTI shall directly or indirectly assign, transfer and deliver or cause to be assigned, transferred and delivered to UBI seven hundred thousand (700,000) shares of common stock issued by UBI and currently held by UTI, together with all rights attached or accrued thereto on the date hereof including the right to all dividends and distributions declared, paid or made in respect thereof on or after the date hereof ("UBI Shares") in exchange of certain shares of common stock in UTI to be surrendered by UBI to UTI as set forth in Article 1.2.

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1.2 Upon the terms and subject to the conditions of this Agreement, on the Closing Date, UBI shall surrender to UTI with immediate effect Thirty Two Million Five Hundred Thousand (32,500,000) shares of common stock issued by UTI to UBI due to UBI's contribution in kind to UTI, together with all rights attached or accrued thereto on the date hereof including the right to all dividends and distributions declared, paid or made in respect thereof on or after the date hereof ("UTI Technology Shares") in exchange for the transfer of UBI Shares from UTI to UBI as set forth in Article 1.1.

1.3 Upon the terms and subject to the conditions of this Agreement, on the Closing Date, UBI shall sell, assign, transfer and deliver or cause to be sold, assigned, transferred and delivered to Purchaser or the third parties designated by Purchaser Ten Million (10,000,000) shares of common stock issued by UTI to UBI for cash contribution, together with all rights attached or accrued thereto on the date hereof including the right to all dividends and distributions declared, paid or made in respect thereof on or after the date hereof ("UTI Cash Shares") for an aggregate purchase price equivalent to Two Million and Four Hundred Thousand U.S. Dollars (US\$2,400,000) ("UTI Cash Shares Purchase Price") in accordance with the payment schedule in Article 3.1.

#### Article 2. Closing; Delivery.

2.1. The Closing. The transfer of UBI Shares pursuant to Article 1.1 and surrender of UTI Technology Shares pursuant to Article 1.2 shall be consummated at a closing (the "Closing") held at the offices of UTI, on October 23, 2002., (the "Closing Date") or at such other time and place upon which the Parties shall agree.

2.2. Deliveries. At the Closing, the following items shall be delivered:

- (i) UTI shall deliver to UBI the original, chopped, and authenticated stock certificates representing the UBI Shares.
- (ii) UBI will deliver to UTI the original, chopped, and authenticated stock certificates representing the UTI Technology Shares.
- (iii) UBI will deliver to UTI the executed Surrender per form as Exhibit A.
- (iv) UBI will deliver to Lee and Li, Attorneys-at-law the executed Power of Attorney per form as Exhibit B.
- (v) UBI will deliver to Purchaser the original, chopped, and authenticated stock certificates representing the UTI Cash Shares.

Article 3. Payments for UTI Cash Shares in Installments.

3.1 Purchaser shall pay to UBI for the UTI Cash Shares Purchase Price in installments in accordance with the following schedule:

Payment Due Date	Amount
First: October 30, 2002	US\$400,000
Second: November 7, 2002	US\$500,000
Third: November 14, 2002	US\$500,000
Fourth: November 21, 2002	US\$500,000
Fifth: November 28, 2002	US\$500,000

Any payment(s) made for the second and third payments above within seven (7) days after the respective due day(s) shall not constitute breach of the payment schedule as set forth in this Article 3.1. Any payment(s) made for the fourth and fifth payments above within fourteen (14) days after the respective due day(s) shall not constitute breach of the payment schedule as set forth in this Article 3.1.

3.2 Purchaser shall make each payment in accordance with Article 3.1 to the following bank account of UBI or any bank account designated by UBI which UBI informs Purchaser in writing ("Designated Bank Account"):

Bank: JP Morgan Chase Bank  
Swift Code: CHASUS33  
Account Name: Ultralife Batteries, Inc.  
Account Number: 0001474121

3.3 The securities transaction tax for the UTI Cash Shares shall be borne by UBI and withheld from the UTI Cash Shares Purchase Price for the account of UBI. Any other taxes payable in connection with this Agreement shall be borne respectively by the Parties on its own as required by the applicable laws and regulations.

Article 4. Covenants After Closing.

4.1 Within ten (10) business days after the Closing, UBI shall procure the foreign investment approval under the Taiwan Statute for Investment by Foreign Nationals of transfer of UTI Cash Shares.

4.2 In the event that the executed Power of Attorney as provided in Article 2.2(iv) is required of notarization and legalization, UBI shall cause such document notarized and legalized within ten (10) business days after receipt of UTI's request.

4.3 Each Party shall cooperate with the other, take such further action, and execute and deliver such further documents, as may be reasonably requested by the other Party in order to carry out the terms and purposes of this Agreement.

## Article 5. Supply of Lithium Products.

5.1 To induce UBI to surrender to UTI the UTI Technology Shares, UTI agrees, within three (3) years after the date hereof, to supply UBI the Lithium Products (as defined in Article 5.2) with the quantities up to ten percent (10%) per annum of the capacity of UTI's current production line for such Lithium Products, provided, however, that UBI shall place orders for the Lithium Products no later than six (6) months prior to the delivery of such products and the prices, trade terms, payment terms and all other terms and conditions thereof shall be mutually agreed upon by UTI and UBI.

5.2 For the purpose of this Article 5, Lithium Products shall mean: (i) rechargable lithium cobalt dioxide cell in cylindrical metal case, cell capacity between six ampere-hour to ten ampere-hour ("Lithium Product I"); (ii) rechargable lithium cobalt dioxide cell in thin prismatic metal case, thickness between 3 mm to 6 mm ("Lithium Product II"); (iii) rechargable lithium cobalt dioxide polymer cell packed in soft laminated foil ("Lithium Product III").

5.3 In the event that, within three (3) years after the date hereof, UBI is required by the US or UK military or governmental end users to manufacture the Lithium Products I within US, UTI agrees to enter into a license agreement with UBI to grant to UBI a non-transferable, non-exclusive, non-licensable, royalty-bearing, limited license under the technologies related to Lithium Products I owned and licensable by UTI to manufacture (excluding have made) the Lithium Products I at the facilities of UBI to be agreed upon by UBI and UTI for sale to such US or UK military or governmental end users. The detailed terms and conditions thereof are to be mutually agreed upon by UBI and UTI.

5.4 UBI's rights of supply in accordance with Article 5.1 and license to be entered into in accordance with Article 5.3 may be terminated by UTI for convenience with immediate effect, if (i) UBI voluntarily files a petition in bankruptcy or (ii) UBI has a petition in bankruptcy involuntarily filed against it, or is placed in an insolvency proceeding, or if an order is entered appointing a receiver or trustee or a levy or attachment is made against a substantial portion of its assets which petition, placement, order, levy or attachment shall not be vacated within thirty (30) days from date of entry, or if any assignment for the benefit of its creditors is made; or (iii) UBI has materially failed in the performance of any material contractual obligation in Article 5.1 or Article 5.3 and such failure continues uncured for thirty (30) days after UTI provides notice thereof to UBI; or (iv) any third party, which is a competitor of UTI acquires directly or indirectly an equity interest greater than ten percent (10%) in UBI.

## Article 6. Representations and Warranties of UTI

UTI hereby represents and warrants to UBI that the statements in this Article 6, are all true, complete, and not materially misleading in all material respects as of the Effective Date and at the Closing:

6.1. UTI is a company limited by shares duly organized and validly existing and UTI (and its representative who executes this Agreement) has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder, unless otherwise provided or reserved herein. All corporate action on the part of UTI has been taken or will have been taken prior to the Closing.

6.2. Neither the entering into nor the delivery of this Agreement nor the performance of the transactions contemplated therein by UTI will result in the violation of any of the provisions of the Articles of Incorporation, or other constitutional or formation documents of UTI or any contract to which UTI is a party, by which UTI is bound, or any applicable law or permits applicable to UTI.

6.3 The UBI Shares are free and clear of any security interest, mortgage, pledge, lien, charge, claim, option, warrant, equity, easement, limitation, restriction, royalty, preemptive or other right, restraint on alienation, voting trust or arrangement, proxy, or encumbrance of any kind.

#### Article 7. Representations and Warranties of UBI

UBI hereby represents and warrants to UTI and Purchaser that the statements in this Article 7, are all true, complete, and not materially misleading in all material respects as of the Effective Date and at the Closing:

7.1. UBI is a company limited by shares duly organized and validly existing and UBI (and its representative who executes this Agreement) has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder, unless otherwise provided or reserved herein. All corporate action on the part of UBI has been taken or will have been taken prior to the Closing.

7.2. Neither the entering into nor the delivery of this Agreement nor the performance of the transactions contemplated therein by UBI will result in the violation of any of the provisions of the Articles of Incorporation, or other constitutional or formation documents of UBI or any contract to which UBI is a party, by which UBI is bound, or any applicable law or permits applicable to UBI.

7.3 The UTI Technology Shares and the UTI Cash Shares are free and clear of any security interest, mortgage, pledge, lien, charge, claim, option, warrant, equity, easement, limitation, restriction, royalty, preemptive or other right, restraint on alienation, voting trust or arrangement, proxy, or encumbrance of any kind.

#### Article 8. Confidentiality.

8.1 The Parties shall keep all confidential information, which it acquires pursuant to this Agreement and is not, at the time of such disclosure, publicly available strictly confidential. The terms and conditions of this Agreement and all exhibits and schedules attached hereto and thereto, including their existence, shall be considered confidential information and shall not be disclosed by any Party to any third party except in accordance with the provisions set forth below.

8.2 In the event that either Party becomes legally compelled (including without limitation, pursuant to securities laws and regulations) to disclose the existence of this Agreement, such Party shall provide the other Parties with prompt written notice of that fact and furnish only that portion of the information which is legally required and exercise reasonable

efforts to obtain reliable assurance that confidential treatment will be accorded such information to the extent reasonably requested by the other Parties.

#### Article 9. Miscellaneous.

9.1. Governing Law and Venue. This Agreement shall be governed in all respects by the laws of the ROC without regard to provisions regarding choice of laws, and the Hsinchu District Court shall have non-exclusive jurisdiction over any dispute arising under this Agreement.

9.2. Survival. The representations, warranties, covenants and agreements made herein shall survive any investigation made by any Party and the Closing of the transactions contemplated hereby.

9.3. Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the permitted successors, assigns, heirs, executors and administrators of the Parties. No Party may assign, in whole or in part, its rights or obligations under this Agreement to any third party without the other Parties' express written consent.

9.4. Entire Agreement. This Agreement together with the exhibits and schedules hereto constitute the entire understanding and agreement among the Parties with regard to the subjects hereof and supersede all prior agreements and understandings.

9.5. Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be made in writing and delivered by hand, mail, facsimile, overnight delivery service, or any other mode of communication routinely used by the Parties in their course of dealing to the address and number set forth below the recipient's signature below, or to such other address and/or number as the recipient may indicate in writing. Any notice or communication delivered by hand shall be deemed to have been received when delivered, and sent by mail shall be deemed to have been received seven (7) days after the date on which such notice or communication is deposited in the mail. Facsimile notices or communications shall be deemed to be received on the date of receipt of the confirmation of transmission.

9.6. Amendments and Waivers. No amendment or waiver of any provision of this Agreement or of any right or remedy arising hereunder shall be enforceable unless in writing signed by the Party against whom enforcement is sought.

9.7. Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to either Parties upon any breach or default of the other Party shall impair any such right, power or remedy of the aggrieved Party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring.

9.8. Attorneys Fees. In the event of any dispute among the Parties concerning this Agreement or the transactions or matters referred to or provided for herein, the prevailing Party shall be entitled to reasonable attorneys' fees and costs in addition to such other relief as may be

granted. The phrase "prevailing Party" shall mean the Party who is determined in a proceeding to have prevailed or who prevails by dismissal, default or otherwise.

9.9. Costs. Unless it is stipulated otherwise in this Agreement, the Parties shall bear their own costs and expenses incurred in connection with this Agreement, the preparation thereof and the preparation for the Closing, including professional fees and costs of their attorneys and accountants.

9.10. Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.11. Counterparts. This Agreement may be executed in any number of English-language counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.12 Severability. If, in light of a particular set of facts and circumstances, any provision or provisions of this Agreement will be held to be invalid or unenforceable by any court or arbitrator of competent jurisdiction, then: (i) the validity and enforceability of such provision or provisions as applied to any other particular facts or circumstances and the validity of other provisions of this Agreement will not in any way be affected or impaired thereby; and (ii) such provision or provisions will be reformed without further action by the Parties, but only to the extent necessary to make such provision or provisions valid and enforceable when applied to such particular facts and circumstances.

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

Ultralife Taiwan, Inc.

By /s/ J.F. Hsu

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Name: J.F. Hsu  
Title: Chairman

Address for notices:

No.2-3, Industry E. Road II, Science-Based  
Industrial Park, Hsinchu, Taiwan, ROC  
Attn.: Chairman  
Fax Number: 886-3-5638585

PGT Energy Corporation

By /s/ J.F. Hsu

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Name: J.F. Hsu  
Title: Chairman

Address for notices:

7F-1, No.67, Tze-You Road, Hsinchu,  
Taiwan, ROC  
Attn.: Chairman  
Fax Number: 886-3-5349539

Ultralife Batteries, Inc.

By /s/ John D. Kavazanjian

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Name: John D. Kavazanjian  
Title: CEO and authorized representative

Address for notices:

2000 Technology Parkway, Newark, NY 14513 USA  
Attn: Peter Comerford, Secretary of Corporation  
Fax Number:1-315-331-7800



Exhibit A

SURRENDER

To: Ultralife Taiwan, Inc.

The Undersigned, a corporation organized under the laws of the State of Delaware, United States of America, having a place of business located at 2000 Technology Parkway, Newark, NY 14513 USA, is the corporate shareholder of Ultralife Taiwan, Inc., a corporation existing under the laws of the Republic of China, having a place of business located at No.2-3, Industry E. Road II, Science-Based Industrial Park, Hsinchu, Taiwan, ROC ("UTI"), and hereby irrevocably surrenders to UTI with immediate effect the right and title to Thirty Two Million Five Hundred Thousand (32,500,000) shares of common stock issued by UTI to the Undersigned for the Undersigned's contribution in kind to UTI in accordance with the Joint Venture Agreement entered into by PGT Energy Corporation and the Undersigned dated October 10, 1998 ("UTI Technology Shares") for the sole purpose that UTI cancels the UTI Technology Shares and makes the corresponding reduction of the paid-in capital of UTI.

For the above purpose, the Undersigned further agrees to authorize Lee and Li, Attorneys-at-Law ("Attorney-in-fact") to affix the Chinese chop of the Undersigned currently kept by Lee and Li, Attorneys-at-Law ("Chop") on all documents necessary for consummation of cancellation of the UTI Technology Shares and the corresponding reduction of the paid-in capital of UTI.

In the event that UTI is required by the ROC government authority to convene the shareholders meeting of UTI to resolve to cancel the UTI Technology Shares and to make the corresponding reduction of the paid-in capital of UTI, the Undersigned hereby authorize the Attorney-in-fact to take all necessary measures including without limitation affixing the Chop on the proxy for such shareholders meeting to authorize PGT Energy Corporation, a corporation existing under the laws of the ROC, having a place of business located at 7F-1, No.67, Tze-You Road, Hsinchu, Taiwan, ROC, as the Undersigned's proxy to vote for cancellation of the UTI Technology Shares and the corresponding reduction of the paid-in capital of UTI.

IN WITNESS HEREOF, the Undersigned has caused this instrument to be executed in the city of Hsinchu, Taiwan, Republic of China on the 23rd day of October 2002.

Ultralife Batteries, Inc.

By /s/ John D. Kavazanjian

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Name: John D. Kavazanjian  
Title: CEO and authorized representative

Exhibit B

POWER OF ATTORNEY

To Lee and Li, Attorneys-at-Law

The Undersigned, a corporation organized under the laws of the State of Delaware, United States of America, having a place of business located at 2000 Technology Parkway, Newark, NY 14513 USA, hereby irrevocably constitute and appoint you to be the attorney-in-fact ("Attorney-in-fact ") of the Undersigned with full power of substitution and revocation to (i) transfer the right and title to UTI Cash Shares (as defined in Article 1.3) to Purchaser on behalf of the Undersigned in accordance with Article 3.1 and (ii) surrender the right and title to UTI Technology Shares (as defined in Article 1.2) to UTI on behalf of the Undersigned in accordance with Article 1.2, including without limitation, provision and execution of any and all documents and acts necessary for consummation herein.

IN WITNESS HEREOF, the Undersigned has caused this instrument to be executed in the city of Hsinchu, Taiwan, Republic of China on the 23rd day of October 2002.

Ultralife Batteries, Inc.

By /s/ John D. Kavazanjian

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Name: John D. Kavazanjian

Title: CEO and authorized representative

Certification pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code

I, John D. Kavazanjian, President and Chief Executive Officer of Ultralife Batteries, Inc., hereby certify that (i) the Quarterly Report on Form 10-Q for the period ended September 28, 2002 attached hereto fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the attached Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of Ultralife Batteries, Inc. for the period presented therein.

Dated: November 12, 2002

/s/ John D. Kavazanjian

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John D. Kavazanjian  
President and Chief Executive Officer

Certification pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code

I, Robert W. Fishback, Vice President of Finance and Chief Financial Officer of Ultralife Batteries, Inc., hereby certify that (i) the Quarterly Report on Form 10-Q for the period ended September 28, 2002 attached hereto fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the attached Form 10-Q fairly presents, in all material respects, the financial conditions and results of operations of Ultralife Batteries, Inc. for the period presented therein.

Dated: November 12, 2002

/s/ Robert W. Fishback

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