ULTRALIFE CORP

FORM 10-K
(Annual Report)

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SECURITIES AND EXCHANGE COMMISSION
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FORM 10-K

/X/ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange
Act of 1934 for the fiscal year ended June 30, 1997

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1387013 (I.R.S. Employer Identification No.)
1350 Route 88 South, Newark, New York (Address of principal executive offices)	14513 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class	Name Of Each Exchange On Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.10 par value
(Title of Class)

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 X No___

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part Ill of this Form 10-K or any amendment to this Form 10-K. [ ]

On September 19, 1997 the aggregate market value of the voting stock of Ultralife Batteries, Inc., held by non-affiliates of the Registrant was approximately $ 116,300,000 based upon the average of the high and low prices for such Common Stock as reported on the NASDAQ National Market System on September 19,1997.

As of September 19, 1997, the Registrant had 7,963,836 shares of Common Stock outstanding.

Documents Incorporated by Reference.

Part II Ultralife Batteries, Inc. Proxy Statement. With the exception of the items of the Proxy Statement specifically incorporated by reference herein, the Proxy Statement is not deemed to be filed as part of this Report on Form 10-K.

PART I

The discussion and analysis below, and throughout this report, contains forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Actual results could differ materially from those projected or suggested in the forward-looking statements as a result of the risk factors set forth below and elsewhere in this report.

ITEM 1. BUSINESS

General

Ultralife Batteries, Inc. ("Ultralife" or the "Company") develops, manufactures and markets lithium batteries for use in applications requiring high energy, reliable and long-lasting power sources. The Company believes that its battery technologies offer performance characteristics, such as high energy density and stable discharge profile superior to competing batteries currently available. The Company currently markets a family of lithium primary batteries for consumer, industrial and military applications which it believes is one of the most comprehensive lines of lithium primary batteries commercially available. Ultralife is also developing advanced rechargeable batteries based on lithium-ion solid-polymer technology which are being designed for consumer electronic applications. The Company has obtained production orders for its rechargeable batteries and is currently implementing scale-up of its manufacturing operations. Internationally, the Company has broadened its research and development, manufacturing and marketing base through its acquisition of certain assets and the related business of Dowty Group PLC ("Dowty"), based in Abingdon, England, which has enabled the Company to become a technological leader in high rate lithium-manganese dioxide primary batteries and a producer of sea water batteries.

The Company's objective is to become a leading provider of lithium batteries for use in applications requiring high energy, reliable and long-lasting power sources. To achieve this objective, the Company is working with Original Equipment Manufacturers (OEMs) to identify and develop new applications for the Company's batteries using its proprietary technology and expertise. The Company has established and will continue to seek strategic relationships with OEMs that utilize the Company's technology, commit to cooperative research and development, marketing programs and recommend the Company's batteries for replacement use in their products. The Company also has introduced its primary battery products to the broader consumer market by establishing relationships with selected national and regional retailers. The Company continues to seek strategic relationships and joint ventures with other battery manufacturers, suppliers and customers to accelerate commercialization of its technology and products.

The Company markets a family of lithium-manganese dioxide primary batteries in 9-volt, 3-volt, 2/3A, C, 1 1/4C and D configurations, custom Thin Cell(TM) batteries, and silver-chloride sea water batteries. The Company's 9-volt battery is marketed to the security and safety equipment, medical device and specialty instrument markets. The Company's 9-volt battery is currently used in devices such as smoke detectors, home security devices and medical infusion pumps. The Company's high rate lithium batteries, based on technology acquired from Dowty, are sold to OEMs primarily for the industrial and military markets, for use in sea and air safety products such as emergency positioning indicating radio beacons and search and rescue transponders. The Company manufactures sea water batteries used for specialty marine applications. The Company has been awarded a production contract from the U.S. Department of Defense for the production of a cylindrical 6-volt lithium-manganese battery (the "BA-5372" battery) for use in mobile communication equipment. Production under this contract started in the second quarter of the Company's 1996 fiscal year and the U.S. Government has exercised option quantities that have extended production through mid fiscal 1998. The Company also provides research and development services to government agencies and other third parties pursuant to technology contracts.

The Company is currently focusing its development activities related to advanced rechargeable batteries on lithium-ion solid-polymer technology. The Company believes that its lithium-ion solid-polymer technology provides substantial benefits, including greater energy density and longer cycle life, over other available rechargeable battery technologies. In addition, the Company believes that its technology, which does not utilize lithium metal or a liquid electrolyte, provides performance and safety characteristics superior to other lithium-based rechargeable batteries currently available. The Company has manufactured advanced rechargeable batteries on a pilot production line for testing by certain OEMs and has developed and implemented a semi-automatic flexible production line for initial production runs and low volume programs. High volume manufacturing equipment is currently being installed. The Company is developing configurations of its advanced rechargeable batteries in collaboration with potential OEM purchasers for applications in portable electronic devices such as cellular telephones and portable computers. The Company has a development and supply contract with a major cellular telephone manufacturer, which specifies that the Company supply a minimum of 5,000,000 rechargeable batteries after achieving an agreed upon performance specification. The Company also has a development and supply contract with a major electronics manufacturer for rechargeable batteries for a new ultra thin, lightweight laptop computer. However, under these contracts, there can be no assurance that the Company's rechargeable batteries will be able to achieve the required performance levels or that the company will be able to manufacture commercially acceptable products on a timely basis at a reasonable cost.

The Company was incorporated in Delaware on December 14, 1990, under the name Ultralife Technologies, Inc. The Company changed its name to Ultralife Batteries, Inc. on April 3, 1991. The Company's corporate offices are located at 1350 Route 88 South, Newark, New York 14513, and its telephone number is (315) 332-7100.

As used in this Report, unless otherwise indicated, the terms "Company" and "Ultralife" include the Company's wholly-owned subsidiary, Ultralife UK Ltd. For purposes of presentation in this Report, except for the consolidated financial statements herein or data derived therefrom, contract terms or other amounts expressed originally in British pounds sterling are set forth herein in U.S. dollars at the rate of (pound)1.00 to $1.60.

Technology Background

A battery is an electrochemical apparatus used to store energy and release it in the form of electricity. The main components of a conventional battery are the anode, the cathode, the separator and an electrolyte, which can be either a liquid or a solid. The separator acts as an electrical insulator, preventing electrons from moving between the anode and cathode inside the battery. Upon discharge of the battery, the anode supplies a flow of electrons, known as current, to a load or device. After powering the load, the electron flow reenters the battery at the cathode. As electrons flow from the anode to the device being powered by the battery, ions are released from the cathode, cross through the electrolyte and react at the anode.

There are two types of batteries, primary and rechargeable. A primary battery is used until discharged and then discarded. The principal competing primary battery technologies are carbon-zinc, alkaline and lithium. In contrast, after a rechargeable battery is discharged, it can be recharged close to full capacity and used again (subject to the memory effect, if any). Generally, discharge and recharge cycles can be repeated a number of times in rechargeable batteries, but the achievable number of cycles (cycle life) varies among technologies and is an important competitive factor. All rechargeable batteries experience a small, but measurable, loss in energy with each cycle. The industry commonly reports cycle life in number of cycles a battery can achieve until 80% of the battery's initial energy capacity remains. In the rechargeable battery market, the principal competing technologies are nickel-cadmium, nickel-metal hydride and lithium-based batteries. Rechargeable batteries generally can be used in all primary battery applications, as well as in additional applications, such as portable computers, cellular telephones and other consumer products.

Two important parameters for describing a battery's performance characteristics are energy density and voltage stability. Energy density refers to the total electrical energy per volume stored in a battery. High energy density batteries generally are longer-lasting power sources necessitating fewer battery changes. Lithium batteries, by the nature of their electrochemical properties, are capable of providing higher energy density than comparably-sized batteries that utilize other chemistries. Lithium batteries are also characterized by a flat discharge profile, indicating a stable release of energy during use as power density decreases, while conventional primary batteries, such as carbon-zinc and alkaline, exhibit a declining discharge profile. At a certain time, a battery may have sufficient power but may be unable to deliver the energy to power a device due to the battery's reduced voltage.

Benefits of Ultralife's Lithium Technology

The Company's primary battery products are based on lithium-manganese dioxide technology and its advanced rechargeable battery products are based on lithium-ion solid-polymer technology. The materials used in, and the chemical reactions inherent to, lithium-based batteries provide significant advantages over currently available primary and rechargeable battery technologies. The Company believes that its primary battery products and the advanced rechargeable batteries under development offer a number of significant advantages over conventional primary and rechargeable batteries currently in use, including:

Longer Operating Time. Length of operating time is a critical performance characteristic for most battery applications. The Company's primary batteries can operate devices between two and four times longer than conventional carbon-zinc and alkaline primary batteries, depending upon the application and operating environment. The Company's advanced rechargeable battery is capable of operating approximately two to three times longer on a single charge than nickel-cadmium batteries, and approximately two times longer on a single charge than nickel-metal hydride batteries, of comparable weight.

Lighter Weight. The Company's primary batteries weigh up to 25% less than conventional primary batteries of comparable size. The Company's advanced rechargeable battery can deliver two to three times as much energy as nickel cadmium batteries of comparable weight.

Recharge Characteristics. Certain of the Company's advanced lithium-ion solid-polymer rechargeable batteries are able to deliver more than 500 discharge cycles without appreciable performance degradation and are not subject to the memory effect. The Company's lithium-ion solid-polymer battery does not incorporate lithium metal, which is subject to growth of dendritic structures which can significantly limit the number of achievable cycles.

Cost Effective. The Company's primary batteries deliver significantly greater energy per unit of weight and volume than other commercially available batteries. It is anticipated that the Company's advanced rechargeable batteries will also exhibit such advantages over existing products. While the price for the Company's lithium batteries is generally higher than commercially available batteries produced by others, the Company believes that the increased energy per unit of weight and volume of its batteries will allow longer operating time and less frequent battery replacements or rechargings for the Company's targeted applications. Therefore, the Company believes that its battery technology is price competitive with other battery technologies on a cost per watt hour basis.

Longer Shelf Life and Charge Retention. The Company's primary batteries have a shelf life of up to ten years, typically at least twice as long as batteries based on competing technologies.

Flat Voltage Profile. The Company's batteries have relatively flat voltage profiles, providing stable power. Conventional primary batteries, such as alkaline batteries, have sloping voltage profiles, which result in decreasing power outage during discharge.

Wide Operating Temperature Range. The Company's primary batteries operate in temperatures ranging from -40(degree)F to 160(degree)F. This operating range is greater than that achieved by most competing primary batteries.

Ultralife's Primary Batteries

9-Volt Lithium Battery

The Company's 9-volt lithium battery delivers a unique combination of high energy density and a stable voltage which results in a longer operating life for the battery and, accordingly, fewer battery replacements. While the Ultralife 9-volt battery's price is generally higher than conventional 9-volt carbon-zinc and alkaline batteries, the Company believes the enhanced operating performance and decreased costs associated with battery replacement make the Ultralife 9-volt battery more cost effective than conventional batteries on a cost per watt-hour basis.

The Company currently markets its 9-volt lithium battery to OEM markets, including manufacturers of safety and security systems such as smoke alarms, medical devices, radar detectors, portable communication devices, and other electronic instrumentation. The Company believes that approximately 10% of the 230 million 9-volt batteries sold in the U.S. in 1995 were sold to OEMs. Applications for which the Company's 9-volt lithium battery are currently sold include:

Safety and Security Equipment	Medical Devices	Specialty Instruments
Smoke alarms	Infusion pumps	Radar detectors
Wireless alarm systems	Telemetry equipment	Garage door openers
Electronic locks	External pacemakers	Electronic meters

Tracking devices Portable blood analyzers Hand-held scanners Transmitters/receivers TENS units Wireless electronics

The Company currently sells its 9-volt battery to Coleman Safety & Security Products, Inc., Fyrnetics, Inc., and First Alert(R) for smoke alarms, Siemens Medical and i-STAT for medical devices, Ademco and Interactive Technologies, Inc. for security devices. Coleman Safety & Security Products, Inc. and Fyrnetics, Inc. have recently introduced long life smoke detectors powered by the Company's 9 volt lithium battery, offered with a limited 10 year warranty. The Company also manufactures its 9-volt lithium battery under private label for First Alert(R), and American Sensors, Inc., Sonnenschein in Germany and Uniline in Sweden. Additionally, the Company has introduced its 9-volt battery to the broader consumer market by establishing relationships with national and regional retail chains such as Radio Shack, Target Stores, Servistar, Ace Hardware, True Value Hardware and a number of catalogues.

The Company believes that its 9-volt lithium battery production facility based in Newark, New York, is one of the most automated and efficient lithium battery production facilities of its kind in the world. The Company's production facility currently has the capacity to produce five million 9-volt lithium batteries per year with its existing equipment.

High Rate Lithium Batteries

Ultralife UK, the Company's subsidiary based in Abingdon, England, markets a wide range of high rate primary lithium batteries in various sizes and voltage configurations. The Company currently manufactures C, 1 1/4C and D size high rate lithium batteries which are sold as separate units and packaged into multi-cell battery packs. The Company believes that its high rate lithium C, 1 1/4C and D primary batteries, based on its proprietary lithium-manganese dioxide technology, are the most advanced high rate lithium batteries currently available. The Company also markets high rate lithium batteries under private label in other sizes and voltage configurations in order to offer a more comprehensive line of batteries to its customers.

The Company currently markets its line of high rate lithium batteries to the OEM market for industrial applications and to military organizations for military use. The main OEM applications are SAR (Search & Rescue), oil industry, down hole and pipeline monitoring equipment, utility meters, oceanographic, remote switching and portable equipment. The main military applications are manpack radios, night vision equipment, chemical agent monitors and missile power supplies.

The Company estimates the market for high rate lithium batteries was $75 million in 1995. Although this market has been dominated by lithium thionyl chloride and lithium sulfur dioxide batteries, there is an increasing market share taken by the lithium manganese dioxide due to its improved performance and safety. The Company increased its sales of the high rate lithium manganese dioxide batteries from $2.3 million in 1995 to $3.1 million in 1996 and was on track for a similar increase in 1997 prior to a fire in December 1996 that severely damaged its manufacturing facility. The reinstatement of the facility is near completion and production facilities, capable of producing more than 2,000 cells per shift are expected to be completed December 1997. The Company believes that its high rate lithium-manganese dioxide batteries offer a combination of performance, safety and environmental benefits which will enable it to effectively penetrate this market.

Sea Water Batteries

The Company produces a variety of sea water batteries based on magnesium silver-chloride technology. Sea water batteries are custom designed and manufactured to end user specifications. The batteries are activated when placed in salt water, which acts as the electrolyte allowing current to flow. The Company currently manufactures sea water batteries at the Abingdon, England, facility and markets them to naval and other specialty OEMs.

BA-5372 Battery

The Company was awarded in 1995 a $1.5 million contract by the U.S. Department of Defense to produce the BA-5372 lithium battery. The production contract has options for two additional years, at the election of the U.S. Government. During 1996 the government exercised its option for the second year adding $1.3

million of BA-5372 batteries to be delivered during the Company's fiscal 1997. In November 1996, the Government exercised its second option for $1.26 million throughout 1997 and into calendar 1998.

The Company's BA-5372 battery is a cylindrical 6-volt lithium-manganese dioxide battery which is used for memory back-up in specialized mobile communication equipment. The Company's BA-5372 battery offers a combination of performance features suitable for military applications including high energy density, light weight, long shelf life and ability to operate in a wide temperature range.

Thin Cell(TM) Battery

The Company has developed a line of lithium-manganese dioxide primary batteries which the Company calls its Thin Cell(TM) batteries. The Thin Cell batteries are flat, light weight, flexible and can be manufactured to conform to the shape of the particular application. The Company is currently offering five configurations of the Thin Cell battery which range in capacity from 30 milliampere-hours to 3,000 milliampere-hours.

The Company is currently marketing these batteries to OEMs for applications such as security badges, smart cards, computer access cards and personal communication devices. The Company believes that its Thin Cell batteries offer a number of performance characteristics which makes them attractive to OEMs for introduction in current and future applications including high energy density, light weight and flexibility in the shape and size of the battery. The Company believes that acceptance by OEMs is necessary to create a significant commercial market for its Thin Cell batteries.

3-Volt Lithium Battery

The Company has developed and is producing a 3-volt lithium-manganese dioxide battery based on the technology and physical configuration of the 9-volt lithium battery. By configuring the three 3-volt cells in parallel, rather than in a series as in the 9-volt battery, the Company is able to produce a 3-volt battery which it believes offers the highest energy density for a commercially available 3-volt battery. The high energy density makes it suitable for applications requiring high current pulses, such as radio transmitters and receivers, and remote utility meter reading systems.

The Company currently sells its 3-volt lithium batteries to Dayton-Granger, Inc. for emergency beacons for commercial aircraft, Schlumberger for residential gas meters, and OrthoLogic for bone growth stimulators. The Company produces the 3-volt lithium battery on the same automated production equipment as its 9-volt lithium battery.

Ultralife's Advanced Rechargeable Battery

The Company's advanced rechargeable battery is based on lithium-ion solid-polymer technology. The battery is composed of thin components including a lithiated manganese dioxide cathode, a carbon anode and a solid-polymer electrolyte, all of which are flexible. The use of a flexible solid-polymer electrolyte, rather than a liquid electrolyte, reduces the battery's overall weight and volume, and allows for increased flexibility in conforming batteries to the variety of shapes and sizes required by various OEMs. In addition to its high energy density and long cycle life, the Company's lithium-ion, solid polymer battery is not subject to the memory effect common in nickel-cadmium batteries. Lead-acid, nickel-cadmium and nickel-metal hydride batteries are the predominant commercially available rechargeable batteries. Lithium-ion liquid electrolyte technology, such as lithium-cobalt oxide and lithium-nickel oxide, are battery technologies that are achieving market acceptance.

The Company is developing configurations of its advanced rechargeable batteries in consultation with potential OEM purchasers for use in cellular telephones and portable computers. The Company is producing its advanced rechargeable batteries in limited quantities and is currently installing equipment for a commercial-level production facility. There can be no assurance that the Company's rechargeable batteries will achieve those levels of performance required for commercial viability or that such technology will gain market acceptance. See "Competition."

In November, 1994, the Company signed an exclusive development and supply agreement with a major communications company for its advanced rechargeable lithium-ion solid-polymer battery. Under the terms of this agreement, the communications company provided a portion of the funds to finalize the development of the battery to meet its particular specifications, and if an acceptable prototype is not delivered, then one-half of the funds provided would be returned by Ultralife. The communications company shall have exclusivity for the battery in the wireless telecommunications market, but the agreement does not preclude sales of these rechargeable batteries in other markets, such as for use in laptop computers.

The agreement was amended on March 28, 1996. Under the amended agreement the major communications company waived their rights to receive reimbursement of half their development funding; agreed to provide $300,000 for development funding and an extension of the period of exclusivity to the end of 1998 (previously it was the end of 1997), and agreed to advance $334,000 towards the shipment of mass-produced batteries. Also, under the new agreement the firm placed an order for a minimum of five (5) million batteries, meeting agreed-to specifications, to be delivered during the period of exclusivity.

In April 1997, the Company entered into an $800,000 agreement to develop its lithium-ion, solid polymer, rechargeable battery for a leading electronics manufacturer for use in a new generation of laptop computers. Then, in June 1997, the Company received from this customer a follow-on commitment for tooling, additional battery refinement and initial production orders.

There can be no assurance under these contracts with the communications company and the electronics manufacturing company that the Company's rechargeable batteries will be able to achieve the required performance levels or that the Company will be able to manufacture commercially acceptable products on a timely basis at a reasonable cost.

At present, the Company has, at its Newark, New York, facility, a manual production line consisting of assembly and packaging equipment and fixtures for the production of limited quantities of its advanced rechargeable batteries. The Company is spending a significant amount of capital to begin commercial production of its advanced rechargeable batteries. The automated production of the Company's lithium-ion solid-polymer rechargeable battery has required the design and manufacture of a number of items of production equipment by third-party vendors. Much of this equipment has been custom designed and manufactured for the Company and some items require a substantial lead-time for delivery. There can be no assurances however that the equipment designed will properly produce the rechargeable batteries in commercial volume. The company has installed during fiscal 1997, a semi-automatic line for medium quantities production to start delivery to its customers in fiscal 1998.

Competition

Competition in the battery industry is, and is expected to remain, intense. The competition ranges from development stage companies to major domestic and international companies, many of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than those of the Company. The Company competes against companies producing lithium-based batteries as well as other primary and rechargeable battery technologies. The Company competes on the basis of price, performance and reliability. There can be no assurance that the Company's technology and products will not be rendered obsolete by developments in competing technologies which are currently under development or which may be developed in the future or that the Company's competitors will not market competing products which obtain market acceptance more rapidly than those of the Company.

In the 9-volt battery market, the principal competitive technologies currently encountered are alkaline and carbon-zinc. Duracell International, Inc., Eveready Battery Company Inc. and Rayovac Corp., among others, currently manufacture alkaline and carbon-zinc batteries.

In the high rate lithium battery market, the principal competitive technologies are lithium sulfur dioxide and lithium-thionylchloride batteries. Saft-Soc des ACC, Blue Star Systems Corporation and Power Conversion, Inc., among others, currently manufacture high rate lithium sulfur dioxide batteries. The Company believes that the lithium-manganese dioxide technology in its high rate batteries offers greater reliability over longer periods without the negative environmental effects of sulfur dioxide and thionylchloride. The Company also manufactures sea water batteries and believes that its competitors for those products are Saft-Soc des ACC and Eagle-Picher Industries.

The 2/3A lithium battery supplied to the company by other manufacturers will compete with companies such as Duracell International, Inc., Sanyo Electric Co. Ltd., Panasonic International and Maxell Corp. of America in the 2/3A battery market.

The Thin Cell batteries are expected to compete on the basis of their performance characteristics. The Company will compete with major battery producers, such as Gould Electronics, which use competing technologies such as low rate lithium thin cell batteries.

The 3-volt battery's primary competitors include Maxell Corp. of America, Tadiran Limited, Saft-Soc des ACC and Power Conversion, Inc., all of which use lithium-thionylchloride technology to produce 3-volt batteries.

In the rechargeable battery market, the principal competitive technologies include lead-acid, nickel-cadmium, nickel-metal hydride and lithium-ion liquid electrolyte technology. Major lead-acid manufacturers include Delco Products, Johnson Controls Inc., Exide Corp., and Yuasa Battery Co. Ltd.. Eveready, Inc., Sanyo Electric Co. Ltd., and Gould Electronics, among others, currently manufacture nickel-cadmium batteries. Manufacturers of nickel-metal hydride batteries include Sony Corp., Toshiba Corp. and Matsushita Electric Industrial Co. Ltd. Lithium-ion liquid electrolyte batteries, primarily based on lithium-ion cobalt oxide and lithium-ion nickel oxide technologies, are manufactured by Saft-Soc des ACC, Sony Corp., Toshiba Corp. and Sanyo Electric Co. Ltd., among others.

Lithium-ion liquid electrolyte batteries offer significant advantages over lead-acid, nickel-cadmium and nickel-metal hydride batteries currently in use and the Company expects that technology to be the most significant competition for its advanced rechargeable battery. Sony Corp. and other manufacturers currently offer lithium-ion liquid electrolyte batteries to consumers and to OEMs in substantial volumes, and have publicly announced that they are substantially increasing manufacturing capacity. As OEMs frequently require substantial lead times to design new batteries for their products, the availability of lithium-ion liquid electrolyte batteries could materially adversely affect the demand for, and market acceptance of, the Company's advanced rechargeable battery.

Lithium-ion liquid electrolyte batteries used in laptop computers and cellular phones have been reported to have had incidences causing user safety concerns. There is a significant difference between these liquid electrolyte cells and the Company's Solid State System, which uses a unique solid polymer electrolyte and is fundamentally safer than lithium-ion batteries containing a liquid electrolyte. Liquid lithium-ion cells, such as those that reportedly caused the flames in the laptops, use a flammable liquid electrolyte contained within a cylindrical metal housing. Under abusive conditions, where external temperatures are extremely high, these cells can build up significant internal pressure. If the pressure reaches a high enough level, the cells can vent, causing the liquid electrolyte to be dispersed into the high-temperature environment. If the temperature is high enough, flames can result. The Company's advanced rechargeable batteries utilize a solid polymer electrolyte that has almost no liquid and thus cannot leak. Moreover, because the electrolyte is solid, the Ultralife cells do not require a cylindrical metal housing. Rather, they are packaged within a foil laminate. Under the same abusive conditions that could cause flame from liquid lithium-ion cells, Ultralife believes that its cells will perform safely.

In addition to the currently marketed technologies, a number of companies are currently undertaking research and development of advanced rechargeable lithium batteries, including lithium-metal solid-polymer batteries. Valence Technology, Inc., Lithium Technology Corporation and Battery Engineering, Inc. have developed prototype solid-polymer batteries and are constructing commercial-scale manufacturing facilities. The Company believes that other research and development activities on solid-polymer batteries are underway at other companies in both the U.S. and Japan. No assurance can be given that such companies will not develop batteries similar or superior to the Company's lithium-ion solid-polymer rechargeable batteries.

Although other entities may attempt to take advantage of the growth of the lithium battery market, the lithium battery industry has certain technological and economic barriers to entry. The development of technology, equipment and manufacturing techniques and the operation of a facility for the automated production of lithium batteries require large capital expenditures, which may deter new entrants from commencing production. Through its experience in battery manufacturing, the Company has also developed expertise which it believes would be difficult to reproduce without substantial time and expense.

Research and Development

The Company conducts its research and development in both Newark, New York, and Abingdon, England. The Company is directing its research and development efforts toward design optimization of Thin Cells, 3-volt batteries and advanced rechargeable batteries. Each of those batteries has a broad range of potential applications in consumer, industrial and military markets including cameras, cellular telephones, and portable computers. No assurance can be given that such efforts will be successful or that the products which result will be marketable.

During the years ended June 30, 1997, 1996, and 1995, the Company expended approximately $3,940,000, $3,689,000, and $2,685,000, respectively, on Company-sponsored research and development. The Company currently expects that research and development expenditures will continue at a high level as it continues to advance its technology and develop new products. The Company will seek to fund part of its research and development effort on a continuing basis from both government and non-government sources.

The U.S. Government sponsors research and development programs designed to improve the performance and safety of existing battery systems and to develop new battery systems. The Company has successfully completed the initial stages of a government-sponsored program to develop new configurations of the Company's lithium-manganese dioxide battery and has received authorization to proceed with additional stages of this contract. This contract is for the development of "pouch cell" lithium primary batteries. The Company was also awarded an additional cost sharing contract by CECOM under which the development of a BA-5590 primary battery will be produced. The contract is for twenty-four months and began June 30, 1997. This contract is an SBIR-Phase III. The Company has also received production orders from Aberdeen Research Laboratories (U.S. Army) as a follow on product for its Technology Contract, closed in fiscal 1997. This order represents the first order of this type of battery to be actively purchased by the government.

Sales and Marketing

The Company has initially targeted sales of its batteries to the OEM market in the U.S., with a focus on manufacturers of security and safety equipment, medical devices and specialty instruments. The Company's primary strategy for entering the OEM market is to pursue marketing alliances with OEMs that utilize its batteries in their products, commit to cooperative research and development or marketing programs and recommend the Company's products for replacement use in their products. The Company seeks to capture a significant market share for its products within its initially targeted OEM markets, which the Company believes, if successful, will result in increased product awareness at the end-user or consumer level. Ultralife UK targets the military and industrial markets through direct sales and the efforts of its distributors.

The Company sells its products directly to OEMs in the U.S. and abroad and has contractual arrangements with 42 sales representatives who market the Company's products on a commission basis in particular areas. The Company also distributes its products through distributors in the U.S., Canada, Europe, Middle East, Australia and Asia that purchase batteries from the Company for resale. The Company employs a staff of marketing personnel in the U.S., Germany, and England including a vice president of sales, a marketing manager, a national sales manager, a European sales director, a technical sales manager, and a number of regional sales managers, who are responsible for direct sales, supervising the sales representatives and distributors, and other marketing and distribution activities. The Company operates on a purchase order basis and has a number of long-term sales contracts with customers, including the U.S. Government.

The Company plans to expand its marketing activities as part of its strategic plan to increase sales of its batteries by emphasizing sales to those major OEM customers that account for the largest portion of battery usage in their market segment. The Company is addressing these markets through direct contact by its sales and technical personnel, use of sales representatives and stocking distributors, manufacturing under private label and promotional activities. The Company is also selling the 9-volt battery to the consumer market through limited retail distribution. The Company's warranty on its products is limited to replacement of the product.

In fiscal 1997, no one customer generated revenues in excess of 10%. In fiscal 1996, one customer accounted for $1.9 million in revenues, or 12.5% of total revenues. This customer did not generate revenues in excess of 10% during 1995. The Company has not been marketing its products for a sufficient period to determine whether OEM or consumer sales are seasonal, although the Company has experienced slightly slower sales to OEMs in the Company's third fiscal quarter and slightly higher retail sales during the Company's fourth fiscal quarter.

The Company's sales are executed primarily through purchase orders with scheduled deliveries on a weekly or monthly basis. Those customers with immediate needs are usually satisfied within only a few business days. At the end of this fiscal year, the backlog is not material.

Patents, Trade Secrets and Trademarks

The Company holds a number of patents in the U.S. and foreign countries, including a number of patents acquired with the purchase of the Dowty Assets, and has several patent applications pending. The Company also pursues foreign patent protection in certain countries. Certain of the Company's patents make automated production more cost-effective and protect important competitive features of the Company's products. However, the Company does not consider its business to be dependent on patent protection.

The Company relies on licenses of technology as well as its unpatented proprietary information, know-how and trade secrets to maintain and develop its commercial position. Although the Company seeks to protect its proprietary information, there can be no assurance that others will not either develop independently the same or similar information or obtain access to the Company's proprietary information. In addition, there can be no assurance that the Company would prevail if any challenges to intellectual property rights are asserted by the Company against third parties or that third parties will not successfully assert infringement claims against the Company in the future. The Company believes, however, that its success is less dependent on the legal protection that its patents and other proprietary rights may or will afford than on the knowledge, ability, experience and technological expertise of its employees.

The Company's research and development in support of its advanced rechargeable battery technology and products are currently based, in part, on non-exclusive, technology transfer agreements. The Company made an initial payment for such technology and is required to make royalty and other payments for products which incorporate the licensed technology. The license continues for the respective unexpired terms of the patent licenses, which range from 2003 to 2010, and continues in perpetuity with respect to other licensed technical information.

The Company's employees in the U.S. and England are required to enter into agreements providing for confidentiality and the assignment of rights to inventions made by them while employed by the Company. These agreements also contain certain noncompetition and nonsolicitation provisions effective during the employment term and for a period of one year thereafter. There can be no assurance that these agreements will be enforceable by the Company.

Ultralife(R) is a registered trademark of the Company.

Manufacturing and Raw Materials

The Company manufactures its products from raw materials and component parts that it purchases. The Company believes that its Newark manufacturing facility is one of the most automated and efficient lithium battery production facilities in the world. Based on the equipment currently at the Newark facility, the Company believes that it has the capability of producing approximately five million 9-volt batteries per year. The manufacturing facility in Abingdon, England, is currently being reinstated following a fire in December 1996. When completed, the plant will be capable of producing an average of 500,000 high rate lithium batteries per year. The facility also has research and development laboratories as well as areas for the manufacture of sea water batteries and the packaging of multi-cell battery packs. The Company is currently producing batteries at a rate below its maximum capacity in both facilities.

The Company utilizes lithium in foil form and other metals and chemicals in manufacturing its batteries. Although the Company knows of only three suppliers that extrude lithium into foil and provide such foil in the form required by the Company, it does not anticipate any shortage of lithium foil or any difficulty in obtaining the quantities it requires. Certain materials used in the Company's products are available only from a single source or a limited number of sources. Additionally, the Company may elect to develop relationships with a single or limited number of sources for materials that are otherwise generally available. Although the Company believes that alternative sources are available for each of the materials it uses and that, if necessary, the Company would be able to redesign its products to make use of an alternative, any interruption in its supply from any supplier that serves currently as the Company's sole source could delay product shipments and adversely affect the Company's financial performance and relationships with its customers. All other raw materials utilized by the Company are readily available from many sources.

Battery Safety; Regulatory Matters; Environmental Considerations

Certain of the materials utilized in the Company's batteries may pose safety problems if improperly used. The Company has designed its batteries to minimize safety hazards both in manufacturing and use. However, the Company's primary battery products incorporate lithium metal, which reacts with water and may cause fires if not handled properly. Fires occurred in August 1991, and August 1997, at the Company's Newark, New York, facility. In July 1994, September 1995, and December 1996, fires also occurred at the Company's Abingdon, England, facility. The December 1996 fire has been attributed to arson. Each of these fires temporarily interrupted certain manufacturing operations in a specific area of the facility. The Company believes that it has adequate fire insurance, including business interruption insurance, to protect against fire hazards in its facilities.

Since lithium metal reacts with water and water vapor, certain of the Company's manufacturing processes must be performed in a controlled environment with low relative humidity. Each of the Company's facilities contains dry rooms as well as specialized air drying equipment.

The Company's 9-volt battery is designed to conform to the dimensional and electrical standards of the American National Standards Institute and the 9-volt battery and 3-volt battery are recognized under the Underwriters Laboratories, Inc. Component Recognition Program.

The transportation of batteries containing lithium metal is regulated by the International Air Transportation Association ("IATA") and, in the U.S., by the U.S. Department of Transportation, as well as by certain foreign regulatory agencies that consider lithium metal a hazardous material. The Company currently ships its products pursuant to IATA regulations and ships the 9-volt battery in accordance with U.S. Department of Transportation regulations.

National, state and local regulations impose various environmental controls on the storage, use and disposal of lithium batteries and of certain chemicals used in the manufacture of lithium batteries. Although the Company believes that its operations are in substantial compliance with current environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on the Company or otherwise subject it to future liabilities. Moreover, state and local governments may enact additional restrictions relating to the disposal of lithium batteries used by customers of the Company which could adversely affect the demand for the Company's products. There can be no assurance that additional or modified regulations relating to the storage, use and disposal of chemicals used to manufacture batteries or restricting disposal of batteries will not be imposed.

China Joint Venture Program

In July 1992, the Company, entered into several agreements related to the establishment of a manufacturing facility in Changzhou, China, for the production and distribution in and from China of 2/3A lithium primary batteries based on the Company's technology.

Pursuant to the China Joint Venture Program, Changzhou Ultra Power Battery Co., Ltd., a company organized in China ("China Battery"), purchased from the Company certain technology, equipment, training and consulting services relating to the design and operation of the lithium battery manufacturing plant. China Battery is required to pay approximately $6.0 million to the Company over the first two years of the agreement, of which approximately $5.6 million had been paid as of July 31, 1996. The Company is currently attempting to collect the balance due under this contract. The Changzhou Ultra Power Battery Co., Ltd. has indicated that these payments will not be made until certain contractual issues have been resolved. Due to the Chinese partner's questionable willingness to pay, management wrote down in fiscal 1997 the entire balance owed the Company as well as the Company's investment. It is unlikely the Chinese partner will become a viable source of supply for the Company.

Employees

As of June 30, 1997, Ultralife Batteries, Inc. employed 334 persons; 81 in research and development, 217 in production and 36 in sales, administration and management. Of the total, 279 are employed in the U.S. and 55 in England. None of the Company's employees are represented by a labor union. The Company considers its employee relations to be satisfactory.

ITEM 2. PROPERTIES

The Company leases approximately 110,000 square feet in a facility located in Newark, New York. The Company leases approximately 30,000 square feet in a facility based in Abingdon, England. At both locations, the Company maintains administrative offices, manufacturing and production facilities, a research and development laboratory, an engineering department and a machine shop. The Company's corporate headquarters are located in the Newark facility. The Company also maintains a sales office in Montvale, New Jersey. The Company believes that its facilities are adequate and suitable for its current manufacturing needs. The lease entered into in March 1991 with Kodak for the Newark facility expires in 2003 and currently has an annual rent of $519,000, subject to base rate increases of 4% annually during each year.

In connection with the acquisition by the Company's subsidiary, Ultralife UK, of certain assets and liabilities from Dowty Group, PLC in June 1994, it was provided that Dowty would cause the lease for Dowty's UK facility, located in Abingdon England, to be assigned to Ultralife UK. This lease (the "UK Lease") was originally entered into in May 1979 by Pension Funds Securities Limited (the "Landlord") with a tenant which assigned the lease to an affiliate of Dowty. Originally, this landlord refused to assign the lease to Ultralife UK and release Dowty's affiliate from liability. The building has recently been sold to a new landlord. The new landlord has agreed, subject to a surety from the Company, that he will allow an assignment of the lease. The Company has agreed to provide the surety, subject to resolving certain disputes with Dowty. Discussions are continuing and the Company believes that this matter will be resolved without material detriment to the Company. However, no assurances can be given that this will be the case. The term of the UK Lease continues until May 2004. It currently has an annual rent of $250,000 and is subject to review every five years based on current real estate market conditions. A review was to occur in May 1994 and has not yet been requested by the Landlord. Based on the real estate market in the Abingdon area, the Company believes that if such review occurs, it will not result in a substantial increase in rent.

ITEM 3. LEGAL PROCEEDINGS

(a) Material Litigation

In September 1997, the Company was sued by Eveready Battery Company, Inc. in the Northern District Court of Ohio, Eastern Division, alleging infringement of two patents, U.S. Patent No. 4,246,253 and U.S. Patent No. 4,312,930. The first of these patents has four months before it expires and the second approximately one year. The Company cross-claimed against the corporation that licensed the technology at issue to the Company. Damages, if any, are believed to be de minimis and the possibility of an injunction, in the opinion of counsel, is extremely remote given the substantial question of patent validity, infringement and the short period the patents are viable.

In July 1997, a former sales representative commenced action against the Company and an investment firm alleging tortious interference of contract in connection with the Company's Dowty acquisition. The Company believes the claim, for $25 Million, is without merit.

In March 1997, shortly after the Company obtained a temporary restraining order from the New York State Supreme Court against Valence Technologies (Valence) and Richard Thompson (a former Company employee, now employed by Valance), Valence served the Company with a complaint that it had filed in January 1997, in the District Court of Clark County, Nevada. Valence's complaint seeks a declaratory judgment that the Invention, Trade Secret and Covenant Not to Compete Agreement executed by Thompson and the Company in March 1994, is unenforceable. Valence's complaint also alleges causes of action for misappropriation of trade secrets, unfair competition and tortious interference with contractual relations arising out of the Company's hiring more than two years before of a former employee of Valence. The complaint seeks compensatory and punitive damages in unspecified amounts, attorneys' fees, costs and a permanent injunction.

In April 1997, the Company moved to dismiss the complaint on the grounds of lack of personal jurisdiction. The motion was fully briefed, and the parties are awaiting an argument date before the Nevada court.

No discovery or any other activity has taken place in the case. The Company intends to defend the case vigorously.

(b) Terminated Legal Proceedings

No legal proceedings were terminated during the fiscal quarter ended June 30, 1997.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Report, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED

STOCKHOLDER MATTERS

Market Information

The Company's Common Stock is included for quotation on the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ") under the symbol "ULBI."

The following table sets forth the quarterly high and low sales prices of the Company's Common Stock during the Company's last two fiscal years:

	Sales Prices	
	High	Low
Fiscal Year 1996		
Quarter ended September 30, 1995	$24.75	$14.75
Quarter ended December 31, 1995	24.50	16.75
Quarter ended March 31, 1996	24.00	10.50
Quarter ended June 30, 1996	16.25	12.38
Fiscal Year 1997		
Quarter ended September 30, 1996	$15.25	$10.75
Quarter ended December 31, 1996	13.75	7.50
Quarter ended March 31, 1997	12.25	7.88
Quarter ended June 30, 1997	13.00	7.38

On September 19, 1997, the Company's common stock closing price was $ 19.25 per share.

Holders

As of September 19, 1997, there were 177 holders of record of the Company's Common Stock. Based upon conversations with brokers, management of the Company believes that there are significantly more than 177 beneficial holders of the Company's Common Stock.

Dividends

The Company has never declared or paid any cash dividend on its capital stock. The Company intends to retain earnings, if any, to finance future operations and expansion and, therefore, does not anticipate paying any cash dividends in the foreseeable future. Any future payment of dividends will depend upon the financial condition, capital requirements and earnings of the Company, as well as upon other factors that the Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

Statement of Operations Data:

	Year Ended June 30,				
	1997	1996	1995	1994	1993
Revenue:					
Battery sales	$ 14,765,364	$ 12,623,646	$ 11,212,643	$ 2,889,193	$ 1,816,696
Technology contracts	1,175,754	2,477,887	3,430,640	2,424,356	2,073,097
Total Revenue	15,941,118	15,101,533	14,643,283	5,313,549	3,889,793
Cost of products sold:					
Battery costs	13,880,321	12,317,486	10,900,049	3,167,653	2,511,859
Technology contracts	710,937	936,053	1,873,892	1,781,043	593,518
Total cost of products sold	14,591,258	13,253,539	12,773,941	4,948,696	3,105,377
Gross profit	1,349,860	1,847,994	1,869,342	364,853	784,416
Selling, general and administrative expenses	5,217,441	4,993,644	4,262,545	2,879,085	1,527,646
Research and development expenses	3,939,786	3,688,687	2,685,313	1,481,211	658,139
Loss (gain) on fires	(55,835)	351,902			
Loss on China development program	805,296				
Loss before interest income, other and taxes	(8,556,828)	(7,186,239)	(5,078,516)	(3,995,443)	(1,401,369)
Interest income	1,351,646	2,016,831	1,721,682	835,585	350,085
Gain on sale of securities	1,930,056				
Other income(expense), net	(41,172)		(34,844)	22,498	237,648
Loss before income taxes	(7,246,354)	(3,239,352)	(3,391,678)	(3,137,360)	(813,636)
Income taxes					
Net loss	$ (7,246,354)	$ (3,239,352)	$ (3,391,678)	$ (3,137,360)	$ (813,636)
Net loss per common share	$ (0.91)	$ (0.41)	$ (0.50)	$ (0.57)	$ (0.20)
Weighted average number of shares outstanding	7,923,022	7,814,302	6,747,374	5,498,749	4,032,040

Balance Sheet Data:

	June 30,	
	1997	1996
Cash and available-for-sale securities	$ 22,157,926	$ 35,069,028
Working capital	27,205,839	44,666,186
Total assets	51,395,103	60,632,929
Stockholders' equity	$ 46,762,881	$ 56,434,766

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis below, and throughout this report, contains forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Actual results could differ materially from those projected or suggested in the forward-looking statements.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

General

The Company was formed in December 1990. On March 12, 1991, the Company acquired certain technology and assets from Kodak relating to the 9-volt lithium-manganese dioxide battery. The Company is currently producing 9, 6 and 3-volt lithium batteries in commercial quantities at its Newark, New York facility. The Company also produces and markets high rate lithium batteries and seawater batteries at its U.K. subsidiary in Abingdon, England.

Since its inception, the Company has concentrated significant resources toward research and development activities primarily related to its solid state lithium-ion rechargeable battery in recent years. The Company has shipped prototypes of its rechargeable batteries for testing to original equipment manufacturers and others. In addition to the Company's preliminary manual production line, the Company has developed and implemented a semi-automatic flexible production line for initial production runs and medium volume programs. High volume rechargeable battery manufacturing equipment is currently being tested and installed in Newark, NY.

The Company believes that its results of operations in prior periods may not be indicative of results in future periods. Future operating results may be affected by a wide range of factors and may fluctuate significantly from period to period.

The Company reports the results of two business segments, battery sales and technology contracts. Technology contracts include technological and research and development services to government agencies and other third parties. In fiscal 1997, 1996 and 1995, revenue from technology contracts represented approximately 7%, 16% and 23%, respectively, of the total revenues. The Company expects revenues from technology contracts as a percentage of total revenues to continue to decrease as battery sales increase. Certain of its technology contracts, including those with the U.S. government absorb certain of the Company's research and development costs. The Company, while segmenting revenues for technology contracts, does not allocate its' general research and development costs to specific technology contracts. Accordingly, operating income related to the technology contracts does not reflect the allocation of these expenses.

The Company believes that the relatively moderate rate of inflation in recent years has not had a significant impact on the Company's revenues or profitability.

Net Sales by Business Segment	1997	1996	1995
Battery sales	$ 14,765,000	$ 12,624,000	$ 11,213,000
Technology contracts	1,176,000	2,478,000	3,430,000
Total revenue	$ 15,941,000	$ 15,102,000	$ 14,643,000
Income (Loss) by Business Segment			
Batteries	$ (5,261,000)	$ (5,010,000)	$ (3,347,000)
Technology contracts	(62,000)	524,000	413,000
All Other	(1,923,000)	1,247,000	(458,000)
Net loss	$ (7,246,000)	$ (3,239,000)	$ (3,392,000)

Results of Operations

Fiscal Years Ended June 30, 1997 and 1996

Total revenues increased by $839,000 or 6% during the year ended June 30, 1997 (fiscal 1997) to $15,941,000 from $15,102,000 for the year ended June 30, 1996 (fiscal 1996). This was principally due to an increase of battery sales in the amount of $2,141,000 or 17% to $14,765,000 during fiscal 1997 from $12,624,000 for fiscal 1996. This increase in battery revenues was generated by both the U.S. and the U.K. operations. In the U.S., revenues from the Company's BA-5372 battery increased as contract extensions were received from the U.S. Army which supported increasing production rates throughout the year. This was partially offset by reduced levels of 9-volt battery sales to the smoke detector market. In the U.K., additional sales to the Ministry of Defense were partially offset by decreased revenues from the high rate lithium and seawater batteries. These reduced revenues in the U.K. were primarily caused by limitations of the manufacturing facility due to a fire in December 1996. Revenues generated from technology contracts decreased from $2,478,000 in 1996 to $1,176,000 in 1997. This is the result of completion of certain contracts and delays in receipt of new programs as the Company concentrates its' efforts on implementation of the rechargeable battery manufacturing line.

The cost of products sold increased to $14,591,000 for fiscal 1997 from $13,254,000 for fiscal 1996. As a ratio to revenues, the cost of products sold was 92% for fiscal 1997 and 88% for fiscal 1996. Cost of products sold related to battery sales increased to $13,880,000 or 94% of revenues for fiscal 1997 compared to $12,317,000 or 98% of revenues for fiscal 1996.

Net cost of products sold in the U.S. increased slightly. Higher operating efficiencies were realized in manufacturing the BA-5372 battery. However, during fiscal 1997, the Company reduced manufacturing levels of the 9-volt batteries to align inventory with sales volume which resulted in increased unabsorbed overhead expenses. The lower production volume during fiscal 1997 reduced net inventory by more than $3,135,000 or 37% compared to 1996.

During fiscal 1997, the Company received funds from the insurance carriers which were reimbursement for excess costs generated as a result of the fire in December, 1996. The funds received were applied primarily to the cost of products sold in the U.K. Technology contracts cost of products sold experienced a decrease of $225,000 or 24% during 1997 compared to 1996.

Operating expenses increased to $9,907,000 for fiscal 1997 compared to $9,034,000 for fiscal 1996. Selling, general and administration expenses increased to $5,217,000 for fiscal 1997 from $4,994,000 for fiscal 1996; an increase of $223,000 or 4%. The Company anticipates that selling expenses will continue to increase in order to support new products planned to be introduced during fiscal 1998 and afterwards. Research and development expenses increased by $251,000 or 7% to $3,940,000 for fiscal 1997 compared to $3,689,000 for fiscal 1996. This increase is due primarily to increasing expenditures incurred to support the rechargeable battery program.

Also included in total operating expenses was $56,000 of payments received in excess of the loss provision related to the fires which occurred in the U.K. During 1996, the Company provided a reserve of $352,000 for losses related to fires. Generally, the Company records expenses related to the fires as they are incurred and records the offsetting insurance proceeds only when received.

Additionally, the Company wrote-off its investment in the China development project and related receivables due under provisions of various agreements during the third quarter of fiscal 1997. The total cost of these write-offs was $805,000. The original purpose of the Company's participation in the China development program was to make available the 2/3A size lithium battery at a competitive cost. Other sources for this battery have since been identified and are supplying the Company's requirements.

Interest income declined by $665,000 or 33% to $1,352,000 for fiscal 1997 from $2,017,000 for fiscal 1996, due to a lower average balance invested as the Company has used cash and investments to fund the capital equipment improvements and operations during 1997.

Net loss per common share increased to $0.91 in fiscal 1997, based on 7,923,022 weighted average number of shares outstanding, from a loss of $0.41 per share for fiscal 1996 with 7,814,302 weighted average number of shares outstanding. Net revenue increased 6% in 1997 compared to 1996. However, an unfavorable mix with less revenue generated from technology contracts decreased the gross profit by $498,000. Selling, general and administrative expenses combined with research and development increased by 5% in order to continue support for the Company's new solid polymer lithium-ion rechargeable battery. Also, during fiscal 1996, the Company recorded a gain from the sale of securities in the amount of $1,931,000.

Fiscal Year Ended June 30, 1996 and 1995

Total revenues increased by $459,000 or 3% to $15,102,000 during the year ended June 30, 1996 (fiscal 1996) from $14,643,000 for fiscal 1995. Sales of batteries increased to $12,624,000 during fiscal 1996 from $11,213,000 during fiscal 1995, an increase of 13% or $1,411,000. Revenues from technology contracts decreased by $953,000 or 28% to $2,478,000 for fiscal 1996 from $3,431,000 for fiscal 1995. The increased battery revenues were generated by the U.S. operations where sales of primary batteries rose 69% reflecting a substantial increase in the number of batteries sold to both existing and new customers. In the U.K. operations, battery sales declined 36% primarily as a result of a fire that occurred during the year. Technology contract revenues declined as the Company's contract relating to the establishment of a battery manufacturing facility in The Peoples Republic of China was in its final stage.

The cost of products sold increased to $13,254,000 for fiscal 1996 from $12,774,000, an increase of $480,000 or 4%. As a ratio to revenues, the cost of products sold was 88% for fiscal 1996 and 87% for fiscal 1995. Cost of products sold related to battery sales increased to $12,317,000 or 98% of revenues for fiscal 1996 compared to $10,900,000 or 97% for fiscal 1995. Manufacturing operations in the U.S. improved slightly in fiscal 1996 compared to the prior year. This net improvement occurred despite a production slowdown in the fourth fiscal quarter caused by reduced levels of battery sales. In the U.K., the cost of batteries sold increased substantially during fiscal 1996 when compared to 1995 primarily due to a fire during the year. Technology contract cost of products sold decreased to $936,000 or 38% of revenues during fiscal 1996 from $1,873,892 or 55% of revenues for the same period of the prior year. The increased gross margin during fiscal 1996 reflects payments received for development funding and extension of the period of exclusivity until the end of calendar 1998 from one of the world's leading cellular telephone manufacturers. These payments had no associated cost of products sold.

Total operating expenses increased to $9,034,000 for fiscal 1996 from $6,948,000 for the same period of the prior year, an increase of $2,086,000 or 30%. Of this total, selling, general and administrative expenses increased $731,000 or 17% due to additional costs to promote battery sales. Research and development increased to $3,689,000 during fiscal 1996 from $2,685,000 for fiscal 1995, an increase of $1,004,000 or 37%. This increased cost is associated with continuing support of the Company's rechargeable battery program. The Company has expended funds to continue development of the lithium-ion solid-state rechargeable battery in anticipation of market introduction during fiscal 1997.

Net interest income increased to $2,017,000 during fiscal 1996 from $1,722,000 for fiscal 1995 due to increasing interest rates during the twelve-month period. The Company realized a gain on the sale of 123,000 shares of Intermagnetics General Corporation (IMG) common stock it sold during the year. As of September 30, 1996, the Company owns 339,016 shares of common stock of IMG. This includes a 2% stock dividend declared to IMG shareholders of record as of August 1, 1996. During fiscal 1996, the Company provided a reserve against possible uninsured expenses related to the fire that occurred at the U.K. operations during fiscal 1996.

Net loss per common share decreased during fiscal 1996 to $0.41 based on 7,814,301 weighted average number of shares outstanding from $0.50 per share based on 6,747,374 weighted average number of shares outstanding during fiscal 1995. The modest increase in revenues, 3%, was offset by additional cost of products sold so that gross profit for fiscal 1996 was unchanged from 1995. Additional operating expenses, primarily research and development to support the Company's developmental lithium-ion solid-state rechargeable battery resulted in an increased loss from operations during fiscal 1996 when compared to 1995. This increased loss from operations was more than offset by the realized gain from the sale of securities and additional interest income. As a result, net loss for fiscal 1996 was $3,239,000 compared to $3,392,000 for fiscal 1995.

Liquidity and Capital Resources

During fiscal 1997, the Company used $1,572,000 of cash in operating activities as compared to $6,723,000 in fiscal 1996. The substantial decrease in the cash used in operations was primarily the result of decreases in inventories, accounts receivable and earned contracts receivable offset by increased net loss for fiscal 1996 and decreased accounts payable and accrued liabilities. In fiscal 1997, the Company used $8,913,000 to purchase equipment, primarily for the Company's rechargeable battery production line.

A continuation of substantial capital expenditures as well as research and development expenses is anticipated as the Company moves toward mass production and continued improvement of rechargeable batteries.

As of June 30, 1997, the Company has in excess of $22 million of cash, cash equivalents and available-for-sale securities. The Company's current financial position is adequate to maintain its operations through fiscal 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Attached hereto and filed as part of this Report are the financial statements and supplementary data listed on Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On and effective as of April 16,1996, Ultralife Batteries, Inc. (the "Company") informed Ernst & Young LLP ("Ernst & Young"), independent certified public accountants, that the Board of Directors of the Company (including the Audit Committee thereof) had decided not to continue the engagement of Ernst & Young, and had approved the engagement of Arthur Andersen LLP ("Arthur Andersen") as the Company's new independent certified public accountants to audit the Company's financial statements (beginning with the fiscal year ending June 30, 1996) and to assist the Company in the preparation of its annual and other reports under the Securities Exchange Act of 1934, as amended.

Ernst & Young's reports on the financial statements for the fiscal year of the Company ended June 30, 1995 ("Applicable Fiscal Year"), did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles. During the Applicable Fiscal Year and during the interim period from June 30, 1995 through April 16, 1996 (the "Interim Period"), there were no disagreements between the Company and Ernst & Young on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures, which, if not resolved to the satisfaction of Ernst & Young, would have caused Ernst & Young to make reference to the matter in their report. There were no reportable events, as that term is described in Item 304(a)(1)(iv) of Regulation S-K. In connection with the filing by the Company of a Report on Form 8-K, dated April 16, 1996, Ernst & Young submitted a letter addressed to the Securities and Exchange Commission in which it agreed with the Company's foregoing statements.

As stated above, the Company has engaged, effective as of April 16, 1996, Arthur Andersen as its new principal independent certified public accountant to audit the Company's financial statements (beginning with the fiscal year ending June 30, 1996) and to assist in the preparation of annual, quarterly and other reports. Prior to such engagement, the Company (including any of its representatives or agents) did not consult with representatives of Arthur Andersen regarding the application of accounting principles to a specified transaction (either completed or proposed); or the type of audit opinion that might be rendered on the Company's financial statements.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section entitled "Directors and Executive Officers of the Registrant" in the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report:

1. Financial Statements

Attached hereto and filed as part of this report are the financial statements and schedules listed below:

Schedules other than those listed above have been omitted as they are either not required, are not applicable, or the information called for is shown in the financial statements or notes thereto.

(b) Reports on Form 8-K

None.

(c) Exhibits. The following Exhibits are filed as a part of this Report:

Exhibit Index	Description of Document	Filed Herewith	Incorporated By Reference to:
3.1	Restated Certificate of Incorporation		Exhibit 3.1 of Registration Statement, File No. 33-54470 ("the 1992 Registration Statement")
3.2	By-laws		Exhibit 3.2 of the 1992 Registration Statement

Exhibit Index	Description of Document	Filed Herewith	Incorporated By Reference to:
4.1	Specimen Copy of Stock Certificate		Exhibit 4.1 of the 1992 Registration Statement
4.2	Share Purchase Agreement between the Registrant and Intermagnetics General Corporation		Exhibit 4.2 of the 1992 Registration Statement
10.1	Asset Purchase Agreement between the Registrant, Eastman Technology, Inc. and Eastman Kodak Company		Exhibit 10.1 of the 1992 Registration Statement
10.2	Lease Agreement, as amended, between Kodak and the Registrant		Exhibit 10.2 of the 1992 Registration Statement
10.3	Joint Venture Agreement between Changzhou Battery Factory, the Company and H&A Company and related agreements		Exhibit 10.3 of the 1992 Registration Statement
10.4	Employment Agreement between the Registrant and Joseph N. Barrella		Exhibit 10.4 of the 1992 Registration Statement
10.5	Employment Agreement between the Registrant, Bruce Jagid and Martin G. Rosansky		Exhibit 10.5 of the 1992 Registration Statement
10.6	1991 Stock Option Plan		Exhibit 10.6 of the 1992 Registration Statement
10.7	1992 Stock Option Plan, as amended		Exhibit 10.7 of the 1992 Registration Statement
10.8	Representative's Warrant exercisable for purchase of Common Stock		Exhibit 10.8 of the 1992 Registration Statement
10.9	Stock Option Agreement under the Company's 1991 Stock Option Plan		Exhibit 10.9 on the Company's Report on Form 10-Q for the fiscal quarter ended December 31, 1993, File No. 0-20852 ("the 1993 10-Q").
10.10	Stock Option Agreement under the Company's 1992 Stock Option Plan		Exhibit 10.10 of the 1993 10-Q
10.11	Stock Option Agreement under the Company's 1992 Stock Option Plan for non-qualified options		Exhibit 10.11 of the 1993 10-Q
10.12	Stock Option Agreement between the Company and Stanley Lewin		Exhibit 10.12 of the 1993 10-Q
10.13	Stock Option Agreement between the Company and Joseph Abeles		Exhibit 10.13 of the 1993 10-Q

Exhibit Index	Description of Document	Filed Herewith	Incorporated By Reference to:
10.14	Stock Option Agreement between the Company and Stuart Shikiar		Exhibit 10.14 of the 1993 10-Q
10.15	Stock Option Agreement between the Company and Stuart Shikiar		Exhibit 10.15 of the 1993 10-Q
10.16	Stock Option Agreement between the Company and Bruce Jagid		Exhibit 10.16 of the 1993 10-Q
10.17	Various amendments, dated January 4, 1993 through January 18, 1993 to the joint venture agreement with the Changzhou Battery Company		Exhibit 10.17 of the 1993 10-Q
10.18	Sale of Business Agreement, by and between Dowty Group PLC and Ultralife (UK)		Exhibit 10.18 on the Company's Current Report on Form 8-K dated June 10, 1994, File No. 0-20852
10.19	Technology Transfer Agreement relating to Lithium Batteries (Confidential treatment has been granted as to certain portions of this agreement)		Exhibit 10.19 of the Company's Registration Statement of Form S-1 filed on October 7, 1994, File No. 33-84888 ("the 1994 Registration Statement")
10.20	Technology Transfer Agreement relating to Lithium Batteries (Confidential treatment has been granted as to certain portions of this agreement)		Exhibit 10.20 of the 1994 Registration Statement
10.21	Employment Agreement between the Registrant and Bruce Jagid.		Exhibit 10.21 of the Company's form 10-K for the fiscal year ended June 30, 1995 ("the 1995 10-K")
10.22	Amendment to the Employment Agreement between the Registrant and Bruce Jagid		Exhibit 10.22 of the 1995 10-K
10.23	Amendment to the Employment Agreement between the Registrant and Bruce Jagid		Exhibit 10.23 of the Company's form 10-K for the fiscal year ended June 30, 1996 ("the 1996 10-K")
10.24	Amendment to the Agreement relating to rechargeable batteries. (Confidential treatment has been granted as to certain portions of this agreement.)		Exhibit 10.24 of the 1996 10-K

Exhibit Index	Description of Document	Filed Herewith	Incorporated By Reference to:
10.25	Ultralife Batteries, Inc. Chief Executive Officer's Stock Option Plan.		Exhibit 10.25 of the 1996 10-K
10.26	Agreement with Mitsubishi Electronics America, Inc. relating to sample batteries for lap-top computer use. (Confidential treatment has been requested as to certain portions of this exhibit)	X	
10.27	Purchase orders from Mitsubishi Electronics America, Inc. (Confidential treatment has been requested as to certain portions of this exhibit)	X	
23.1	Consent of Arthur Andersen LLP	X	
23.2	Consent of Ernst & Young LLP	X	

(d) Financial Statement Schedules.

The following financial statement schedules of the registrant are filed herewith:

Schedule		Page
II	Valuation and Qualifying Accounts	S-1

Ultralife Batteries, Inc.

EXHIBIT INDEX

Exhibit Index	Description of Document
10.26	Agreement with Mitsubishi Electronics America, Inc. relating to sample batteries for lap-top computer use.
10.27	Purchase orders from Mitsubishi Electronics America, Inc.
23.1	Consent of Arthur Andersen LLP
23.2	Consent of Ernst & Young LLP

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Ultralife Batteries, Inc.:

We have audited the accompanying consolidated balance sheets of Ultralife Batteries, Inc. (a Delaware corporation) and subsidiary as of June 30, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ultralife Batteries, Inc. and subsidiary as of June 30, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements as of June 30, 1997 and 1996, and for the years then ended is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Rochester, New York
September 5, 1997

Report of Independent Auditors

The Board of Directors and Stockholders
Ultralife Batteries, Inc. and Subsidiary

We have audited the consolidated statements of operations, stockholders' equity and cash flows of Ultralife Batteries, Inc. and Subsidiary for the year ended June 30, 1995. Our audit also included the financial statement schedule listed in the Index at Item 14(a) as it pertains to fiscal 1995. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Ultralife Batteries, Inc. and Subsidiary referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows for the year ended June 30, 1995, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Syracuse, New York
August 31, 1995

Ultralife Batteries, Inc. and Subsidiary

Consolidated Balance Sheets

	June 30, 1997	June 30, 1996
Assets		
Current Assets:		
Cash and cash equivalents	$ 2,310,725	$ 1,212,743
Available-for-sale securities	19,847,201	33,856,285
Trade accounts receivable (less allowance for doubtful accounts of $278,000 in 1997 and $190,000 in 1996)	2,715,728	3,485,044
Earned contract revenues receivable	--	521,696
Inventories, net	5,302,752	8,437,791
Prepaid expenses and other current assets	1,661,655	1,350,790
Total current assets	31,838,061	48,864,349
Property and equipment:		
Machinery and equipment	21,267,756	12,419,928
Leasehold improvements	216,111	150,716
	21,483,867	12,570,644
Less accumulated depreciation	2,610,172	1,882,106
	18,873,695	10,688,538
Other assets and deferred charges:		
Technology license agreements (net of accumulated amortization of $416,653 and $303,458 in 1997 and 1996, respectively)	683,347	796,542
China development program	--	283,500
	683,347	1,080,042
Total assets	$51,395,103	$60,632,929

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Ultralife Batteries, Inc. and Subsidiary

Consolidated Balance Sheets

Liabilities and stockholders' equity	June 30, 1997	June 30, 1996
Current liabilities:		
Accounts payable	$ 2,659,547	$ 3,434,473
Accrued compensation	234,501	276,668
Other accrued liabilities	101,741	153,022
Customer advances	1,636,433	334,000
Total current liabilities	4,632,222	4,198,163
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.10 per share, authorized 12,000,000 shares; outstanding - 7,926,086 shares in 1997 and 7,923,211 in 1996	795,360	792,322
Preferred stock, authorized 1,000,000 shares, $0.10 par value - none outstanding	--	--
Capital in excess of par value	64,785,814	64,630,638
Unrealized net gain on securities	1,311,343	3,842,878
Accumulated deficit	(20,115,175)	(12,868,821)
Foreign currency translation adjustment	291,041	37,749
	47,068,383	56,434,766
Less: Treasury stock, at cost (27,500 shares in 1997)	(305,502)	--
Total stockholders' equity	46,762,881	56,434,766
Total liabilities and stockholders' equity	$ 51,395,103	$ 60,632,929

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Ultralife Batteries, Inc. and Subsidiary

Consolidated Statements of Operations

	Year ended June 30, 1997	1996	1995
Revenue:			
Battery sales	$ 14,765,364	$ 12,623,646	$ 11,212,643
Technology contracts	1,175,754	2,477,887	3,430,640
Total revenue	15,941,118	15,101,533	14,643,283
Cost of products sold:			
Battery costs	13,880,321	12,317,486	10,900,049
Technology contracts	710,937	936,053	1,873,892
Total cost of products sold	14,591,258	13,253,539	12,773,941
Gross profit	1,349,860	1,847,994	1,869,342
Other operating expenses:			
Selling, general and administrative	5,217,441	4,993,644	4,262,545
Research and development	3,939,786	3,688,687	2,685,313
Loss(gain) on fires	(55,835)	351,902	--
Loss on China development program	805,296	--	--
Total other operating expenses	9,906,688	9,034,233	6,947,858
Loss from operations	(8,556,828)	(7,186,239)	(5,078,516)
Other income (expense):			
Interest income	1,351,646	2,016,831	1,721,682
Gain on sale of securities	--	1,930,056	--
Miscellaneous expense	(41,172)	--	(34,844)
Loss before income taxes	(7,246,354)	(3,239,352)	(3,391,678)
Income taxes	--	--	--
Net loss	$ (7,246,354)	$ (3,239,352)	$ (3,391,678)
Net loss per common share	$ (0.91)	$ (0.41)	$ (0.50)
Weighted average number of shares outstanding	7,923,022	7,814,302	6,747,374

The accompanying notes to consolidated financial statements are an integral part of these statements.

Ultralife Batteries, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

	Common Stock Number of Shares	Common Stock Amount	Capital in Excess of Par Value	Unrealized Net Gain on Securities	Accumulated Deficit	Foreign Currency Translation Adjustment	Treasury Stock	Total
Balance at June 30, 1994	5,543,586	$ 554,359	$30,259,237	$ 2,958,751	$ (6,237,791)	$ 19,857	$ --	$ 27,554,413
Shares issued under public offering	2,000,000	200,000	35,300,000					35,500,000
Public offering expenses			(2,902,927)					(2,902,927)
Shares issued under stock option plans and other stock options	112,525	11,253	565,721					576,974
Foreign currency translation adjustment						62,634		62,634
Change in unrealized net gain on securities				557,618				557,618
Net loss					(3,391,678)			(3,391,678)
Balance at June 30, 1995	7,656,111	765,612	63,222,031	3,516,369	(9,629,469)	82,491	--	57,957,034
Shares issued under stock option plans and other stock options	267,100	26,710	1,408,607					1,435,317
Foreign currency translation adjustment						(44,742)		(44,742)
Change in unrealized net gain on securities				326,509				326,509
Net loss					(3,239,352)			(3,239,352)
Balance at June 30, 1996	7,923,211	792,322	64,630,638	3,842,878	(12,868,821)	37,749	--	56,434,766
Shares issued under stock option plans and other stock options	30,125	3,013	152,112					155,125
Purchase of treasury stock	(27,500)						(305,502)	(305,502)
Other	250	25	3,064					3,089
Foreign currency translation adjustment						253,292		253,292
Change in unrealized net gain on securities				(2,531,535)				(2,531,535)
Net loss					(7,246,354)			(7,246,354)
Balance at June 30, 1997	7,926,086	$ 795,360	$64,785,814	$ 1,311,343	$(20,115,175)	$ 291,041	$ (305,502)	$ 46,762,881

The accompanying notes to consolidated financial statements are an integral part of these statements.

Ultralife Batteries, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Year ended June 30, 1997	1996	1995
Operating activities:			
Net loss	$ (7,246,354)	$ (3,239,352)	$ (3,391,678)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	841,261	806,664	613,246
Loss on China development program	283,500	--	--
Provision for loss on accounts receivable	88,000	102,153	64,311
Provision for inventory obsolescence	93,178	(403,789)	474,050
Foreign currency loss	--	--	(24,274)
Changes in operating assets and liabilities:			
Decrease (increase) in trade accounts receivable	681,316	(727,615)	(1,575,053)
Decrease (increase) in earned contract revenues receivable	521,696	790,246	(1,195,142)
Decrease (increase) in inventories	3,041,861	(2,797,373)	(3,979,424)
Decrease in prepaid expenses and other current assets	(310,865)	(815,742)	(59,844)
Increase (decrease) in accounts payable and accrued liabilities	(868,374)	(319,951)	1,987,001
Increase (decrease) in customer advances	1,302,433	(118,000)	100,493
Net cash used in operating activities	(1,572,348)	(6,722,759)	(6,986,314)
Investing activities			
Purchase of property and equipment	(8,913,223)	(6,661,725)	(1,839,558)
China development program payments	--	--	(121,500)
Purchases of availableforsale securities	(139,484,737)	(71,151,177)	(122,875,062)
Sales of availableforsale securities	64,969,005	19,260,164	24,969,843
Maturities of availableforsale securities	85,993,281	63,363,519	74,398,379
Net cash provided by (used in) investing activities	2,564,326	4,810,781	(25,467,898)
Financing activities			
Proceeds from issuance of common stock	158,214	1,435,317	33,174,047
Purchase of treasury stock	(305,502)	--	--
Net cash provided by (used in) financing activities	(147,288)	1,435,317	33,174,047
Effect of exchange rate changes on cash	253,292	(44,742)	24,179
(Decrease) increase in cash and cash equivalents	1,097,982	(521,403)	744,014
Cash and cash equivalents at beginning of year	1,212,743	1,734,146	990,132
Cash and cash equivalents at end of year	$ 2,310,725	$ 1,212,743	$ 1,734,146

The accompanying notes to consolidated financial statements are an integral part of these statements.

1. Summary of Significant Accounting Policies

Description of Business

Ultralife Batteries, Inc. (the "Company") develops, manufactures, and markets primary lithium batteries and is developing advanced rechargeable lithium-ion solid-polymer batteries for use in applications requiring high energy, reliable and long-lasting power sources. The Company generally does not distribute its product to a concentrated geographical area nor is there a significant concentration of credit risks arising from individual or groups of customers engaged in similar activities, or who have similar economic characteristics. In 1996, sales to one customer totaled approximately $ 1,920,000. By the end of the year, this customer had paid their trade account in full. There were no concentrations of credit risks in 1997 or 1995. The Company does not normally obtain collateral on trade accounts receivable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ultralife Batteries UK, Ltd. ("Ultralife UK"). All material intercompany accounts and transactions have been eliminated in consolidation.

Management's Use of Judgment and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues from sales of batteries are recognized when products are shipped.

Revenue on Technology Contracts

For a majority of its 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. When a loss on a contract is estimated, the full amount of the loss is recognized immediately. Costs related to performance under various technology contracts are classified as research and development expenses if expenditures are consistent with the ongoing research and development efforts of the Company. Under certain research and development arrangements with the U.S.

Government, the Company may be required to transfer any technology developed to the U.S. Government.

Available-for-Sale Securities

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Marketable equity securities and debt securities are classified as available-for-sale. These securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity.

The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income. Realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are included in available-for-sale securities gains (losses). The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income.

Inventories

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

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of three to ten years. Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other repairs and maintenance costs are expensed. When sold, the cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in income.

During 1996, the Company adopted Statement of Financial Accounting Standards No.
121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such events or changes in circumstances are present, a loss is recognized to the extent the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition.

Stock-Based Compensation

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which permits either recording the estimated value of stock-based compensation over the applicable vesting period or disclosing the unrecorded cost and the related effect on earnings per share in the notes to the financial statements. In the current year, the Company has elected to comply with the disclosure provisions of the statement. The effect of SFAS 123 in the pro forma disclosures are not indicative of future amounts. The statement does not apply to awards prior to 1995, and additional awards are anticipated.

Technology License Agreements

Technology license agreements consist of the rights to patented technology and related technical information. The agreements are amortized using the straight-line method over three to ten years. Additionally, the Company will be required to make royalty payments at stated rates based on the terms of each agreement. No royalty expense has been recognized to date.

Translation of Foreign Currency

The financial statements of the Company's foreign subsidiary are translated into U.S. dollar equivalent in accordance with Statement of Financial Accounting Standards No. 52. There was no exchange gain or loss included in net income for the years ended June 30, 1997, 1996 and 1995.

Income Taxes

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that may be in effect when the differences are expected to reverse.

Research and Development

Research and development expenditures are charged to operations as incurred.

Cash and Cash Equivalents

The Company considers all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents.

Derivative Financial Instruments and
Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments," requires disclosure of any significant derivative or other financial instruments. The Company does not have any derivative financial instruments at June 30, 1997 and 1996.

Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments" requires disclosure of an estimate of the fair value of certain financial instruments. The fair value of financial instruments pursuant to SFAS No. 107 approximated their carrying values at June 30, 1997 and 1996. Fair values have been determined through information obtained from market sources.

Net Loss Per Common Share

Net loss per common share is computed on the basis of the weighted average of common and common equivalent shares outstanding during the period.

New Accounting Pronouncements

The Company accounts for net income per common and common equivalent share in accordance with the provisions of Accounting Principles Board Opinion No. 15 (APB No. 15). In February 1997, Statement of Financial Accounting Standards No. 128 (SFAS No. 128), "Earnings Per Share" was issued. SFAS No. 128 replaces primary Earnings Per Share (EPS) with basic EPS. Basic EPS is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. No dilution for common share equivalents is included. Fully diluted EPS, now called diluted EPS, is still required. The Company is required to adopt SFAS No. 128 retroactively for periods ending after December 15, 1997. On a pro forma basis, basic EPS and diluted EPS for the years ended June 30, 1997, 1996 and 1995 were $(0.91), $(0.41) and $(0.50), respectively, the same as reported EPS.

Legal Matters

The Company is subject to litigation from time to time in the ordinary course of business. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the Company's financial condition or results of operations.

Reclassifications

Certain amounts in the 1996 financial statements have been reclassified to conform to the 1997 presentation.

2. Leases

The Company leases its principal facility under the terms of an operating lease with an initial term of seven years. In 1995, the Company entered into an agreement to amend the initial lease to reflect rental of an additional 40,333 square feet. The amendment extended the term of the lease to March 12, 2003. The base rent is subject to a 4% annual increase. Under the terms of the lease the Company has the right to lease additional space and also has the right to first refusal of any offer made to the lessor to purchase the facility. Additionally, the Company is liable for any environmental contamination that it creates during the term of the lease.

In addition, Ultralife UK leases its principal facility under the terms of an operating lease with an initial lease term of twenty-five years.

Rental expenses for all operating leases were $745.332, $773,000, and $760,091 for the years ended June 30, 1997, 1996, and 1995, respectively. Future minimum lease payments under noncancelable operating leases as of June 30, 1997 are as follows: 1998--$874,825; 1999--$846,901; 2000--$807,803; 2001--$808,657; 2002--$828,152; and thereafter--$1,720,399. The above amounts do not include contingent or additional rent.

3. Investments

The following is a summary of available-for-sale securities:

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
June 30, 1997				
U.S. Treasury securities and obligations of U.S. Government agencies	$2,352,880	$1,293	$4,186	$2,349,987
Mortgage backed securities	2,829,058	11,288	261	2,840,085
U.S. corporate securities	11,200,004	32,077	127,146	11,104,935
Total debt securities	16,381,942	44,658	131,593	16,295,007
Intermagnetics General Corporation (equity securities)	2,153,916	1,398,278	--	3,552,194
	$18,535,858	$1,442,936	$131,593	$19,847,201

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
June 30, 1996				
U.S. Treasury securities and obligations of U.S. Government agencies	$8,508,124	$24,445	$14,671	$8,517,898
Mortgage backed securities	1,008,153	2,007	--	1,010,160
U.S. corporate securities	18,343,214	14,585	12,214	18,345,585
Total debt securities	27,859,491	41,037	26,885	27,873,643
Intermagnetics General Corporation (equity securities)	2,153,916	3,828,726	--	5,982,642
	$30,013,407	$3,869,763	$26,885	$33,856,285

The Company has instructed its investment fund managers to invest in conservative, investment grade securities with average maturities of less than three years. The gross realized gains on sales of available-for-sale securities totaled $-0-, $1,930,056, and $-0- and the gross realized losses totaled $-0-, $-0- and $77,699 for the years ended June 30, 1997, 1996, and 1995, respectively.

The amortized cost and estimated fair value of debt and marketable equity securities at June 30, 1997, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties or the Company may sell the securities to meet their ongoing and potential future cash needs.

Available-for-Sale	Cost	Estimated Fair Value
Due in one year or less	$16,031,651	$15,945,638
Due after one year through three years	350,291	349,369
	16,381,942	16,295,007
Equity securities	2,153,916	3,552,194
	$18,535,858	$19,847,201

4. Income Taxes

Foreign and domestic loss carryforwards totaling approximately $22,020,000 are available to reduce future taxable income. Foreign loss carryforwards of $2,834,000 can be carried forward indefinitely. The domestic net operating loss carryforward of $19,186,000 expires in 2006 through 2012. Due to a change in ownership defined under Internal Revenue Code Section 382, $2,738,000 of the net operating loss carryforward will be subject to an annual limitation of $1,507,000.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. The Company increased its valuation allowance by approximately $3,273,000, $1,843,000 and $496,000 for the years ended June 30, 1997, 1996 and 1995, respectively, to offset the deferred tax assets due to uncertainty of realizations.

Significant components of the Company's deferred tax liabilities and assets as of June 30, are as follows:

	1997	1996
Deferred tax liabilities:		
Unrealized gain on securities	$ 514,737	$ 1,306,579
Tax over book depreciation	666,016	497,797
Total deferred tax liabilities	1,180,753	1,804,376
Deferred tax assets:		
Net operating loss carryforward	7,486,716	4,925,559
Other	464,827	377,030
Total deferred tax assets	7,951,543	5,302,589
Valuation allowance for deferred assets	(6,770,790)	(3,498,213)
Net deferred tax assets	1,180,753	1,804,376
Net deferred income taxes	$ --	$ --

There were no income taxes paid for the years ended June 30, 1997, 1996 and 1995. For financial reporting purposes, loss from continuing operations before income taxes included the following:

	June 30,		
	1997	1996	1995
United States	$(6,916,312)	$(1,605,015)	$(2,743,611)
Foreign	(330,042)	(1,634,337)	(648,067)
Total	$(7,246,354)	$(3,239,352)	$(3,391,678)

There are no undistributed earnings of Ultralife UK, the Company's foreign subsidiary, at June 30, 1997.

5. Commitments

In July 1992, the Company entered into a series of agreements with the Changzhou Battery Factory ("agreements") in the Peoples Republic of China ("PRC"). These agreements provide for the establishment of a lithium battery plant in the PRC and purchase by the Company of approximately 80% of the joint venture's annual production. The Company is required to pay $675,000 to the program of which $472,500 has been paid to date. The Company has not provided for the remaining $202,500 as it has no intention of paying the Changzhou Battery Factory.

Despite continuous discussions, The Changzhou Battery Factory has not paid the remaining amounts due to the Company in accordance with the terms of the agreements. During the third quarter of fiscal 1997, the Company wrote-off its investment in the China development program and the related receivables due under the provisions of the agreements.

During 1996, the Company opened an irrevocable letter of credit up to a maximum of $334,000 with an interest rate of 3.75% a year and an expiration date of December 31, 1998. It is collateralized by $334,000 of the Company's investments. If the Company fails to fulfill its obligations under an agreement, the customer may draw the amount due. As of June 30, 1997, there has been no draw on the irrevocable letter of credit.

The Company entered into an Indemnity Agreement with each member of its Board of Directors and corporate officers in June 1993. The agreement provides that the Company will reimburse directors or officers for all expenses, to the fullest extent permitted by law and the Company by-laws, arising out of their performance as agents or trustees of the Company.

As of June 30, 1997 the Company is committed to purchase approximately $3,242,000 of production machinery and equipment.

6. Stock Options and Warrants

The Company sponsors several stock-based compensation plans, all of which are accounted for under the provisions of APB Opinion No. 25. Accordingly, no compensation cost has been recognized for the Company's plans. Had compensation expense for all of the Company's stock-based compensation been determined consistent with SFAS No. 123, the Company's net loss would have been $8,294,904 and $4,249,214 in 1997 and 1996, respectively, compared with the reported losses of $7,246,354 and $3,239,352. Loss per share would have been $1.05 and $0.54 in 1997 and 1996, as compared to reported loss per share of $0.91 and $0.41.

For purposes of this disclosure, the fair value of each fixed option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grant in 1997 and 1996, respectively: expected option terms of three years for both periods; expected stock volatility of approximately 46.6% for both periods; expected dividend yields of 0% for both periods and risk free interest rates of 5.8% and 5.7%. The weighted average fair value of options granted was $4.18 in 1997 and $7.22 in 1996.

The stockholders of the Company have approved three stock option plans that permit the grant of options. In addition, the stockholders of the Company have approved the grant of options outside of any of these plans. Under the 1991 stock option plan, 100,000 shares of common stock are reserved for grant to key employees and consultants of the Company through September 13, 2001. The exercise price per share shall be determined by the Board of Directors as follows: (i) Incentive Stock Options (ISOs) shall not be less than 100% of the fair market value at the date of grant; (ii) ISOs granted to holders of more than 10% shall not be less than 110% of the fair market value at the date of grant; and (iii) non-qualified stock options ("NQSOs") shall not be less than 85% of the fair market value of a share at the date of grant. The exercise period is to be determined at the time of grant but cannot exceed ten years (five years from the time of grant if issued to a holder of more than 10%). All options granted under the 1991 plan are NQSOs.

The stockholders of the Company have also approved a 1992 stock option plan that is substantially the same as the 1991 stock option plan. The shareholders have approved reservation of 1,150,000 shares of common stock for grant under the plan. During 1997, the Board of Directors approved an amendment to the plan increasing the number of common shares reserved by 500,000 to 1,650,000. The Company will seek shareholder ratification of this amendment at the December, 1997 annual shareholders' meeting. Options granted under the 1992 plan are either ISO's or NQSO's; key employees are eligible to receive ISO's and NQSO's; directors and consultants are eligible to receive only NQSO's.

Effective March 1, 1995, the Company granted the Chief Executive Officer ("CEO") options to purchase 100,000 shares at $14.25 per share. The options are exercisable in annual increments of 20,000 shares over a five-year period commencing March 1, 1996 until March 1, 2001. In addition, on March 1, 1994, the Company granted options to the CEO under the terms of an employment agreement. Options to purchase 150,000 shares at $11.00 per share have been granted. These options are exercisable in annual increments of 30,000 shares over a five-year period commencing March 1, 1995 until March 1, 2000.

The options to purchase 150,000 shares of common stock granted to the CEO pursuant to the 1994 Agreement were ratified by the Company's shareholders at the December 5, 1996 annual meeting of the shareholders.

This table summarizes data for the stock options issued by the Company:

	1997		1996		1995	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Shares under option at beginning of year	1,194,425	$12.67	1,259,975	$10.67	1,130,000	$ 8.76
Options granted	503,150	$10.12	190,000	$19.33	314,500	$15.08
Options exercised	(30,125)	$ 5.15	(218,800)	$ 6.56	(112,525)	$ 5.13
Options canceled	(330,150)	$14.30	(36,750)	$14.98	(72,000)	$ 8.49
Shares under option at end of year	1,337,300	$11.51	1,194,425	$12.67	1,259,975	$10.67
Options exercisable at end of year	826,300	$11.43	570,125	$13.88	531,100	$12.26

The following table represents additional information about stock option outstanding at June 30. 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At June 30, 1997	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At June 30, 1997	Weighted-Average Exercise Price
$8.00 - 12.00	942,900	4.4 Years	$9.75	617,400	$ 9.81
12.13 - 17.50	314,400	3.7 Years	14.33	163,950	14.68
18.25 - 24.50	80,000	3.8 Years	21.11	44,950	21.84
$8.00 - 24.50	1,337,300	4.2 Years	$11.51	826,300	$11.43

The Company had issued warrants to purchase 100,625 shares of its common stock. Those warrants were exercised on September 21, 1995. The Company has reserved 2,159,125, 2,159,125, and 1,409,125 shares of common stock under the various stock option plans and warrants as of June 30, 1997, 1996, and 1995, respectively.

7. 401(K) Plan

On April 23, 1992, the Company established a defined contribution 401(k) plan covering substantially all employees. Employees can contribute a portion of their salary or wages as prescribed under Section 401(k) of the Internal Revenue Code and, subject to certain limitations, the Company may, at the Board of Directors discretion, authorize an employer contribution based on a portion of the employees' contribution. Effective January 1, 1997, the Board of Directors approved Company matching of employee contributions up to a maximum of 3% of the employee's income. For the year ended June 30, 1997, the Company contributed $74,760. There were no employer contributions for the fiscal years ended June 30, 1996 or 1995.

8. Inventories

The year-end composition of inventories were:

	1997	1996
Raw materials	$2,993,858	$3,311,440
Work in process	547,468	4,329,111
Finished products	2,647,345	1,589,981
	6,188,671	9,230,532
Less: Reserve for obsolescence	885,919	792,741
	$5,302,752	$8,437,791

9. Stockholders' Equity and Related Party Transactions

During fiscal 1996, the shareholders of the Company ratified an amendment to the Company's Certificate of Incorporation to change the authorized but unissued preferred stock from no par to $0.10 par value per share. The Board of Directors has the authority to fix by resolution the voting power, if any, designations, preferences, privileges or other special rights of any series of preferred stock. No shares of preferred stock have been issued.

The Company holds approximately 339,016 shares (market value of $3,552,194) and 332,369 shares (market value of $5,982,642) of Intermagnetics General Corporation ("IMG") at June 30, 1997 and 1996, respectively. IMG is considered to be a related party since certain directors of the Company also serve as officers or directors of IMG.

10. Business Segment Information

The Company's operations are classified into two business segments: batteries and technology contracts. Operations within the battery segment include the manufacture and sale of lithium batteries. The technology contract segment includes revenue associated with the series of agreements with Changzhou as well as various research and development contracts with the U.S. Government and other companies. There are no inter-segment sales. U.S. sales to foreign customers during 1997, 1996, and 1995 were $2,124,709, $1,381,352, and $608,427, respectively.

	Year ended June 30, 1997	1996	1995
Business Segment Results			
Net Sales:			
Batteries	$14,765,364	$12,623,646	$11,212,643
Technology contracts	1,175,754	2,477,887	3,430,640
	$15,941,118	$15,101,533	$14,643,283
Income (loss) before income taxes:			
Batteries	$(5,261,013)	$(5,010,631)	$(3,346,856)
Technology contracts	(62,295)	524,180	413,523
Corporate administration	(1,923,046)	1,247,099	(458,345)
	$(7,246,354)	$(3,239,352)	$(3,391,678)
Depreciation and amortization:			
Batteries	$ 841,261	$ 806,664	$ 613,246
Technology contracts	--	--	--
Corporate administration	--	--	--
	$ 841,261	$ 806,664	$ 613,246
Identifiable assets:			
Batteries	$25,833,503	$21,808,067	$12,796,090
Technology contracts	1,742,019	2,121,544	2,525,582
Corporate administration	23,819,581	36,703,318	47,271,476
	$51,395,103	$60,632,929	$62,593,148
Capital expenditures:			
Batteries	$ 8,913,223	$ 6,661,725	$ 1,839,558
Technology contracts	--	--	--
Corporate administration	--	--	--
	$ 8,913,223	$ 6,661,725	$ 1,839,558

Information concerning geographic area is as follows:

	Year ended June 30, 1997	1996	1995
Revenue:			
North America	$ 10,611,602	$ 10,967,546	$ 8,202,047
Europe	5,329,516	4,133,987	6,441,236
	$ 15,941,118	$ 15,101,533	$14,643,283
Loss before income taxes:			
North America	$ (6,916,312)	$(1,605,015)	$(2,743,611)
Europe	(330,042)	(1,634,337)	(648,067)
	$ (7,246,354)	$(3,239,352)	$(3,391,678)
Identifiable assets:			
North America	$ 46,327,939	$ 56,367,177	$57,602,334
Europe	5,067,164	4,265,752	4,990,814
	$ 51,395,103	$ 60,632,929	$62,593,148

Ultralife Batteries, Inc. and Subsidiary

Schedule II Valuation and Qualifying Accounts

Col. A	Col. B	Col. C	Col. D	Col. E		Col. F
		Additions				
Classification	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions		Balance at End of Period
Year ended June 30, 1997						
Deducted from asset accounts:						
Allowance for doubtful accounts	$190,430	$238,964		$151,212	(D)	$278,182
Product warranty reserve	$139,504			$ 88,810	(B)	$ 50,694
Year ended June 30, 1996						
Deducted from asset accounts:						
Allowance for doubtful accounts	$ 88,277	$103,568		$ 1,415	(D)	$190,430
Product warranty reserve	$ 63,786		$ 89,504 (C)	$ 13,786	(B)	$139,504
Year ended June 30, 1995						
Deducted from asset accounts:						
Allowance for doubtful accounts	$ 53,631	$ 64,311		$ 29,665	(A)	$ 88,277
Product warranty reserve	$111,491			$ 47,705	(B)	$ 63,786

(A) Recovery of accounts receivable balances previously reserved for.

(B) Reduction in reserve based on Company's experience

(C) Reduction to battery revenues.

(D) Writeoff of accounts receivable balance.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By:/s/ BRUCE JAGID
Bruce Jagid
Chairman and
Chief Executive Officer

Dated: October 14, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: October 14, 1997	*/s/URI SOUDAK* *Uri Soudak* *Chief Operating Officer* *(Principal Executive Officer)*
Date: October 14, 1997	*/s/ ROBERT COOK* *Robert Cook* *Chief Financial Officer* *and Controller* *(Principal Financial and* *Accounting Officer)*
Date: October 14, 1997	*/s/ JOSEPH C. ABELES* *Joseph C. Abeles (Director)*
Date: October 14, 1997	*/s/ JOSEPH N. BARRELLA* *Joseph N. Barrella (Director)*
Date: October 14, 1997	*/s/ RICHARD HANSEN* *Richard Hansen (Director)*
Date: October 14, 1997	*/s/ BRUCE JAGID* *Bruce Jagid (Director)*
Date: October 14, 1997	*/s/ ARTHUR LIEBERMAN* *Arthur Lieberman (Director)*
Date: October 14, 1997	*/s/ MARTIN ROSANSKY* *Martin Rosansky (Director)*
Date: October 14, 1997	*/s/ CARL ROSNER* *Carl Rosner (Director)*
Date: October 14, 1997	*/s/ STUART SHIKIAR* *Stuart Shikiar (Director)*

AGREEMENT TO PURCHASE SAMPLE BATTERIES

THIS AGREEMENT TO PURCHASE SAMPLE BATTERIES is made and entered into as of the 9th day of April, 1997, by and between the Purchasing Department of MITSUBISHI ELECTRONICS AMERICA, INC., a Delaware corporation located at One Penn Plaza, 250 West 34th Street, Suite 4303, New York, NY 10119 and ULTRALIFE BATTERIES, INC., a New York corporation located at 1350 Route 88 South, Newark, NY 14513 ("Ultralife").

WITNESSETH:

WHEREAS, Ultralife is in the process of developing for manufacture and sale solid polymer lithium ion rechargeable batteries; and

WHEREAS, MELA wishes to acquire from Ultralife advanced technology rechargeable batteries for slim notebook application No UBB114 (each, a "Battery"), consisting of three cells No. UBC114 (each, a "Cell"), which comply with specifications provided to Ultralife by parent (the "Specifications"); and

WHEREAS, Ultralife wishes to produce for MELA and MELA wishes to obtain from Ultralife, the Batteries and the Samples (as defined) upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties hereby agree as follows:

1. SALE AND PURCHASE OF CELLS

(a) Ultralife shall manufacture and deliver to MELA 1800 evaluation units of the Cells for testing and evaluation (the "Samples"). Ultralife shall deliver 150 Samples on or before April 15, 1997 (collectively, "Batch I"), 150 Samples on or before May 30, 1997 (collectively, "Batch II") and 1500 Samples on or before July 30, 1997 (collectively, "Batch III") to 1-1, Tsukaguchi-Honmachi 8-Chome, Amagasaki City Hyogo 661, Japan ("Delivery Point"). Notwithstanding the foregoing, Ultralife acknowledges and agrees that Batch III will be installed into slim notebooks and sold to end-users. For purposes of this section, delivery shall be deemed to occur upon delivery of the Samples to the common carrier at the shipment point.

(b) The terms and conditions of this Agreement shall apply to all Samples delivered under this Agreement. No other terms or conditions shall apply, even if Ultralife submits any document containing different terms and conditions. Any such terms and conditions proposed or stated by Ultralife are hereby expressly rejected by MELA.

2. SHIPMENT; DELIVERY

(a) All shipments pursuant to this Agreement shall be F.O.B. shipment point. Ultralife shall comply with all shipping restrictions specified on an Order or otherwise specified by MELA.

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Ultralife shall use its best efforts to provide the Samples in accordance with the delivery date(s) specified in this Agreement.

(b) Title and risk of loss to the Samples shall pass to MELA upon delivery of the Samples by Ultralife to the common carrier. In the event of any loss of Samples following delivery to the carrier, Ultralife shall, upon request, cooperate with MELA in connection with the proof of loss claims presented by MELA to the carrier and/or insurer. Notwithstanding the foregoing, Ultralife shall be responsible for all damage to goods due to failure to pack or, when performed by Ultralife, to load properly and securely.

(c) No additional charge shall be made to MELA for containers, packing or drayage unless expressly agreed to by MELA Goods shipped by freight or express classifications shall be packed, marked and described as specified by MELA and, consistent with such specifications, the agreed upon quantity of goods to be shipped and delivery date(s), shall be shipped in such a manner as to obtain the lowest possible rate under the freight or express classification.

3. PRICES AND PAYMENT

(a) Batch I and Batch II are being provided to MELA for evaluation purposes only. There shall be no charge for Batch I or Batch II. Upon completion of its evaluation and testing, MELA shall return all of the Samples included in Batch I and Batch II to Ultralife at MELA's expense, within six months after MELA's receipt thereof unless otherwise agreed by the parties.

(b) The aggregate price for the Samples included in Batch III shall be US $800,000. The price shall be paid in two equal installments, payable on April 16, 1997 and June 30, 1997. Separate invoices shall be issued by Ultralife for each payment. The first invoice shall not be issued prior to April 2, 1997 and the second invoice shall not be issued prior to June 30, 1997.

(c) Terms of payment are net 30 days from the date of invoice. Payment will not be due prior to receipt of a correct invoice. MELA obligation to make any payments under this Agreement to Ultralife shall be subject to deduction for any setoff or counterclaim arising from this Agreement of any amount due to MELA or any affiliate of MELA.

4. WARRANTIES

(a) Ultralife warrants that:

(1) The Samples furnished pursuant to this Agreement shall be free from defects in material, workmanship and/or packaging and shall comply with these terms and conditions contained in this Agreement.

(2) Batch I and Batch II shall reasonably comply with the Specifications and the performance criteria set forth the Exhibit A.

(3) Batch III shall strictly conform with the performance criteria set forth in Exhibit B.

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

(4) The Samples shall be free from defects in design.

These warranties shall remain in effect for Ultralife's normal warranty period or for 12 months following receipt of the Samples, whichever is longer, and shall extend to MELA's affiliates, successors and assigns and to the customers of each thereof.

(b) In the event of any breach of the foregoing warranties with respect to Batch I and Batch II, MELA shall have the right to return the non-conforming Samples at Ultralife's risk and expense and require Ultralife, at MELA's option, to replace such defective Samples within 15 days after notice of breach by MELA unless otherwise agreed by a duly authorized representative of MELA.

(c) In the event that Batch III does not meet the performance criteria set forth at Exhibit B, MELA shall notify Ultralife of such non-conformity within one week of delivery of Batch III to the Delivery Point and MELA shall, at its sole option, either accept Batch III with such non-conformity or return Batch III to Ultralife at Ultralife's sole risk and expense and require Ultralife to replace Batch III in its entirety within 30 days from the date of notice of such non-conformity. If Ultralife is not able to remedy such non-conformity within such period, Ultralife shall promptly refund to MELA US$100,000.

(d) Ultralife further represents and warrants that it has complied with and shall comply with all federal, state and local laws and ordinances and all lawful orders, rules and regulations applicable to Ultralife's performance of its obligations pursuant to this Agreement.

5. TERMINATION

(a) MELA may terminate this Agreement, in whole or in part, without any liability whatsoever, except for its obligation to pay for goods previously delivered and accepted, by notice to Ultralife if:

(1) Ultralife shall become insolvent or be unable to pay its debts as they mature.

(2) A petition in bankruptcy is filed by or against Ultralife, an assignment for the benefit of creditors is made by Ultralife or a receiver of Ultralife's assets is appointed.

(3) Ultralife fails to perform any of its material obligations pursuant to this Agreement, including failure to deliver the Samples by the required delivery date as provided in this Agreement.

(4) Ultralife fails to make material progress with respect to its obligations so as to endanger performance of this Agreement in accordance with its terms.

(5) Ultralife furnishes any goods which fail to comply with all warranties contained in this Agreement.

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

(b) MELA may terminate this Agreement for convenience as to all goods not yet delivered and not scheduled for delivery within 90 days (or such longer period as is agreed in writing by a duly authorized representative of MELA) from the date of cancellation without obligation whatsoever to Ultralife for such termination.

(6) FORCE MAJEURE. MELA reserves the right at its option and without liability either to direct suspension of shipment or to terminate this Agreement, in whole or in part, at any time that MELA's compliance with this Agreement or the utilization by MELA or an affiliate of MELA of the goods covered by this Agreement is prevented or delayed by any cause beyond its reasonable control, including, without limitation, fire, flood, strike or other labor difficulty, war, insurrection, act of God, act of governmental authority, act of the other party, riot, embargo, fuel or energy shortage, delay in obtaining or inability to obtain necessary labor or materials from usual sources or any other cause beyond its reasonable control.

7. CONFIDENTIALITY.

(a) Ultralife and MELA agree that neither party shall provide to the other information or materials which it deems to be "confidential" or "proprietary" and neither party shall be obligated to treat confidentially any information or materials provided by the other party.

(b) Unless the other party's prior consent is obtained, the parties shall not advertise, publish or cause to be published in any manner any statement mentioning the other party or any of its affiliates, referring to the existence or subject matter of this Agreement or quote the opinion of any employee of the other party or any of its affiliates.

(c) Each party further agrees that neither it nor its affiliates shall reverse engineer or disassemble the Samples or any products provided by MELA or its affiliates to determine or analyze the functional composition or structure of the Samples or such products.

(d) Notwithstanding the foregoing, MELA agrees that all reports containing test data regarding the Samples shall not be disclosed to the joint venture between MELA's indirect parent, Mitsubishi Electric Corporation and Japan Storage Battery, unless such disclosure is required to be made by law. In the event disclosure is required by law, prior notification of such disclosure shall be provided to Ultralife.

8. ARBITRATION.

(a) Except as hereinafter provided, all disputes arising out of or in any manner relating to this Agreement which the parties do not resolve in good faith within ten days after either party notifies the other of its desire to arbitrate such dispute or controversy shall be settled by arbitration by a single arbitrator in accordance with the then standard prevailing commercial rules, as modified or supplemented by this section, of the American Arbitration Association ("AAA"). The arbitration shall be held in New York, New York. The arbitration award shall be in writing and shall specify the factual and legal bases of such award. The arbitration award shall be final and binding, and a judgment consistent therewith may be entered by any court of competent jurisdiction. The parties agree that the arbitration award shall be treated confidentially, and the parties shall not, except as otherwise required by law or court order, disclose the arbitration award to any third party, excluding personnel in their affiliated companies and their attorneys and accountants with a need to know, provided that such recipients agree to be bound by the same restrictions as are contained in this Agreement. The arbitrator shall not have the power to render an award of punitive damages. To the extent of any conflict, this section shall supersede and control AAA rules.

(b) Nothing in this section shall be construed to preclude or in any way prohibit either party from seeking any provisional remedy, such as injunction or a temporary restraining order, to enforce Section 7 of this Agreement.

(c) Except as provided in this section, neither MELA nor Ultralife shall have the right to take depositions or obtain discovery of documents or other information which is relevant to the subject matter of any arbitration which is required under Section 8(a) of this Agreement. After the appointment of the arbitrator, MELA and Ultralife shall agree on (1) a reasonable number of and schedule for depositions which the parties may take and (2) a reasonable scope or schedule for production of documents or other information which is relevant to the subject matter of the arbitration. If MELA and Ultralife cannot reach agreement on the number of depositions, the scope of production of documents or other information and the schedule therefor, the arbitrator shall make such determination(s). All discovery shall be completed no later than 30 days prior to the arbitration hearing. The arbitrator shall have the power to enforce any discovery agreed upon by the parties or otherwise required to be taken pursuant to this section by imposing the same terms, conditions, sanctions and penalties as can be or may be imposed in like circumstances in a civil action before the New York Supreme Court, except the power to order the arrest or imprisonment of a person.

(d) No later than 30 days prior to the arbitration hearing, each party shall produce to the other party and the arbitrator lists of the witnesses, documents and other information which such party intends to use at the arbitration hearing.

9. GOVERNING LAW AND JURISDICTION.

(a) This Agreement and the rights and obligations of the parties to and under this Agreement shall be construed and interpreted in all respects in accordance with the laws of the State of New York, without regard to the principles of conflicts of law; provided that the questions regarding the arbitrability of any claims and defenses shall be determined in accordance with the Federal Arbitration Act and that any questions regarding copyright, trademark, patent or intellectual property matters shall be determined in accordance with federal law.

(b) Except as otherwise provided in Section 8 of this Agreement, any legal action or proceeding arising out of or relating to this Agreement shall be maintained in any courts in New York, New York or in any Untied States Federal Court seated in New York, New York. By execution and delivery of this Agreement, Ultralife irrevocably submits to the jurisdiction of each such federal or state court in any such action or proceeding.

10. NO ASSIGNMENT. Neither Ultralife nor MELA shall delegate any duties or assign any rights or duties under this Agreement without the other party's prior consent, and any such attempted delegation or assignment shall be void. Notwithstanding the foregoing, MELA may delegate it duties or assign its rights or duties under this Agreement to its direct or indirect parent, an affiliate or subsidiary. Ultralife shall not subcontract for the procurement of the goods covered by this Agreement without MELA prior approval. Subject to the provisions of this section, this Agreement shall be binding upon and inure to the benefit of the successors in interest and assigns of the parties.

11. NOTICES. Whenever under the terms of or in connection with this Agreement any notice, consent, approval, authorization or other information is proper or required to be given by either party, such notice, consent, approval, authorization or other information shall be in writing and shall be given or made by facsimile, by reputable overnight courier with documentation of receipt to the intended recipient thereof or by registered or certified mail, return receipt requested, and with all postage prepaid, addressed a s follows:

If to MELA to:

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                                      Mitsubishi Electronics America, Inc.
                                      One Penn Plaza, 250 West 34th Street
                                      Suite 4303
                                      New York, NY  10119
                                      Attention: Scott Lancey
                                                 Purchasing Manager
                                      Facsimile: (212) 629-3811
                                      with a copy to:
                                      Mitsubishi Electric America, Inc.
                                      800 Cottontail Lane
                                      Somerset, NJ 08873
                                      Attention: Assistant General Counsel
                                      Facsimile  (908) 302-2781

                If to Ultralife, to:  Ultralife Batteries, Inc.
                                      1350 Route 88 South
                                      Newark, NY  14513
                                      Attention: Bruce Jagid
                                                 Chairman & CEO
                                      Facsimile: 201-930-1144
```


(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

with a copy to:

Paul Share, Esq.

317 Madison Avenue, Suite 1421
New York, NY 10017
Facsimile: (212) 378-1299

or to such other address for either party as may be supplied by notice given in accordance herewith. Notice shall be deemed received on the date of receipt or the date on which receipt is refused. In the event notice is given by facsimile, a copy of such facsimile shall be sent to the recipient thereof in accordance with the provisions hereof (other than by facsimile) within two days after such facsimile was transmitted.

12. REMEDIES. In addition to any rights or remedies stated herein, the parties may exercise all rights and remedies available to them at law, in equity or under the Uniform Commercial Code of New York. Such rights and remedies shall be cumulative. NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES UNDER ANY CIRCUMSTANCES WHOSOEVER.

13. ENTIRE AGREEMENT. This Agreement and the exhibits to this Agreement contains all of the covenants, agreements and understanding between the parties with respect to the subject matter of this Agreement and may not be changed, modified, altered or terminated, except by a written agreement duly executed by the parties. This Agreement and the exhibits to this Agreement supersedes any and all other agreements and understandings, whether written or oral, between the parties with respect to the subject matter of this Agreement, including any prior course of dealing or usage of trade, all prior or contemporaneous oral agreements between the parties and all prior written agreements between the parties with respect to the subject matter of this Agreement.

14. RELATIONSHIP OF PARTIES. The relationship between MELA and Ultralife is that of independent contractors. This Agreement does not establish a joint venture, agency or partnership between the parties, nor does it create an employer-employee relationship. Unless specifically provided in this Agreement or authorized in writing by an officer or other authorized employee of MELA. Ultralife shall have no authority or power to bind MELA to create a liability against MELA to incur any obligations on behalf of MELA or to represent that MELA is in any way responsible for Ultralife and Ultralife shall not held itself out as having any such authority.

15. NO WAIVER. No waiver of, or the failure of either party to require strict compliance with, any provision of this Agreement in any respect shall be deemed to be a waiver of such party's right to insist upon strict compliance with such provision or with all other provisions of this Agreement. No waiver by either party of any breach or default of this Agreement shall constitute a waiver of any other or subsequent breach or default. No waiver shall be binding unless executed in writing by the party against whom the waiver is sought to be enforced.

16. SEVERABLILITY. If any provision or part of any provision of this Agreement shall be determined to be illegal, invalid or unenforceable in any respect, such determination of illegality,

invalidity or unenforceability shall not affect any other provision of this Agreement. If part of a provision is deemed illegal, invalid or unenforceable, the balance of that provision shall not be so affected. All surviving provisions shall remain in full force and effect as if this Agreement had been executed without such illegal, invalid or unenforceable provision or part thereof.

17. HEADINGS. All headings are included for convenience only and shall not be considered in any question of interpretation or construction of this Agreement.

18. AUTHORIZATION. Each party represents that the individual executing this Agreement on its behalf is duly authorized to bind such party to this Agreement according to its terms.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the day and year first above written.

MITSUBISHI ELECTRONICS AMERICA, INC.	ULTRALIFE BATTERIES, INC.
By: /s/Scott J. Lancey	By: /s/Bruce Jagid
Name: Scott J. Lancey	Name: Bruce Jagid
Title: Purchasing Manager	Title: CEO and Chairman

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Exhibit List

Exhibit A - Batch I and II Performance Criteria

Exhibit B - Batch III Performance Criteria

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Exhibit A

Batch I and II Performance Criteria of each cell

	BATCH I	BATCH II
Dimensions: (TOLERANCE: +0/-0.5mm)		
Length	*	*
Width	*	*
Height	*	*
Capacity per cell (at 1C rate)	*	*
Energy per cell (average voltage: 3.7V)	*	*
Minimum Cycle Life (at C/3 rate)	*	*

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Exhibit B

Batch III Performance Criteria of each cell

BATCH IIII

Dimensions: (TOLERANCE: +0/-0.5mm)	
Length	*
Width	*
Height	*
Capacity per cell (at 1C rate)	*
Energy per cell (average voltage: 3.7V)	*
Minimum Cycle Life (at C/3 rate)	*

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

[DRAWING OMITTED]

SIDE SEAL AREA BENDED

SEAL AREA at EACH CORNER SHALL BE HOLDED WITHIN EACH DIMENSIONS

UBC114-01

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Mitsubishi Electronics America, Inc.
One Penn Plaza
250 W34th Street
SUITE 4303
NEW YORK, NY 10119
PHONE: (212) 629-3732
FAX: (212) 629-3811

June 17, 1997

Ultralife Batteries, Inc.
1350 Route 88 South
Newark, NY 14513

Attention of: Mr. Julius Cirin, Director of Marketing

Re: Purchase Orders/HY-97-120/HY-97-130

Dear Mr. Cirin,

I am pleased to send enclosed purchase orders for our current business.

These P/O are based upon the results of our previous meeting at Ultralife dated June 10, 1997, Ultralife's fax dated June 11, 1997 and MELCO's fax dated June 13, 1997.

The payment schedule for HY-97-120 will be advised after MELA will receive an authorization from MELCO.

If you have any comments, please feel free to contact me.

Sincerely,

/s/Jun Sugaya
Jun Sugaya, Assistant Purchasing Manager

CC. Tomita, Manager of Purchasing Dept./Computer Works.

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Mitsubishi Electronics America, Inc. |_|
One Penn Plaza
250 West 34th Street
SUITE: 4303
NEW YORK, NY 10119

Cypress Office |_|
5665 Plaza Drive, Cypress, CA 90630-0007
(714) 220-2500
FAX (714) 236-6229

P.O. NUMBER	REQUESTED SHIP DATE	PAGE
HY-97-130	SEE BELOW	1/1

ORDER DATE	ORDERED BY	PAYMENT TERMS	SHIPPING TERMS	SHIP VIA
06/17/97	Jun Sugaya	Net 30 Days	FOB Newark, NY	UPS

VENDOR
Ultralife Batteries, Inc.
1350 Route 88 South, Newark NY 14513
ATTN.:Mr. JULIUS CIRIN, DIRECTOR OF MARKETING

SHIP TO
Kintetsu World Express (USA), Inc.
45 Rason Road, Inwood NY 11696
ATTN: MR. MIKAZAKI, TERMINAL MANAGER

* ("BUYER") HEREBY CONFIRMS ITS PURCHASE FROM YOU ("SELLER") OF THE FOLLOWING GOODS SUBJECT TO SELLER'S ACCEPTENCE OF THE TERMS AND CONDITIONS SET FORTH BELOW AND ON THE REVERSE SIDE OF THIS FORM, WHICH ARE EXPRESSLY AGREED TO, UNDERSTOOD AND MADE PART OF THIS ORDER. ANY DIFFERENT TERMS AND CONDITIONS WHICH MAY BE CONTAINED IN ANY WRITING FROM SELLER ARE HEREBY REJECTED BY BUYER AND SHALL NOT BE BINDING UPON THE PARTIES.

LINE NUMBER	ITEM	DESCRIPTION	PRICE PER UNIT	UNITS	OUANITY ORDERED	AMOUNT
01	1.6 AH PACK	Batteries (NO UL):07/15	*	PCS		$ *
02	1.6 AH PACK	Batteries (NO UL):08/01	*	PCS		$ *
03	1.6 AH PACK	Batteries (NO UL):08/22	*	PCS		$ *
04	1.7 AH PACK	Batteries (NO UL):09/09	*	PCS		$ *
05	1.7 AH PACK	Batteries (NO UL):09/16	*	PCS		$ *
06	1.7 AH PACK	Batteries (UL TBD):09/23	*	PCS		$ *
07	1.7 AH PACK	Batteries (UL TBD):09/30	*	PCS		$ *

Terms and Conditions for HY-97-130 will be discussed later based upon the previous agreed contract.

[CONFORMATION ORDER
DO NOT DUPLICATE]

NOTE:

TOTAL AMOUNT $462,900.00

ACCEPTED: (SELLER)

MITSUBISHI ELECTRONICS AMERICA, INC. (BUYER)
/s/Scott J. Lancey

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

Mitsubishi Electronics America, Inc. |_| Cypress Office |_|
One Penn Plaza 5665 Plaza Drive, Cypress, CA 90630-0007
250 West 34th Street (714) 220-2500
SUITE: 4303 FAX (714) 236-6229
NEW YORK, NY 10119

P.O. NUMBER	REQUESTED SHIP DATE	PAGE
HY-97-120	SEE BELOW	1/1

ORDER DATE	ORDERED BY	PAYMENT TERMS	SHIPPING TERMS	SHIP VIA
06/17/97	Jun Sugaya	T.B.D.		

VENDOR:
Ultralife Batteries, Inc.
1350 Route 88 South, Newark NY 14513
ATTN.:Mr. JULIUS CIRIN, DIRECTOR OF MARKETING

SHIP TO:
Kintetsu World Express (USA), Inc.
45 Rason Road, Inwood NY 11696
ATTN: MR. MIKAZAKI, TERMINAL MANAGER

* ("BUYER") HEREBY CONFIRMS ITS PURCHASE FROM YOU ("SELLER") OF THE FOLLOWING GOODS SUBJECT TO SELLER'S ACCEPTENCE OF THE TERMS AND CONDITIONS SET FORTH BELOW AND ON THE REVERSE SIDE OF THIS FORM, WHICH ARE EXPRESSLY AGREED TO, UNDERSTOOD AND MADE PART OF THIS ORDER. ANY DIFFERENT TERMS AND CONDITIONS WHICH MAY BE CONTAINED IN ANY WRITING FROM SELLER ARE HEREBY REJECTED BY BUYER AND SHALL NOT BE BINDING UPON THE PARTIES.

LINE NUMBER	ITEM	DESCRIPTION	PRICE PER UNIT	UNITS	QUANITY ORDERED	AMOUNT
01	TOOLING	MASS PRODUCTION	*	LOT		*
02		BATTERY MANAGEMENT_ SYSTEM DEVELOPMENT	*	LOT		*

Payment schedule will be advised later.
Terms and condition for this HY-97-120 will be discussed later based upon previous agreed contract.

[CONFORMATION ORDER
DO NOT DUPLICATE]

NOTE: TOTAL AMOUNT $335,000.00

ACCEPTED: (SELLER)

MITSUBISHI ELECTRONICS AMERICA, INC. (BUYER)
/s/Scott J. Lancey

(*Confidential information has been deleted from this exhibit and filed separately with the Securities and Exchange Commission pursuant to the application for confidential treatment.)

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 file numbers 33-61866, 33-71966, and 333-01200.

ARTHUR ANDERSEN LLP

Rochester, New York,
October 10, 1997

EXHIBIT 23.2

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-61866, No. 33-71966, and No. 333-01200) pertaining to the 1992 and 1991 Stock Option Plans of Ultralife Batteries, Inc. and Subsidiary of our report dated August 31, 1995, with respect to the 1995 consolidated financial statements and schedule of Ultralife Batteries, Inc. and Subsidiary included in the Annual Report (Form 10-K) for the year ended June 30, 1997.

/s/ ERNST & YOUNG LLP

October 7, 1997

ARTICLE 5

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD START	JUL 01 1996
PERIOD END	JUN 30 1997
CASH	2,310,725
SECURITIES	19,847,201
RECEIVABLES	2,993,728
ALLOWANCES	278,000
INVENTORY	5,302,752
CURRENT ASSETS	31,838,061
PP&E	21,483,867
DEPRECIATION	2,610,172
TOTAL ASSETS	51,395,103
CURRENT LIABILITIES	4,632,222
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	795,360
OTHER SE	45,967,521
TOTAL LIABILITY AND EQUITY	51,395,103
SALES	15,941,118
TOTAL REVENUES	15,941,118
CGS	14,591,258
TOTAL COSTS	14,591,258
OTHER EXPENSES	9,101,392
LOSS PROVISION	805,296
INTEREST EXPENSE	1,351,646
INCOME PRETAX	(7,246,354)
INCOME TAX	0
INCOME CONTINUING	(7,246,354)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(7,246,354)
EPS PRIMARY	(0.91)
EPS DILUTED	(0.91)