

# ULTRALIFE CORP

## FORM 10-K (Annual Report)

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## 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, 1999

Commission file number 0-20852

### ULTRALIFE BATTERIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	16-1387013
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2000 Technology Parkway, Newark, New York	14513
-----	-----
(Address of principal executive offices)	(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act: None**

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

**Title of Class**

Common Stock, par value \$0.10 per share

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 III of this Form 10-K or any amendment to this Form 10-K. [ ]

On August 31, 1999, the aggregate market value of the voting stock of Ultralife Batteries, Inc. held by non-affiliates of the Registrant was approximately \$40,825,000 based upon the closing price for such Common Stock as reported on the NASDAQ National Market System on August 31, 1999.

As of September 25, 1999, the Registrant had 10,862,436 shares of Common Stock outstanding.

**Documents Incorporated by Reference.**

Part III 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.

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## PART I

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

### ITEM 1. BUSINESS

#### General

Ultralife Batteries, Inc. develops, manufactures and markets primary lithium batteries for use in a wide array of applications and has developed and is in the process of commercializing rechargeable polymer batteries. The Company believes that its proprietary technologies allow the Company to offer batteries that are ultra-thin, lightweight and generally achieve longer operating time than many competing batteries currently available. To date, the Company has focused on manufacturing a family of lithium primary batteries for consumer, industrial, and military applications which it believes is one of the most comprehensive lines of lithium manganese dioxide primary batteries commercially available. The Company is currently focusing on the commercialization of its advanced rechargeable batteries which are based on its proprietary polymer technology and are integrated into consumer electronic applications such as portable computers and cellular telephones manufactured and sold for commercial use.

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

#### Primary Batteries

The Company manufactures and 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 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.

Revenues for this segment in fiscal year 1999 were \$19,559,000 and segment contribution was \$2,651,000. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

#### Rechargeable Batteries

The Company believes that its polymer technology provides substantial benefits, including the ability to provide thin, light-weight cells in custom sizes. In addition, the Company believes that its technology, which does not utilize lithium metal or a free liquid electrolyte, provides 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. Automated manufacturing equipment has been installed and is undergoing preparation for high-volume manufacturing.

The global small cell rechargeable batteries market was approximately \$4.7 billion in 1998 and is expected to grow to \$6.1 billion by 2001. The widespread use of a variety of portable consumer electronics such as notebook computers and cellular telephones has resulted in large and growing markets for rechargeable batteries. These electronic products are placing increasing demands on existing battery technologies to deliver greater amounts of energy through efficiently designed, smaller and lighter batteries. In some cases, current battery capabilities are a major limitation in the development of next generation electronic products. The Company believes that its proprietary technology can provide substantial benefits over other available rechargeable battery systems.

Revenues for this segment in fiscal year 1999 were \$49,000 and segment contribution was a loss of \$5,617,000. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

## **Technology Contracts**

On a continuing basis, the Company seeks to fund part of its efforts to identify and develop new applications for its products and to advance its technologies through contracts with both government agencies and third parties. The 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 been successful in obtaining awards for such programs for both primary and rechargeable battery technologies.

Revenues for this segment in fiscal year 1999 were \$1,456,000 and segment contribution was \$297,000. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

## **Corporate**

The Company reports revenues, cost of sales, research and development expenses, gains on fires from insurance proceeds and its minority interest in Ultralife Taiwan, Inc. by the above business segments. The balance of income and expense, including selling, general and administration expenses, interest income, gains on sale of securities and other expense, net are reported in the Corporate segment.

There were no revenues for this segment in fiscal year 1999 and segment contribution was a loss of \$6,195,000. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

## **History**

The Company was formed in December 1990. In March 1991, the Company acquired certain technology and assets from Eastman Kodak Company ("Kodak") relating to the 9-volt lithium-manganese dioxide primary battery that was developed and manufactured by Kodak. During the initial 12 months of operation, the Company directed its efforts towards reactivating the Kodak manufacturing facility and performing extensive tests on the Kodak 9-volt battery. These tests demonstrated a need for design modifications which were incorporated into the Company's 9-volt battery, resulting in a battery with improved performance and shelf life. The Company then expanded its operations by the acquisition in June 1994 by its subsidiary, Ultralife Batteries (UK) Ltd., of certain assets of Dowty Group PLC ("Dowty"). The Dowty acquisition provided the Company with a presence in Europe, manufacturing facilities for high rate lithium and sea water batteries and highly skilled scientists with significant expertise in lithium battery technology. The customer base of Ultralife UK was further expanded by the acquisition of certain assets of Accumulatorenwerke Hoppecke Carl Zoellner & Sohn GmbH & Co. ("Hoppecke") in July 1994. The Company has developed a wide array of products based on combining technology developed by the Company's research and development personnel and assets acquired from Kodak, Dowty and Hoppecke as well as various technology licenses.

In December 1998, the Company announced a venture with PGT Energy Corporation (PGT), together with a group of investors, to produce Ultralife's polymer rechargeable batteries in Taiwan. Ultralife will provide the venture, named Ultralife Taiwan, Inc. (UTI), with its proprietary technology and 700,000 shares of Ultralife common stock. Ultralife will be UTI's largest shareholder with approximately 46% ownership, and hold half of the seats on UTI's board of directors. PGT and the group of investors will fund UTI with \$21.25 million in cash and hold the remaining seats on the board. See also "Item 5. Market for Registrant's Common Equity and Related Matters."

Since its inception, the Company has concentrated significant resources on research and development activities related to polymer rechargeable batteries. The Company is producing advanced rechargeable batteries in limited quantities using a low volume production line which includes manual operations. Automated custom-designed equipment has been installed and is producing samples and undergoing preparation for high-volume manufacturing.

As used in this Report, unless otherwise indicated the terms "Company" and "Ultralife" include the Company's wholly-owned subsidiary, Ultralife UK Ltd.

## Products and Technology

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 electrical contact 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 outside of the battery. 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.

### Primary Batteries

A primary battery is used until discharged and then discarded. The principal competing primary battery technologies are carbon-zinc, alkaline and lithium. The Company's primary battery products, exclusive of its sea water batteries, are based on lithium-manganese dioxide technology. The following table sets forth the performance characteristics of the battery technologies that the Company believes represent its most significant current or potential competition for its 9-volt battery and its high-rate lithium battery.

#### Comparison of Primary Battery Technologies

Technology -----	Energy Density -----		Discharge Profile -----	Shelf Life (years) -----	Operating Temperature Range ((Degree)(F) -----
	Wh/kg -----	Wh/l -----			
9-Volt Configurations:					
Carbon-zinc (1)	22	40	Sloping	1 to 2	23 to 113
Alkaline (1)	65	143	Sloping	4 to 5	-4 to 130
Ultralife lithium-manganese dioxide (2)	262	406	Flat	up to 10	-40 to 160

Technology -----	Energy Density -----		Discharge Profile -----	Shelf Life (years) -----	Operating Temperature Range ((Degree)(F) -----
	Wh/kg -----	Wh/l -----			
High Rate Cylindrical: (3)					
Alkaline (1)	59	160	Sloping	4 to 5	-4 to 130
Lithium-sulfur dioxide (1)(4)	260	430	Flat	10	-40 to 160
Lithium thionyl-chloride (2)(4)	250-300	650-700	Flat	10	-40 to 160
Ultralife lithium-manganese dioxide (2)	228	510	Flat	10	-40 to 160

(1) Data compiled from industry sources and sales literature of other battery manufacturers or derived therefrom by the Company.

(2) Results of tests conducted by the Company.

(3) Data for equivalent D-size cells.

(4) The Company believes that these batteries are limited in application due to health, safety and environmental risks associated therewith.

Energy density refers to the total amount of electrical energy stored in a battery divided by the battery's weight and volume, as measured in watt-hours per kilogram and watt-hours per liter, respectively. Higher energy density translates into longer operating times for a battery of a given weight or volume and, therefore, fewer replacement batteries. Discharge profile refers to the profile of the voltage of the battery during discharge. A flat discharge profile results in a more stable voltage during discharge of the battery. High temperatures generally reduce the storage life of batteries, and low temperatures reduce the battery's ability to operate efficiently. The inherent electrochemical properties of lithium batteries result in improved low temperature performance and an ability to withstand relatively high temperature storage.

The Company's primary battery products are based on lithium-manganese dioxide technology. The Company believes that materials used in, and the chemical reactions inherent to, the Company's lithium batteries provide significant advantages over currently available primary battery technologies which include lighter weight, longer operating time, longer shelf life, and a wider operating temperature range. The Company's primary batteries also have relatively flat voltage profiles which provide stable power. Conventional primary batteries, such as alkaline batteries, have sloping voltage profiles, which result in decreasing power output during discharge. While the price for the Company's lithium batteries is generally higher than commercially available alkaline 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 for the Company's targeted applications. Therefore, the Company believes that its primary batteries are price competitive with other battery technologies on a price per watt hour basis.

9-Volt Lithium Battery. The Company's 9-volt lithium battery delivers a unique combination of high energy and stable voltage which results in a longer operating life for the battery and, accordingly, fewer battery replacements. While the Company's 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 consumer retail and OEM markets, including manufacturers of safety and security systems such as smoke alarms, medical devices and other electronic instrumentation. The Company believes that approximately 10% of the 220 million 9-volt batteries sold in the U.S. in 1998 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	Bone growth stimulators	Garage door openers
Wireless alarm systems	Telemetry equipment	Electronic meters
Tracking devices	Portable blood analyzers	Hand-held scanners
Transmitters/receivers	Ambulatory Infusion Pumps	Wireless electronics

The Company currently sells its 9-volt battery to Fyrnetics, Inc., Maple Chase, and First Alert(R) for long life smoke alarms, to Hewlett Packard, Siemens Medical Systems, Inc. and i-STAT Corp. for medical devices and to ADEMCO and Interactive Technologies, Inc. for security devices. Fyrnetics, Inc. and Maple Chase have recently introduced long life smoke alarms 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 Eveready, Sonnenschein Lithium GmbH and Telenot 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 Sears, Radio Shack, Fred Meyer, Inc., TruServ, Chase Pitkin, Ace Hardware and a number of catalogues.

The Company believes that its 9-volt lithium battery market has expanded as a result of a state law recently enacted in Oregon. The Oregon statute requires that, as of June 23, 1999, all battery-operated ionization-type smoke alarms sold in that state must include a 10-year battery. Similar legislation has been passed by the New York State Senate that would also require all ionization-type smoke alarms operated solely by a battery to include a battery that lasts 10 years. The New York bill is currently under review by an Assembly committee. The Company believes that it manufactures the only standard size 9-volt battery warranted to last 10 years when used in smoke alarms. The Company believes that its current manufacturing capacity is adequate to meet customer demand. However, with increased legislative activity, demand could exceed current capacity; and therefore, additional capital equipment would be required to meet these new needs.

**High Rate Lithium Batteries.** Ultralife UK, the Company's wholly owned 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 1/4 C, and D size high rate lithium cells which are sold and packaged into multi-cell battery packs. The Company believes that its high rate lithium C, 1 1/4 C and D primary cells, based on its proprietary lithium-manganese dioxide technology, are the most advanced high rate lithium power sources 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 markets its line of high rate lithium cells and batteries to the OEM market for industrial, military and search & rescue applications. Significant industrial applications include pipeline inspection equipment, autoreclosers and oceanographic. Among the military uses are manpack radio, night vision goggles and thermal imaging equipment. Search & rescue applications include ELT's (Emergency Location Transmitters) for aircraft and EPIRB's (Emergency Position Indicating Radio Beacons) for ships.

The market for high rate lithium batteries has been dominated by lithium thionyl chloride and lithium sulphur dioxide which possess liquid cathode systems. However, there is an increasing market share being taken by lithium manganese dioxide, a solid cathode system, because of its superior performance and safety. Following a fire in December 1996 which resulted in the suspension of manufacturing operations for 15 months, new production equipment has now been installed and is fully operational. Manufacturing volumes have been ramping up throughout 1999 resulting in sales of \$1.7 million. 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 gain an increasing share of 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 manufactures sea water batteries at the Abingdon, England facility and markets them to naval and other specialty OEM's. This facility was also damaged in the fire that occurred in December 1996 resulting in temporary cessation of its sea water operation. Manufacture has now been fully restored.

**BA-5372 Battery.** 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 Battery.** The Company has developed a line of lithium-manganese dioxide primary batteries which the Company calls its Thin Cell 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 three configurations of the Thin Cell battery which range in capacity from 120 milliampere-hours to 1,000 milliampere-hours. The Company is currently marketing these batteries to OEMs for applications such as identification tags, computer access cards and personal communication devices.

**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.

## **Rechargeable Batteries**

In contrast to primary batteries, 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 applications such as portable computers, cellular telephones and other consumer products.

Three important parameters for describing the performance characteristics of a rechargeable battery suited for today's portable electronic devices are design flexibility, energy density and cycle life. Design flexibility refers to the ability of rechargeable batteries to be designed to fit a variety of shapes and sizes of battery compartments. Thin profile batteries with prismatic geometry provide the design flexibility to fit the battery compartments of today's electronic devices. Energy density refers to the total electrical energy per unit volume stored in a battery. High energy density batteries generally are longer-lasting power sources providing longer operating time and necessitating fewer battery recharges. Lithium batteries, by the nature of their electrochemical properties, are capable of providing higher energy density than comparably-sized batteries that utilize other chemistries and, therefore, tend to consume less volume and weight. Long cycle life is a preferred feature of a rechargeable battery because it allows the user to charge and recharge power many times before noticing a difference in performance.

The Company's advanced rechargeable battery is based on its proprietary polymer technology. The battery is composed of ultra-thin and flexible components including a metallic oxide cathode, a carbon anode and a polymer electrolyte. The Company believes that users of portable consumer electronic products such as notebook computers and cellular telephones are seeking smaller and lighter products that require less frequent recharges while providing the same or additional energy. The Company believes that its technology is attractive to OEMs of such products since the use of a flexible polymer electrolyte, rather than a liquid electrolyte, reduces the battery's overall weight and volume, and allows for increased design flexibility in conforming batteries to the variety of shapes and sizes required for portable consumer products.

Energy density refers to total amount of electrical energy stored in a battery divided by the battery's weight and volume as measured in watt-hours per kilogram and watt-hours per liter, respectively. High energy density and long achievable cycle life are important characteristics for comparing rechargeable battery technologies. Greater energy density will permit the use of batteries of a given weight or volume for a longer time period. Accordingly, greater energy density will enable the use of smaller and lighter batteries with energy comparable to those currently marketed. Long achievable cycle life, particularly in combination with high energy density, is suitable for applications requiring frequent battery rechargings, such as cellular telephones and portable computers.

In addition to the performance advantages described above, there is a significant difference between the rechargeable batteries which are based on the lithium-ion liquid electrolyte technology and the technology used in the Company's advanced rechargeable batteries. Liquid lithium-ion cells use a flammable liquid electrolyte that is contained within a cylindrical or prismatic metal housing. Under abusive conditions, where internal battery temperatures may become extremely high, significant pressure may build within these cells which can cause these cells to vent and release liquid electrolyte into the environment. For various reasons, flames may result. The Company's advanced rechargeable batteries utilize a polymer electrolyte that is bound within the pores of the cell materials and, thus, leakage is avoided. Moreover, because the cell does not require pressure to maintain contact between the electrodes, the cells do not require a metal housing. Rather, they are packaged within a thin foil laminate. The Company further believes that its cells will perform safely under the same abusive conditions that could cause a flame from liquid lithium-ion cells. The Company's rechargeable cells have passed each of the following safety tests: UL 1950, IEC 950, CSA 950 and the Japan Storage Batteries Association Guideline for Safety Evaluation of Lithium Cells.

## **Sales and Marketing**

The Company sells its current products directly to OEMs in the U.S. and abroad and has contractual arrangements with sales representatives who market the Company's products on a commission basis in particular areas. The Company also distributes its products through domestic and international distributors that purchase batteries from the Company for resale. The Company employs a staff of sales and marketing personnel in the U.S., England and Germany including a vice president of sales, a director of marketing, a marketing manager, a European sales director, a U.K. sales and marketing manager, an applications engineer, an industrial sales manager for OEM customers, and managers who are responsible for particular markets such as retail sales and audio/visual/security/medical sales. These managers are responsible for direct sales, supervising the sales representatives and distributors, and other sales and marketing and distribution activities. The Company operates on a purchase order basis and has a number of long-term sales contracts with customers.

## **Primary Batteries**

The Company has targeted sales of its primary batteries to manufacturers of security and safety equipment, medical devices and specialty instruments. The Company's primary strategy is to develop 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 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's warranty on its products is limited to replacement of the product.

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 and sales at the end-user or consumer level. The Company is also selling the 9-volt battery to the consumer market through limited retail distribution. Ultralife UK targets the industrial markets through direct sales and the efforts of its distributors.

In fiscal 1999, one customer accounted for approximately \$4.2 million of sales, which amounted to approximately 20% of total revenues of the Company. The Company believes that the loss of this customer's business would have a material adverse effect on the Company. The Company believes that sales of its 9-volt batteries for smoke alarms typically increase in October because October is "Fire Prevention Month," and at the end of its third quarter as consumers tend to replace their batteries at the end of winter. The Company has not marketed its advanced rechargeable batteries for a sufficient period to determine whether these OEM or consumer sales are seasonal.

The Company's sales are executed primarily through purchase orders with scheduled deliveries on a weekly or monthly basis. Prior to calendar 1998, the Company's backlog was not material. However, at the beginning of the fourth fiscal 1998 quarter, orders for the company's 9-volt battery started increasing more rapidly than anticipated. Although the Company started to increase production of these batteries, it was unable to increase production as rapidly as the orders were received. As a result, the Company built up a backlog of approximately 1,000,000 9-volt batteries by the end of fiscal 1998. At the end of fiscal 1999, the backlog of 9-volt batteries has been reduced to approximately 350,000 9-volt batteries, which is less than one month's shipments.

## **Rechargeable Batteries**

The Company has initially targeted sales of its advanced rechargeable batteries to manufacturers of portable consumer electronics products. The Company also intends to enter into contractual arrangements

with distributors in the U.S. and abroad to purchase rechargeable batteries from the Company for resale to the after-market. UTI, the Company's Taiwan venture, will be responsible for sales of polymer rechargeable batteries in Asia.

The Company plans to expand its marketing activities as part of its strategic plan to increase sales of its rechargeable batteries to manufacturers of cellular telephones, notebook computers and new electronic portable devices.

### **Technology Contracts**

Through the Company's engineering and sales and marketing departments, the Company monitors and seeks relevant programs from various government or prime contracting companies. One individual is specifically assigned to pursue these opportunities and coordinate proposal submissions.

### **Patents, Trade Secrets and Trademarks**

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 holds patents covering 19 inventions in the U.S. and foreign countries, three of which have been recently awarded relating to rechargeable polymer batteries, and has two patent applications pending also relating to polymer batteries. The Company also pursues foreign patent protection in certain countries. The Company's patents protect technology which makes 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's research and development in support of its advanced rechargeable battery technology and products is 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, and continues in perpetuity with respect to other licensed technical information.

All of the Company's employees in the U.S. and all the Company's employees involved with the Company's technology in 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. In 1998, the Company settled an opposition in the Trademark Trial and Appeal Board brought by a third party in which the third party claims to produce, distribute and sell vehicle batteries, power supplies and related accessories, products and services using the mark Ultralife. Under the settlement in principle, the Company paid \$17,500 to the third party. The papers dismissing the opposition were filed with the U.S. Trademark Office and all rights under the mark were assigned to the Company.

### **Manufacturing and Raw Materials**

The Company manufactures its products from raw materials and component parts that it purchases. The Company has obtained ISO 9001 certification for its lithium battery manufacturing operations in both

## **Newark, New York and Abingdon, England.**

### **Primary Batteries**

The Company's Newark facility has the capacity to produce approximately nine million 9-volt batteries per year. The Company believes that its current manufacturing capacity is adequate to meet customer demand. However, with increased legislative activity, demand could exceed current capacity; and therefore, additional capital equipment would be required to meet these new needs. The Company utilizes lithium foil as well as other metals and chemicals to manufacture 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 to supply materials that could replace 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. Although the Company has experienced interruptions of product deliveries by sole source suppliers, none of such interruptions has had a material effect on the Company. All other raw materials utilized by the Company are readily available from many sources.

The manufacturing facility in Abingdon, England has been rebuilt following a fire in December 1996. The facility is capable of producing up to 500,000 high-rate lithium cells per annum in a single shift. The facility also has research and development laboratories as well as areas for the manufacture of seawater batteries and the fabrication of customized multi-cell battery packs.

### **Rechargeable Batteries**

The Company's production line for advanced rechargeable batteries consists of automated coating, assembly and packaging equipment. This equipment is currently being used to produce samples for potential customers and is undergoing preparation for high-volume manufacturing. Pursuant to the Company's agreement with the manufacturer of its assembly and packaging line, the manufacturer is prohibited from manufacturing another production line that replicates 20% or more of the components comprising the production line delivered to the Company. The Company has plans to further expand its production capacity by installing additional automated equipment at its Newark, New York facility. An additional manufacturing capability for rechargeable batteries based on the Company's technology is being established in Taiwan as Ultralife Taiwan, Inc. under a venture established earlier this year. Ground breaking ceremonies for the new facility, to be built in Taiwan's Hsinchu Science Park, occurred in June 1999; and production of rechargeable batteries is planned to begin in calendar year 2000.

### **Research and Development**

The Company conducts its research and development in both Newark, New York, and Abingdon, England.

### **Rechargeable Batteries**

The Company is primarily directing its research and development efforts toward design optimization of rechargeable batteries. These batteries have a broad range of potential applications in consumer, industrial and military markets including cellular telephones, portable computers and other portable electronic devices. 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, 1999, 1998, and 1997, the Company expended approximately \$5,925,000, \$6,651,000 and \$3,413,000, respectively, on research and development substantially for rechargeable batteries. The Company currently expects that research and development expenditures will moderate as it seeks to fund part of its research and development effort on a continuing basis from both government and non-government sources.

### **Technology Contracts**

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 and second phase of a government-sponsored program to develop new configurations of the Company's BA 5590 thin cell primary battery. The Company was also awarded an additional cost sharing SBIR Phase III contract for the development of the BA 5590 thin cell primary battery that will be completed early in fiscal 2000. The contract provides that these batteries will be developed and produced in small quantities. The BA 5590 is the most widely used battery power source for the U.S. Army and NATO communications equipment. The Company was also awarded the lead share of a three-year \$15.3 million cost-sharing project sponsored by the U.S. Department of Commerce's Advanced Technology Program (ATP). The objective of this project is to develop and produce ultra-high energy polymer rechargeable batteries that will significantly outperform existing batteries in a broad range of portable electronic applications. As lead contractor, the Company will receive approximately \$2.14 million during the first year, \$1.65 million during the second year and \$0.8 million during the third year of the program.

### **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.

### **Primary Batteries**

The Company's primary battery products incorporate lithium metal, which reacts with water and may cause fires if not handled properly. Over the past eight years, the Company has experienced fires that have temporarily interrupted certain manufacturing operations in a specific area of one of its facilities. However, in December 1996, a fire at the Abingdon, England facility caused an interruption in all manufacturing operations for a period of 15 months. During the period from December 1996 through January 1999, the Company received insurance proceeds compensating the Company for loss of its plant and machinery, leasehold improvements, inventory and business interruption. 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, 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 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 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.

### **Rechargeable Batteries**

The Company's rechargeable cells have passed each of the following safety tests: UL 1950, IEC 950, CSA 950 and the Japan Storage Batteries Association Guideline for Safety Evaluation of Lithium Cells.

### **Corporate**

In connection with the Company's purchase/lease of its Newark, New York facility, a consulting firm performed a Phase I and II Environmental Site Assessment which revealed the existence of contaminated soil around one of the Company's buildings. The Company has retained an engineering firm which estimated that the cost of remediation should be in the range of \$230,000, however, there can be no assurance that this will be the case. In February 1998, the Company entered into an agreement with a third party which provides that the Company and the third party will retain an environmental consulting firm to verify the existence of the contaminants and further delineate the nature of the environmental concern. A voluntary investigation workplan of the site is scheduled for the end of calendar year 1999 to fully characterize the nature and extent of the contamination that was found during a Phase II investigation. The third party agreed to reimburse the Company for fifty percent of the cost associated with remediating the environmental concern. There can be no assurance that the Company will not face claims resulting in substantial liability which would have a material adverse effect on the Company's business, financial condition and results of operations in the period in which such claims are resolved.

### **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 batteries as well as other primary and rechargeable battery technologies. The Company competes on the basis of design flexibility, 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.

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.

## **Employees**

As of August 31, 1999, the Company employed 458 persons: 78 in research and development, 332 in production and 48 in sales, administration and management. Of the total, 392 are employed in the U.S. and 66 in England. In addition, U.S. operations uses a temporary agency primarily for entry level production workers, on a regular basis. As of August 31, 1999, the Company was under contract for 9 production workers. 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 occupies under a lease/purchase agreement approximately 250,000 square feet in two facilities 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 Nutley, New Jersey. The Company believes that its facilities are adequate and suitable for its current manufacturing needs. The Company entered into a lease/purchase agreement with the local county authority in February 1998 with respect to its 110,000 square foot factory in Newark, New York which provides more favorable terms and reduces the expense for the lease of the facility. The lease also includes an adjacent building to the Company's current facility estimated to encompass approximately 140,000 square feet and approximately 65 acres of property. Pursuant to the lease, the Company has delivered a down payment in the amount of \$400,000 and is obligated to pay the local governmental authority annual installments in the amount of \$50,000 until December 2001 decreasing to approximately \$28,000 for the period commencing December 2001 and ending December 2007. Upon expiration of the lease in 2007, the Company is required to purchase its facility for the purchase price of \$1.

In connection with the acquisition by the Company's subsidiary, Ultralife UK, of certain assets and liabilities from Dowty 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 the Company's subsidiary, Ultralife UK. After some delay, this assignment was recently accomplished. The term of the lease was extended and continues until March 24, 2013. It currently has an annual rent of \$200,000 and is subject to review every five years based on current real estate market conditions until March, 2009. From March, 2009 the rent shall be reviewed annually.

## **ITEM 3. LEGAL PROCEEDINGS**

In December 1996, Aerospace Energy System, Inc. ("Aerospace") commenced an action in the United States District Court for the District Court of Utah against the Company alleging that it is owed commissions in excess of \$50,000 for sales made on behalf of the Company and \$100,000 for the Company's alleged breach of its duty of good faith and fair dealings. The Company believes that Aerospace is not the party that made such sales for which it claims it is owed commissions. Although Aerospace has been deposed it has not articulated any grounds for its claim of \$100,000 for the Company's alleged breach of its duty of good faith and fair dealing.

In May 1997, William Boyd, the principal of Aerospace, and Leland J. Coleman commenced an action against the Company and Loeb Partners Corporation ("Loeb"), an investment firm, in the U.S. District Court for the Southern District Court of New York alleging that they had entered into a contract

with Loeb to arrange for the acquisition of Dowty and that the Company tortiously interfered with their contract and business opportunity. The Company believes the claim against it, for \$25 million, is without merit.

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain stockholders, purportedly on behalf of a class of stockholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's common stock. The complaint alleges that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's common stock at artificially inflated prices and were damaged thereby. The Company believes that the litigation is without merit and intends to defend it vigorously. All defendants have filed Motions to Dismiss the Complaint. As of May 6, 1999, the motions have been fully briefed and submitted to the Court. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS**

None.

## **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 closing sales prices of the Company's common stock during the Company's last two fiscal years:

	Sales Prices	
	High	Low
Fiscal Year 1998:		
Quarter ended September 30, 1997	\$ 20.38	\$ 10.38
Quarter ended December 31, 1997	20.38	13.13
Quarter ended March 31, 1998	16.88	14.00
Quarter ended June 30, 1998	15.25	7.50
Fiscal Year 1999:		
Quarter ended September 30, 1998	\$ 8.63	\$ 5.06
Quarter ended December 31, 1998	7.56	5.13
Quarter ended March 31, 1999	6.94	4.44
Quarter ended June 30, 1999	5.63	4.00

During the period from July 1, 1999 through September 23, 1999, the high and low closing sales prices of the Company's common stock were \$6.13 and \$4.47, respectively.

**Holders**

As of August 31, 1999, there were 172 registered holders of record of the Company's common stock. Based upon information from the Company's stock transfer agent, management of the Company believes that there are more than 4,500 beneficial holders of the Company's common stock.

In July 1999, the Company issued 700,000 shares of its common stock to Ultralife Taiwan, Inc. (UTI) in exchange for \$8,750,000 in cash. Subsequently, in September 1999, the Company contributed \$8,750,000 in cash to the UTI venture. This cash contribution coupled with the contribution of the Company's technology will result in approximately a 46% ownership interest in UTI. The transaction was done in conjunction with the UTI agreement that was announced by the Company in December 1998. See also History in Item 1. of this report.

 **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  
(In Thousands, Except Per Share Amounts)

Statement of Operations Data:

	Year Ended June 30,				
	1999	1998	1997	1996	1995
Revenues	\$ 21,064	\$ 16,391	\$ 15,941	\$ 15,101	\$ 14,643
Cost of products sold	19,016	14,522	15,118	14,271	13,917
Gross profit	2,048	1,869	823	830	726
Research and development expenses	5,925	6,651	3,413	2,671	1,542
Selling, general and administrative expenses	6,195	5,790	5,218	4,993	4,263
Loss on China development program	--	--	805	--	--
Loss (gain) on fires	(1,288)	(2,697)	(56)	352	--
Total operating and other expenses	10,832	9,744	9,380	8,016	5,805
Interest income, net	1,456	888	1,352	2,017	1,722
Equity earnings (loss) in affiliates	(80)	--	--	--	--
Gain on sale of securities	348	--	--	1,930	--
Other expense, net	(25)	(33)	(41)	--	(35)
Loss before income taxes	(7,085)	(7,020)	(7,246)	(3,239)	(3,392)
Income taxes	--	--	--	--	--
Net loss	\$ (7,085)	\$ (7,020)	\$ (7,246)	\$ (3,239)	\$ (3,392)
Net loss per common share	\$ (0.68)	\$ (0.84)	\$ (0.91)	\$ (0.41)	\$ (0.50)
Weighted average number of shares outstanding	10,485	8,338	7,923	7,814	6,747

Balance Sheet Data:

	June 30,				
	1999	1998	1997	1996	1995
Cash and available-for-sale securities	\$ 23,556	\$ 35,688	\$ 22,158	\$ 35,069	\$ 27,398
Working capital	\$ 28,435	\$ 37,745	\$ 27,205	\$ 44,666	\$ 32,705
Total assets	\$ 66,420	\$ 75,827	\$ 51,395	\$ 60,633	\$ 62,593
Total long-term debt and capital lease obligations	\$ 215	\$ 197	\$ --	\$ --	\$ --
Stockholders' equity	\$ 60,400	\$ 68,586	\$ 46,763	\$ 56,435	\$ 57,957

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

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

The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto appearing elsewhere in this report.

### **General**

The Company develops, manufactures and markets primary and rechargeable lithium batteries for use in a wide array of applications. The Company has been focusing on the commercialization of its advanced rechargeable batteries which are based on its proprietary lithium-ion solid-polymer technology and are integrated into consumer electronic applications such as portable computers and cellular telephones.

The Company has incurred net operating losses primarily as a result of funding research and development activities, and to a lesser extent manufacturing and general and administrative costs. To date, the Company has devoted a substantial portion of its resources to the research and development of its products and technology, particularly its proprietary rechargeable polymer technology. The Company expects its operating expenses to increase as it expands production activities. The Company's results of operations may vary significantly from quarter to quarter depending upon the number of orders received, technology contracts entered into and the pace of the Company's research and development activities.

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

## Results of Operations

Fiscal Year Ended June 30, 1999 Compared With the Fiscal Year Ended June 30, 1998

**Revenues.** Total revenues of the Company increased \$4,673,000 from \$16,391,000 for the year ended June 30, 1998 to \$21,064,000 for the year ended June 30, 1999. Primary battery sales increased \$6,262,000 or approximately 47% from \$13,297,000 for the year ended June 30, 1998 to \$19,559,000 for the year ended June 30, 1999. The increase in primary battery sales was primarily due to an increase in 9-volt lithium battery shipments. Greater sales of high rate batteries also contributed to the increased revenue. Rechargeable battery sales declined \$717,000, or approximately 94%, from \$766,000 for the year ended June 30, 1998 to \$49,000 for the year ended June 30, 1999. The decrease was primarily due to the decline in purchase orders for the Company's rechargeable batteries due to delays in bringing the high-volume production equipment on line. Technology contract revenues decreased \$872,000, or 37%, from \$2,328,000 to \$1,456,000 reflecting the completion of certain development programs. In April 1999 the Company commenced work on the \$15,300,000 cost-sharing project sponsored by the U.S. Department of Commerce's Advanced Technology Program (ATP). As lead contractor, the Company will receive approximately \$2,140,000 during the first year, \$1,650,000 during the second year and \$800,000 during the third year of the program.

**Cost of Products Sold.** Cost of products sold increased \$4,494,000 from \$14,522,000 for the year ended June 30, 1998 to \$19,016,000 for the year ended June 30, 1999. Cost of products sold as a percentage of revenue increased from approximately 89% to 90% for the year ended June 30, 1999. Cost of primary batteries sold increased \$6,019,000 from \$11,792,000, or 89% of revenues, for the year ended June 30, 1998 to \$17,811,000, or 91% of revenues, for the year ended June 30, 1999. The increase in cost of primary batteries sold as a percentage of revenues was principally the result of higher manufacturing cost in the Company's United Kingdom subsidiary where sales and production volumes of high-rate batteries have not yet fully recovered to the levels achieved prior to the December 1996 fire. This fire suspended production of high-rate batteries for a period of 15 months. Cost of products sold for the year ended June 30, 1998 included \$2,011,000 of insurance proceeds received by Ultralife UK that fully offset unabsorbed overhead expenses resulting from lower production volumes associated with suspended manufacturing operations following the December 1996 fire. During the year ended June 30, 1999, insurance proceeds amounting to \$1,547,000 were received to partially offset unabsorbed overhead expenses. While sales and production volumes of high-rate batteries are increasing, they are not yet at a level to fully absorb all current overhead expenses. Cost of rechargeable battery sales decreased \$719,000, or approximately 94%, from \$766,000, or 100%, of revenues for the year ended June 30, 1998 to \$47,000, or 96% of revenues for the year ended June 30, 1999. Technology contracts cost of sales decreased \$806,000, or approximately 41%, from \$1,964,000 for the year ended June 30, 1998 to \$1,158,000 for the year ended June 30, 1999. Technology contracts cost of sales as a percentage of revenue decreased from 84% to 80% for the year ended June 30, 1999. The decrease in technology contract cost of sales as a percentage of revenue reflects a favorable mix of contracts performed during fiscal 1999.

**Operating and Other Expenses.** Operating and other expenses increased \$1,088,000 from \$9,744,000 for the year ended June 30, 1998 to \$10,832,000 for the year ended June 30, 1999. Of the Company's operating and other expenses, research and development expenses decreased \$726,000, or 11% from \$6,651,000 for the year ended June 30, 1998 to \$5,925,000 for the year ended June 30, 1999. Research and development expenses decreased as a result of the Company focusing its resources on a limited number of key rechargeable battery programs. Selling, general and administration expenses increased \$405,000, approximately 7%, from \$5,790,000 for the year ended June 30, 1998 to \$6,195,000 for the year ended June 30, 1999. Selling and administrative expenses in the year ended June 30, 1998 included insurance proceeds of \$663,000 offsetting incremental costs of operations corresponding to replacement facility rental, transportation costs and other such costs relating to the December 1996 fire

at Ultralife UK. Gains as a result of the receipt of insurance proceeds to replace assets previously written off due to fires at Ultralife UK decreased by \$1,409,000, or approximately 52%, from \$2,697,000 in the year ended June 30, 1998 to \$1,288,000 in the year ended June 30, 1999. The insurance claims have been settled and there will be no further gains from these claims recorded in future periods.

Other Income and Expense. Interest income, net increased \$568,000 from \$888,000 for the year ended June 30, 1998 to \$1,456,000 for the year ended June 30, 1999. The increase in interest income is the result of higher average balances invested following the public securities offering completed April 30, 1998. Other income includes a gain of \$348,000 on the sale of Intermagnetics General Corporation common shares in the fourth quarter of the year ended June 30, 1999.

Net Losses. Net losses increased \$65,000, or approximately 1%, from \$7,020,000, or \$0.84 per share, for the year ended June 30, 1998 to \$7,085,000, or \$0.68 per share, for the year ended June 30, 1999, primarily as a result of the reasons described above.

#### Fiscal Year Ended June 30, 1998 Compared with the Fiscal Year Ended June 30, 1997

Revenues. Total revenues of the Company increased \$450,000 from \$15,941,000 for the year ended June 30, 1997 to \$16,391,000 for the year ended June 30, 1998. Primary battery sales decreased \$1,468,000 or approximately 10% from \$14,765,000 for the year ended June 30, 1997 to \$13,297,000 for the year ended June 30, 1998. The decline in battery sales was primarily due to lower sales of high rate batteries by Ultralife UK as a result of suspended operations at the Company's Abingdon, England facility due to a fire which occurred in December 1996. The completion of the U.S. Army Contract in December 1997 for BA-5372 primary batteries also contributed to the lower sales in fiscal 1998. Substantially offsetting these declines were greater sales of 9-Volt lithium batteries, which increased 32% over the prior year. Rechargeable battery sales increased \$766,000 as the Company achieved the first commercial deliveries of its advanced technology polymer batteries. Technology contract revenues increased \$1,152,000 or approximately 98%, from \$1,176,000 for the year ended June 30, 1997 to \$2,328,000 for the year ended June 30, 1998. The increase in technology contract revenues resulted principally from development funds for the development of rechargeable batteries for a new generation notebook computer. In addition, work on the Company's Phase III Small Business Innovation Research (SBIR) Department of Defense contract for enhanced BA-5590 batteries further contributed to higher technology contract revenues.

Cost of Products Sold. Cost of products sold decreased \$596,000, from \$15,118,000 for the year ended June 30, 1997 to \$14,522,000 for the year ended June 30, 1998. Cost of products sold as a percentage of revenues decreased from approximately 95% to 89% for the year ended June 30, 1998. Cost of primary batteries sold decreased \$2,088,000 from \$13,880,000, or 94% of revenues, for the year ended June 30, 1997 to \$11,792,000, or 89% of revenues, for the year ended June 30, 1998. The decrease in cost of primary batteries sold as a percentage of revenues was principally the result of increased production volumes of 9-volt batteries. During the fourth quarter the Company attempted to further increase its production rates for 9-volt batteries to respond to an increase in customer orders. While the Company was successful in achieving a moderate increase over the previous quarter, the Company experienced higher production costs along with lower yields. Corrective actions were implemented to improve efficiencies at higher production rates. Cost of products sold includes \$2,011,000 of insurance proceeds received by Ultralife UK that offset unabsorbed overhead expenses resulting from lower production volumes associated with suspended manufacturing operations following the December 1996 fire. Cost of rechargeable battery sales increased \$766,000, or 100% of revenues, as the Company began initial commercial shipments of its polymer batteries. Technology contracts cost of sales increased \$726,000 from \$1,238,000 for the year ended June 30, 1997 to \$1,964,000 for the year ended June 30, 1998. Technology contracts cost of sales as a percentage of revenue decreased from 105% to 84% for the year ended June 30, 1998. The decrease in technology contract cost of sales as a percentage of revenue reflected a greater number of contracts to

absorb overhead expenses.

**Operating and Other Expenses.** Operating and other expenses increased \$364,000, from \$9,380,000 for the year ended June 30, 1997 to \$9,744,000 for the year ended June 30, 1998. Of the Company's operating and other expenses, research and development expenses increased \$3,238,000, or 95%, from \$3,413,000 for the year ended June 30, 1997 to \$6,651,000 for the year ended June 30, 1998. Research and development expenses increased as a result of the Company's efforts to improve its production processes and performance of its advanced rechargeable batteries. Selling, general and administrative expenses increased \$572,000, from \$5,218,000 for the year ended June 30, 1997 to \$5,790,000 for the year ended June 30, 1998. The increase in selling, general and administrative expenses is primarily attributable to increased personnel to support the Company's expansion plans, legal costs to resolve various claims, higher compensation, and associated personnel expenses. Selling and administrative expenses also included insurance proceeds of \$663,000 offsetting incremental costs of operations corresponding to replacement facility rental, transportation costs and other such costs relating to the December 1996 fire at Ultralife UK. Total operating and other expenses also decreased by \$2,697,000 as a result of the receipt of insurance proceeds to replace assets previously written off due to fires at Ultralife UK.

**Other Income and Expense.** Interest income decreased \$464,000, from \$1,352,000 for the year ended June 30, 1997 to \$888,000 the year ended June 30, 1998. The decrease of interest income was the result of lower average balances invested since the Company used cash and investments to fund operations and capital additions primarily for high volume production equipment for rechargeable batteries.

**Net Loss.** Net loss decreased \$226,000 from \$7,246,000, or \$0.91 per share, for the year ended June 30, 1997 to \$7,020,000, or \$0.84 per share, for the year ended June 30, 1998, primarily as a result of the reasons described above.

### **Liquidity and Capital Resources**

As of June 30, 1999, cash equivalents and available for sale securities totaled \$23,556,000. During the year ended June 30, 1999, the Company used \$8,027,000 of cash in operating activities as compared to \$2,715,000 for the year ended June 30, 1998. The increase in cash used in operations is the net result of the net loss for the year, increased trade receivables and inventories and lower accounts payable and customer advances offset by depreciation and amortization expenses and increased provisions for doubtful accounts and inventory obsolescence. The increase in trade receivables primarily reflects higher fourth quarter sales partially offset by improved collections. Days sales in trade receivables were 53 days at June 30, 1999 as compared to 70 days at June 30, 1998. The increase in inventories at June 30, 1999 is the result of increased production volumes partially offset by continued improvement in the turnover of battery inventories. Months cost of sales in inventory at June 30, 1999 was 2.9 months as compared to 3.4 months at June 30, 1998. In the year ended June 30, 1999, the Company used \$3,427,000 to purchase plant, property and equipment. Of this amount, \$482,000 related to the acquisition of assets for the reinstatement of Ultralife UK's manufacturing facility following the fire in December 1996, \$1,316,000 relates to the acquisition of machinery and equipment for the Company's other primary battery operations, \$1,036,000 relates to rechargeable battery machinery and equipment and the balance is substantially for a new enterprise-wide computer system and facilities upgrades for Year 2000 compliance.

The Company has long term debt of \$215,000 primarily relating to the capital lease obligation for the Company's Newark, New York offices and manufacturing facilities. A line of credit in the amount of \$330,000 is maintained by Ultralife UK for short term working capital requirements. With planned sales growth, the Company is continuing to explore obtaining working capital lines of credit of approximately \$15,000,000. At present, no commitments for this financing have been obtained.

The Company believes that its present cash position and cash flows from operations will be sufficient to satisfy the Company's estimated cash requirements for at least 12 months.

## **Other**

**Taiwan Venture.** In December 1998, the Company announced a venture with PGT Energy Corporation (PGT), together with a group of investors, to produce Ultralife's polymer rechargeable batteries in Taiwan. Ultralife will provide the venture, named Ultralife Taiwan, Inc. (UTI), with its proprietary technology and 700,000 shares of Ultralife common stock. Ultralife will be UTI's largest shareholder with approximately 46% ownership, and hold half of the seats on UTI's board of directors. PGT and the group of investors will fund UTI with \$21.25 million in cash and hold the remaining seats on the board.

**Newly Issued Accounting Standards.** In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet either as an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. This statement is to be effective for fiscal years beginning after June 15, 1999. The Company has not yet determined the impact of adopting SFAS No. 133 on its financial statements. However, given the current level of the Company's derivative and hedging activities, the impact is not expected to be material.

**Year 2000 Compliance.** The "Year 2000" issue is the result of computer programs being written using only two digits as opposed to four to represent the applicable year. Computer programs that have time sensitive software may recognize "00" as the year 1900 rather than the year 2000. This could potentially result in a system failure or an error in calculation. This Year 2000 issue is believed to affect all companies and organizations, including the Company.

The Company is taking a number of steps in an effort to assess its readiness for Year 2000 issues, including reviewing all business systems, testing equipment, surveying key material suppliers, and completing the remediation plan.

During fiscal 1999, the Company's review and assessment determined that its U.S. accounting system was not Year 2000 compliant. As part of its ongoing project to improve the flow of management information and control of operations, the Company implemented and began using an enterprise-wide software system as of July 1, 1999. The Company now believes that its systems are fully Year 2000 compliant. The total costs of this project, including hardware, software, consulting and implementation costs, amounted to approximately \$450,000. Most of these costs were capitalized.

In addition to internal Year 2000 activities, the Company is in contact with its key suppliers and vendors to assess their state of readiness and compliance. The Company has issued documentation to key vendors and suppliers and is receiving assurances from these companies that all new equipment purchased is Year 2000 compliant, and that the supply of materials necessary to the continued smooth operation of the Company will not be materially affected by any Year 2000 issues. However, it is difficult to predict with certainty what the impact on the Company may be as a result of any Year 2000 problems at its vendors and suppliers.

The Company believes that the cost of completing the assessment and remediation plan will not be material and that the risks to the Company with respect to Year 2000 issues are manageable. Management is continuing to examine the Year 2000 issues as they potentially impact the Company and is finalizing contingency plans as necessary.

**U.S. Army Contract.** On April 23, 1999, the Company announced that it had been awarded a \$1.7 million sole-source contract to provide primary (disposable) batteries to the U.S. Army. The contract was awarded by the U.S. Army Communications and Electronics Command (CECOM) in Ft. Monmouth, New Jersey. The battery ordered by CECOM is designated BA-X372/U, a 6-volt cylindrical battery consisting of two lithium-manganese dioxide cells connected in series. The batteries are primarily used to provide the necessary memory back-up power for the most widely used military "Singars" radio. Ultralife had

previously produced this battery from 1994 through 1997 under a separate contract with CECOM. The new contract calls for production to begin within four months, and it is expected that shipments of the batteries will run through mid-2000.

Advanced Technology Program (ATP). In April 1999 the Company began work on a three-year, \$15.3 million cost-sharing project sponsored by the U.S. Department of Commerce. The objective of the project is to develop and produce ultra-high-energy solid polymer rechargeable batteries that will significantly outperform existing batteries in a broad range of portable electronic applications. The Company is leading a team comprised of Eagle-Picher Technologies, the world's largest supplier of satellite batteries, and Lockheed-Martin Missiles and Space, a leading supplier of satellites and space vehicles. Major subcontractors, such as Sandia National Laboratories will also play key roles in the project. As the lead contractor, Ultralife will receive approximately \$2.14 million during the first year, \$1.65 million during the second year, and \$0.8 million during the third year of the program.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and schedules listed in Item 14(a)(1) and (2) are included in this Report beginning on page F-1.

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

None

### **PART III**

#### **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**

Incorporated by reference from the information captioned "Certain Transactions" included in the Proxy Statement.

## PART IV

### 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:

Ultralife Batteries, Inc. and Subsidiary -----	Page ----
Report of Independent Public Accountants, Arthur Andersen LLP	F-1
Consolidated Financial Statements	
Consolidated Balance Sheets as of June 30, 1999 and 1998	F-2
Consolidated Statements of Operations for the years ended June 30, 1999, 1998 and 1997	F-3
Consolidated Statements of Changes in Comprehensive Income and Stockholders' Equity for the years ended June 30, 1999, 1998 and 1997	F-4
Consolidated Statements of Cash Flows for the years ended June 30, 1999, 1998 and 1997	F-5
Notes to Consolidated Financial Statements	F-6

#### 2 Financial Statement Schedules

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	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
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

Exhibit Index	Description of Document	Incorporated By Reference to:
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 Report on Company's 1991 Stock Option Plan	Exhibit 10.9 on the 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
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 Amendment to the Employment	Exhibit 10.22 of the 1995 10-K
10.23	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
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.	Exhibit 10.26 to the Company's Report on Form 10-K for the year ended June 30, 1998
10.27	Purchase orders from Mitsubishi Electronics America, Inc.	Exhibit 10.27 to the Company's Report on Form 10-K for the year ended June 30, 1998
10.28	Lease agreement between Wayne County Industrial Development Agency and the Company, dated as of February 1, 1998.	Exhibit 10.1 to Registration Statement File No. 333-47087
10.29	Joint Venture Agreement for Ultralife Taiwan, Inc. dated October 10, 1998	Filed herewith
10.30	Amendments to the Joint Venture Agreement dated October 10, 1998 between Ultralife Batteries, Inc. (UBI) and PGT Energy Corporation (PGT)	Filed herewith
10.31	Technology Transfer Agreement dated December 4, 1998 between UBI and PGT	Filed herewith
10.32	Sales Agreement dated December 4, 1998 between UBI and PGT	Filed herewith

23.1 Consent of Arthur Andersen LLP Filed herewith

27. Financial Data Schedule Filed herewith

(d) Financial Statement Schedules.

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

None

## 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.

Date: September 27, 1999

By: /s/JOHN KAVAZANJIAN

-----  
John Kavazanjian  
President and  
Chief Executive Officer  
(Principal Executive Officer)

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: September 27, 1999

/s/JOHN KAVAZANJIAN

-----  
John Kavazanjian  
President, Chief Executive Officer  
and Director

Date: September 27, 1999

/s/FREDERICK F. DRULARD

-----  
Frederick F. Drulard  
Vice President Finance and  
Chief Financial Officer  
(Principal Financial Officer)

Date: September 27, 1999

/s/JOSEPH C. ABELES

-----  
Joseph C. Abeles (Director)

Date: September 27, 1999

/s/JOSEPH N. BARRELLA

-----  
Joseph N. Barrella (Director)

Date: September 27, 1999

/s/RICHARD HANSEN

-----  
Richard Hansen (Director)

Date: September 27, 1999

/s/BRUCE JAGID

-----  
Bruce Jagid (Director)

Date: September 27, 1999

/s/ARTHUR LIEBERMAN

-----  
Arthur Lieberman (Director)

Date: September 27, 1999

/s/CARL H. ROSNER

-----  
Carl H. Rosner (Director)

## 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, 1999 and 1998, and the related consolidated statements of operations, changes in comprehensive income and stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

### **ARTHUR ANDERSEN LLP**

Rochester, New York  
September 8, 1999

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

	June 30,	
	1999	1998
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 776	\$ 872
Available-for-sale securities	22,780	34,816
Trade accounts receivable (less allowance for doubtful accounts of \$429, and \$158 at June 30, 1999 and 1998, respectively)	3,554	3,046
Inventories	5,018	3,911
Prepaid expenses and other current assets	2,112	2,144
	-----	-----
Total current assets	34,240	44,789
Property and equipment:		
Machinery and equipment	36,288	33,113
Leasehold improvements	1,115	863
	-----	-----
	37,403	33,976
Less -- accumulated depreciation and amortization	5,626	3,828
	-----	-----
	31,777	30,148
	-----	-----
Other assets and deferred charges:		
Technology license agreements and other (net of accumulated amortization of \$968 and \$561, at June 30, 1999 and 1998, respectively)	403	890
	-----	-----
Total assets	\$ 66,420	\$ 75,827
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 107	\$ 50
Accounts payable	3,847	4,785
Accrued compensation	653	335
Customer advances	--	334
Other current liabilities	1,198	1,540
	-----	-----
Total current liabilities	5,805	7,044
	-----	-----
Long term liabilities:		
Long-term debt and capital lease obligations	215	197
	-----	-----
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares- none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 20,000,000 shares; 10,512,386 shares issued in 1999 and 1998	1,051	1,051
Capital in excess of par value	93,605	93,605
Accumulated other comprehensive income	267	1,368
Accumulated deficit	(34,220)	(27,135)
	-----	-----
	60,703	68,889
Less -- Treasury stock, at cost (27,250 shares in 1999 and 1998)	(303)	(303)
	-----	-----
Total stockholders' equity	60,400	68,586
	-----	-----
Total liabilities and stockholders' equity	\$ 66,420	\$ 75,827
	=====	=====

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

**ULTRALIFE BATTERIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands, Except Per Share Amounts)

	Year ended June 30,		
	1999	1998	1997
Revenues	\$ 21,064	\$ 16,391	\$ 15,941
Cost of products sold	19,016	14,522	15,118
Gross profit	2,048	1,869	823
Operating and other expenses:			
Research and development	5,925	6,651	3,413
Selling, general, and administrative	6,195	5,790	5,218
Loss on China battery development program	--	--	805
Gain on fires	(1,288)	(2,697)	(56)
Total operating and other expenses	10,832	9,744	9,380
Other income (expense):			
Interest income, net	1,456	888	1,352
Equity loss in affiliates	(80)	--	--
Gain on sale of securities	348	--	--
Other expense, net	(25)	(33)	(41)
Loss before income taxes	(7,085)	(7,020)	(7,246)
Income taxes	--	--	--
Net loss	\$ (7,085)	\$ (7,020)	\$ (7,246)
Net loss per common share	\$ (0.68)	\$ (0.84)	\$ (0.91)
Weighted average number of shares outstanding	10,485	8,338	7,923

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

**ULTRALIFE BATTERIES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES**  
**IN COMPREHENSIVE INCOME AND STOCKHOLDERS' EQUITY**  
(Dollars in Thousands)

	Common Stock		Accumulated Other Comprehensive Income			
	Number of Shares	Amount	Capital in Excess of Par Value	Foreign Currency Translation Adjustment	Unrealized Net Gain on Securities	Accumulated Deficit
Balance as of June 30, 1996	7,923,211	\$ 793	\$64,631	\$ 37	\$3,843	(\$ 12,869)
Comprehensive loss:						
Net loss						(7,246)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments				254		
Unrealized net gain (loss) on securities					(2,532)	
Other comprehensive income (loss)						
Comprehensive loss						
Shares issued under stock option plan and other stock options	30,125	3	152			
Purchase of treasury stock	(27,500)					
Other	250		3			
Balance as of June 30, 1997	7,926,086	796	64,786	291	1,311	(20,115)
Comprehensive loss:						
Net loss						(7,020)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments				67		
Unrealized net gain (loss) on securities					(301)	
Other comprehensive income (loss)						
Comprehensive loss						
Shares issued under public offering, less offering costs of approximately \$2,699	2,500,000	250	28,301			
Shares issued under stock option plan and other stock options	58,800	5	518			
Issuance of common stock from treasury	250					
Balance as of June 30, 1998	10,485,136	1,051	93,605	358	1,010	(27,135)
Comprehensive loss:						
Net loss						(7,085)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments				(459)		
Unrealized net gain (loss) on securities					(642)	
Other comprehensive income (loss)						
Comprehensive loss						
Balance as of June 30, 1999	10,485,136	\$1,051	\$93,605	(\$101)	\$ 368	(\$ 34,220)
	Treasury Stock	Total				
Balance as of June 30, 1996	\$ -	\$56,435				
Comprehensive loss:						
Net loss			(7,246)			
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments			254			
Unrealized net gain (loss) on securities			(2,532)			
Other comprehensive income (loss)			(2,278)			
Comprehensive loss			(9,524)			
Shares issued under stock option plan and other stock options			155			
Purchase of treasury stock	(306)		(306)			
Other			3			
Balance as of June 30, 1997	(306)		46,763			
Comprehensive loss:						
Net loss			(7,020)			
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments			67			
Unrealized net gain (loss) on securities			(301)			
Other comprehensive income (loss)			(234)			
Comprehensive loss			(7,254)			
Shares issued under public offering, less offering costs of approximately \$2,699			28,551			
Shares issued under stock option plan and other stock options			523			

Issuance of common stock from treasury	3	3
	-----	-----
Balance as of June 30, 1998	(303)	68,586
Comprehensive loss:		
Net loss		(7,085)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments		(459)
Unrealized net gain (loss) on securities		(642)
		-----
Other comprehensive income (loss)		(1,101)
		-----
Comprehensive loss		(8,186)
		-----
Balance as of June 30, 1999	(\$303)	\$60,400
	=====	=====

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

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

	Year ended June 30,		
	1999	1998	1997
<b>OPERATING ACTIVITIES</b>			
Net loss	\$ (7,085)	\$ (7,020)	\$ (7,246)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,205	1,364	841
Equity loss in affiliates	80	--	--
Loss on China battery development program	--	--	284
Provision for loss on accounts receivable	271	(120)	88
Provision for inventory obsolescence	68	(659)	93
Realized gain on sale of securities	(348)	--	--
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(779)	(210)	1,203
(Increase) decrease in inventories	(1,175)	2,051	3,042
Decrease (increase) in prepaid expenses and other current assets	32	(483)	(311)
(Decrease) increase in accounts payable and other current liabilities	(962)	3,664	(868)
(Decrease) increase in customer advances	(334)	(1,302)	1,302
Net cash used in operating activities	(8,027)	(2,715)	(1,572)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(3,427)	(12,245)	(8,913)
Purchase of technology license	--	(350)	--
Purchases of securities	(94,417)	(164,438)	(139,485)
Sales of securities	75,130	137,104	64,969
Maturities of securities	31,029	12,064	85,993
Net cash provided by (used in) investing activities	8,315	(27,865)	2,564
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of debt	115	--	--
Principal payments under capital lease obligations	(40)	--	--
Proceeds from issuance of common stock	--	29,074	159
Purchase of treasury stock	--	--	(306)
Net cash provided by (used in) financing activities	75	29,074	(147)
Effect of exchange rate changes on cash	(459)	67	253
Increase (decrease) in cash and cash equivalents	(96)	(1,439)	1,098
Cash and cash equivalents at beginning of period	872	2,311	1,213
Cash and cash equivalents at end of period	\$ 776	\$ 872	\$ 2,311
Supplemental schedule of noncash investing and financing activities:			
Capital lease obligation related to building	\$ --	\$ 247	\$ --
Unrealized net gain (loss) in securities	\$ 294	\$ 301	\$ (2,532)

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

# ULTRALIFE BATTERIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Per Share Amounts)

### Note 1-Summary of Operations and Significant Accounting Policies

#### a. Description of Business

Ultralife Batteries, Inc. (the "Company") develops, manufactures, and markets primary and rechargeable lithium batteries for use in a wide array of applications. 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. The Company had battery sales to a single customer amounting to \$4,192, or 20% of total revenues in 1999; \$1,993, or 12% of total revenues in 1998; and \$2,391, or 15% of total revenues in 1997. The Company does not normally obtain collateral on trade accounts receivable.

#### b. Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and 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. Investments in entities in which the Company does not have a controlling interest are accounted for using the equity method.

#### c. 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.

#### d. Cash Flows

For purposes of the Statements of Cash Flows, the Company considers all demand deposits with financial institutions and financial instruments with original maturities of three months or less to be cash equivalents. Interest paid was \$40 in 1999, \$3 in 1998 and \$0 in 1997.

#### e. Available-for-Sale Securities

Management determines the appropriate classification of securities at the time of purchase and re-evaluates 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, included as a component of accumulated other comprehensive income.

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. 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. Realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are included in the determination of net income (loss) as gains (losses) on sale of securities.

**ULTRALIFE BATTERIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in Thousands, Except Per Share Amounts)

**Note 1-Summary of Operations and Significant Accounting Policies (cont'd)**

f. Inventories

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

g. Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of three to twelve 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.

In the event that facts and circumstances indicate that the carrying amount of a long-lived asset may be impaired, an evaluation of recoverability would be performed. If an impairment is determined to exist, 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. The Company did not record any impairments of long lived assets in 1999, 1998 or 1997.

h. Technology License Agreements

Technology license agreements consist of the rights to patented technology and related technical information. The Company acquired two technology license agreements for an initial payment of \$1,000 and \$100 respectively. Royalties are payable at a rate of 8% and an initial rate of 4%, respectively, of the fair market value of each battery using the technology if the battery is sold or otherwise put into use by the Company for a 10-year period. The royalties can be reduced under certain circumstances based on the terms of these agreements. 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. During 1998, in connection with the settlement of a lawsuit (see Note 6(f)), the Company acquired an additional technology license agreement for \$350, which expired in May 1999.

i. Translation of Foreign Currency

The financial statements of the Company's foreign affiliates are translated into U.S. dollar equivalents in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation". There were no exchange gains or losses included in net loss for the years ended June 30, 1999, 1998 and 1997.

j. Income Taxes

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

k. Research and Development

Research and development expenditures are charged to operations as incurred.

**ULTRALIFE BATTERIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 1-Summary of Operations and Significant Accounting Policies (cont'd)**

**l. Revenue Recognition**

Revenues from sales of batteries are recognized when products are shipped. A provision is made at that time for warranty costs expected to be incurred.

**m. 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. Elements of cost include direct material, labor and overhead. When a loss on a contract is estimated, the full amount of the loss is recognized immediately. The Company allocates costs to all technology contracts based upon actual costs incurred including an allocation of certain research and development costs incurred. Under certain research and development arrangements with the U.S. Government, the Company may be required to transfer technology developed to the U.S. Government. The Company has accounted for the contracts in accordance with SFAS No. 68, "Research and Development Arrangements". The Company, where appropriate, has recognized a liability for amounts that may be repaid to third parties.

**n. Derivative Financial Instruments and Fair Value of Financial Instruments**

SFAS 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 did not have any derivative financial instruments at June 30, 1999 and 1998.

SFAS 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, 1999 and 1998. Fair values have been determined through information obtained from market sources.

**o. Earnings per Share**

The Company accounts for net loss per common share in accordance with the provisions of SFAS No. 128, "Earnings Per Share". SFAS No. 128 requires the reporting of basic and diluted earnings per share (EPS). Basic EPS is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding for the period. No dilution for common share equivalents is included. Diluted EPS includes the dilutive effect of securities calculated using the treasury stock method. For 1999, 1998 and 1997, diluted earnings per share was the equivalent of basic earnings per share due to the net loss.

**p. New Accounting Pronouncements**

In 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income (loss) and its components. Comprehensive income (loss) includes net income (loss) and other comprehensive income consisting of unrealized gains and losses that bypass the traditional income statement and are recorded in a separate section of stockholders' equity on the consolidated balance sheet. The components of other comprehensive income for the Company consist of unrealized net gains on securities and foreign currency translation adjustments.

In 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for reporting information about operating segments in the

**ULTRALIFE BATTERIES, INC.**  
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**Note 1-Summary of Operations and Significant Accounting Policies (cont'd)**

financial statements. The standard requires businesses to present information on business segments in a manner consistent with the way in which a company's chief operating decision maker views the business to make resource-related decisions. (See Note 11--Business Segment Information.)

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting requirements for derivative instruments and hedging activities. The statement is effective for all fiscal years beginning after June 15, 1999. The Company has not yet determined the impact of this standard on its financial statements. However, given the current level of the Company's derivative and hedging activities, the impact is not expected to be material.

q. 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.

r. Reclassifications

In order to conform to the 1999 presentation, certain amounts in the 1998 and 1997 financial statements have been reclassified.

**Note 2-Investments**

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

June 30, 1999 -----	Cost	Unrealized Gains/(Losses)	Estimated Fair Value
	-----	-----	-----
Commercial Paper and other .....	\$ 6,986	\$ --	\$ 6,986
U.S. corporate bonds .....	13,708	(93)	13,615
	-----	-----	-----
Total debt securities .....	20,694	(93)	20,601
Intermagnetics General Corporation (equity securities) .....	1,718	461	2,179
	-----	-----	-----
	\$ 22,412	\$ 368	\$ 22,780
	=====	=====	=====
June 30, 1998 -----	Cost	Unrealized Gains/(Losses)	Estimated Fair Value
	-----	-----	-----
Commercial Paper and other .....	\$ 28,087	\$ --	\$ 28,087
U.S. Government agencies .....	250	--	250
U.S. corporate bonds .....	3,315	9	3,324
	-----	-----	-----
Total debt securities .....	31,652	9	31,661
Intermagnetics General Corporation (equity securities) .....	2,154	1,001	3,155
	-----	-----	-----
	\$ 33,806	\$ 1,010	\$ 34,816
	=====	=====	=====

The Company has instructed its investment fund managers to invest in conservative, investment grade securities with average maturities of less than three years. In fiscal 1999, the Company realized a gain on sale of securities of \$348, relating to the sale of a portion of the Company's investment in Intermagnetics General Corporation.

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**Note 2-Investments (cont'd)**

At June 30, 1999, all of the Company's available-for-sale securities had contractual maturities of one year or less. 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.

Note 3-Inventories

The composition of inventories was:

	June 30,	
	1999	1998
Raw materials.....	\$ 2,984	\$ 2,613
Work in process.....	2,080	1,333
Finished products.....	249	192
	5,313	
	5,313	4,138
Less: Reserve for obsolescence.....	295	227
	\$ 5,018	
	\$ 5,018	\$ 3,911
	=====	=====

**Note 4-Leases**

The Company leases various buildings, land, automobiles and office equipment. Rental expenses for all operating leases were approximately \$379, \$713 and \$745 for the years ended June 30, 1999, 1998 and 1997, respectively. Future minimum lease payments under noncancelable operating leases as of June 30, 1999 are as follows: 2000 - \$351, 2001 - \$309, 2002 - \$261, 2003 - \$224, 2004 - \$222 and thereafter - \$1,993. The above amounts do not include contingent or additional rent.

In addition to operating leases, the Company also has a capital lease for its Newark, New York facility which provides for payments of \$50 per year through December 2001 and \$28 per year from December 2001 through 2007. At the end of this lease term, the Company is required to purchase the facility for one dollar.

**Note 5-Long-term Debt**

In May 1999, the Company borrowed funds from New York Power Authority that were used toward the construction of a solvent recovery system. The annual interest rate on the loan is 6%. The loan is to be repaid in 24 equal monthly payments. The principal balance of the loan at June 30, 1999 was \$115, of which \$57 is classified as a current liability.

**Note 6-Commitments and Contingencies**

a. China Program

In July 1992, the Company entered into several agreements related to the establishment of a manufacturing facility in China for the production and distribution of batteries. The Company made an investment of \$284 of a total anticipated investment of \$405 which would represent a 15% interest in the China Program and accounted for this investment using the cost method. 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 a lithium battery manufacturing plant. China Battery was required to pay approximately \$6,000 to the Company over the first

**ULTRALIFE BATTERIES, INC.**  
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**Note 6-Commitments and Contingencies (cont'd)**

two years of the agreement, of which approximately \$5,600 has been paid. The Company has been attempting to collect the balance due under this contract. China Battery 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, the Company wrote off in fiscal 1997 the entire balance owed to the Company as well as the Company's investment. In December 1997, China Battery sent to the Company a letter demanding reimbursement of losses they have incurred plus a refund for certain equipment that the Company sold to China Battery. Although China Battery has not taken any additional steps, there can be no assurance that China Battery will not further pursue such a claim, which, if successful, would have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes that such a claim is without merit.

b. Letters of Credit

In conjunction with the purchase/lease agreement to acquire the Company's Newark, NY facilities, the Company established a letter of credit in the amount of \$200 which expires in 2001. As of June 30, 1999, \$150 remains outstanding. All letters of credit are collateralized by the Company's investments.

In addition, a line of credit in the amount of \$330 is maintained by Ultralife UK for short term working capital requirements.

c. Indemnity Agreement

The Company has an Indemnity Agreement with each member of its Board of Directors and corporate officers. 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.

d. Purchase Commitments

As of June 30, 1999, the Company has made commitments to purchase approximately \$1,074 of production machinery and equipment.

e. Royalty Agreement

Technology underlying certain products of the Company are based in part as non-exclusive transfer agreements. The Company made an original payment for such technology and is required to make royalty and other payments in the future which incorporate the licensed technology. The license expires in 2007.

f. Legal Matters

A company has filed a claim against the Company seeking amounts related to commissions and breach of good faith and fair dealings. The Company's counsel believes that an unfavorable outcome is unlikely in this matter.

An individual has filed suit claiming the Company interfered with his opportunity to purchase Dowty Group, PLC (now the Company's U.K. subsidiary). The claim amounts to \$25,000. The Company believes that the claim is without merit and the Company intends to vigorously defend its position. At this time, the outcome of this suit is uncertain. An unfavorable outcome of this suit may have a material adverse impact on the Company's financial position and results of operations.

**ULTRALIFE BATTERIES, INC.**  
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**Note 6-Commitments and Contingencies (cont'd)**

A company had alleged infringement of two patents concerning technology incorporated into the Company's rechargeable batteries. In May of 1998, the Company settled this suit. In the settlement the Company acquired a technology license agreement in exchange for \$350, which expired in fiscal 1999.

In August 1998, the Company, its Directors, certain of its officers, and certain underwriters were named as defendants in a complaint filed by certain shareholders who claim to represent a class of shareholders alleging that the defendants, during the period of April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's common stock. The complaint alleges that the Company's offering documents were materially incomplete, and as a result misleading, and that the class members purchased the Company's common stock at artificially inflated prices in reliance thereon and were thereby damaged. The Company believes that the litigation is without merit and intends to defend it vigorously. All defendants have filed Motions to Dismiss the Complaint. As of May 6, 1999, the motions have been fully briefed and submitted to the Court. The amount of alleged damages, if any, cannot be quantified, nor can the outcome or this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease agreement of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with certain real estate tax concessions upon certain conditions. In connection with this agreement, the Company received an environmental assessment which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. The next phase of the project is expected to begin in late calendar 1999. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved.

**Note 7-Stockholders' Equity**

a. Preferred Stock

The Company has authorized 1,000,000 shares of preferred stock, with a par value of \$0.10 per share. At June 30, 1999, no preferred shares were issued or outstanding.

b. Common Stock

In June of 1998, the stockholders approved an increase in the number of authorized shares of common stock from 12,000,000 to 20,000,000.

In May of 1998, the Company sold 2,500,000 shares of common stock at \$12.50 per share, resulting in gross proceeds of \$31,250 and net proceeds of \$28,551 to the Company.

c. Stock Options

The Company sponsors several stock-based compensation plans, all of which are accounted for under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense for its stock-based compensation plans has been recognized in the Company's Consolidated Statements of Operations. In accordance with the disclosure

**ULTRALIFE BATTERIES, INC.**  
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**Note 7-Stockholders' Equity (cont'd)**

requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elected not to recognize compensation cost related to stock options. If the Company had elected to recognize compensation expense for all of the Company's stock-based compensation based on the fair value of the options at grant date as prescribed by SFAS No.123, the Company's net loss would have been \$8,252, \$8,232 and \$8,295 for the years ended June 30, 1999, 1998 and 1997, compared with the reported losses of \$7,085, \$7,020, and \$7,246. Loss per share would have been \$0.79, \$0.99, and \$1.05 in the years ended June 30, 1999, 1998 and 1997, respectively, as compared to reported loss per share of \$0.68, \$0.84, and \$0.91, respectively. The effect of SFAS No. 123 in the pro forma disclosures may not be indicative of future amounts.

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 grants in fiscal 1999, 1998 and 1997, respectively; expected option terms of three years for all periods; expected stock volatility of approximately 53.4% for 1999, 53.1% for 1998, and 46.6% for 1997; expected dividend yields of 0% for all periods; and average risk free interest rates of 5.3%, 5.8%, and 5.8% for 1999, 1998, and 1997, respectively. The weighted average fair value of options granted was \$3.63 in fiscal 1999, \$5.48 for 1998 and \$4.18 in fiscal 1997.

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 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. There are currently 11,250 shares remaining to be granted under the 1991 plan. 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% of the Company's common stock 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% of the Company's common stock). 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. Options granted under the 1992 plan are either ISO's or NQSO's. Key employees are eligible to receive ISO's and NQSO's; however, directors and consultants are eligible to receive only NQSO's.

Effective March 1, 1995, the Company established the 1995 stock option plan and granted the former Chief Executive Officer ("CEO") options to purchase 100,000 shares at \$14.25 per share under this plan. The options are exercisable in annual increments of 20,000 shares over a five-year period commencing March 1, 1996 until March 1, 2001. There were no other grants under the 1995 stock option plan. In October 1992, the Company granted, to the former CEO, options to purchase 225,000 shares of common stock at \$9.75 per share outside of any of the stock option plans. The options vested through June 1997 and expire on October 2002. In addition, on March 1, 1994, the Company granted options to the former CEO to purchase 150,000 shares at \$11.00 per share under the terms of an employment agreement and outside of any of the stock option plans. These options are exercisable in annual increments of 30,000 shares over a five-year period commencing March 1, 1995 until March 1, 2000.

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**Note 7-Stockholders' Equity (cont'd)**

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

	1999 ----		1998 ----		1997 ----	
	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.....	1,734,600	\$ 11.03	1,337,300	\$11.51	1,194,425	\$12.67
Options granted.....	346,000	\$ 7.10	736,200	\$10.42	503,150	\$10.12
Options exercised.....	--	\$ --	(58,800)	\$ 9.33	(30,125)	\$ 5.15
Options canceled.....	(262,600)	\$ 11.20	(280,100)	\$12.17	(330,150)	\$14.30
Shares under option at end of year	1,818,000	\$ 10.27	1,734,600	\$11.03	1,337,300	\$11.51
Options exercisable at end of year	1,074,940	\$11.17	946,900	\$11.29	826,300	\$11.43

The following table represents additional information about stock options outstanding at June 30, 1999 :

Options Outstanding			Options Exercisable		
Range of Exercise Prices -----	Number Outstanding At June 30, 1999 -----	Weighted- Average Remaining Contractual Life -----	Weighted- Average Exercise Price -----	Number Exercisable At June 30, 1999 -----	Weighted- Average Exercise Price -----
\$ 4.25- 8.90	678,500	4.9 Years	\$ 7.47	188,300	\$ 7.81
\$ 9.00-11.75	774,850	2.8 Years	\$10.20	615,490	\$10.13
\$12.00-17.50	300,650	2.4 Years	\$14.46	220,150	\$14.57
\$18.25-24.50	64,000	1.7 Years	\$21.16	51,000	\$21.43
\$ 4.25-24.50	1,818,000	3.5 Years	\$10.27	1,074,940	\$11.17

Subsequent to the end of the fiscal year, the Company issued 500,000 stock options as part of a compensation plan for the new CEO.

**d. Warrants**

In April 1997, the Company issued warrants to purchase 100,000 shares of its common stock at an exercise price of \$12.00 per share. Those warrants expired in April 1998. In March 1998, the Company issued warrants to purchase 12,500 shares of its common stock to the Empire State Development Corporation in connection with a \$500 grant. Proceeds of the grant were used to fund certain equipment purchases and are contingent upon the Company achieving and maintaining minimum employment levels. The remaining unamortized balance of \$350 relating to the grant is included in other current liabilities in the accompanying Consolidated Balance Sheet as of June 30, 1999. The warrants may be exercised through December 31, 2002 at an exercise price equal to 60% of the average closing price for the 10 trading days preceding the exercise date, but not less than the average closing price during the 20 trading days prior to the grant.

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**Note 7-Stockholders' Equity (cont'd)**

e. Reserved Shares

The Company has reserved 1,953,000, 1,953,000 and 2,159,125 shares of common stock under the various stock option plans and warrants as of June 30, 1999, 1998 and 1997, respectively.

**Note 8-Income Taxes**

Foreign and domestic loss carryforwards totaling approximately \$36,000 are available to reduce future taxable income. Foreign loss carryforwards of \$900 can be carried forward indefinitely. The domestic net operating loss carryforward of \$35,100 expires through 2014. Due to a change in ownership defined under Internal Revenue Code Section 382, the net operating loss carryforward will be subject to an annual limitation.

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 \$2,901, \$2,843, and \$3,273 for the years ended June 30, 1999, 1998 and 1997, respectively, to offset the deferred tax assets due to uncertainty.

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

	1999	1998
	----	----
Deferred tax liabilities:		
Unrealized gain on securities .....	\$ 125	\$ 341
Tax over book depreciation .....	892	888
	-----	-----
Total deferred tax liabilities .....	1,017	1,229
Deferred tax assets:		
Net operating loss carryforward .....	13,159	10,604
Other .....	372	238
	-----	-----
Total deferred tax assets .....	13,531	10,842
Valuation allowance for deferred assets .....	(12,514)	(9,613)
Net deferred tax assets .....	1,017	1,229
	-----	-----
Net deferred income taxes .....	\$ --	\$ --
	=====	=====

There were no income taxes paid for the years ended June 30, 1999, 1998 and 1997. For financial reporting purposes, loss from continuing operations before income taxes included the following:

	1999	June 30, 1998	1997
	----	----	----
United States .....	\$(7,830)	\$(9,053)	\$(6,916)
Foreign .....	745	2,033	(330)
	-----	-----	-----
Total .....	\$(7,085)	\$(7,020)	\$(7,246)
	=====	=====	=====

There are no undistributed earnings of Ultralife UK, the Company's foreign subsidiary, at June 30, 1999.

**ULTRALIFE BATTERIES, INC.**  
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**Note 9-401(K) Plan**

The Company maintains 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' contributions. 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 years ended June 30, 1999, 1998 and 1997, the Company contributed \$177, \$124 and \$75, respectively.

**Note 10-Related Party Transactions**

The Company held 281,210 common shares (market value of \$2,179) and 345,795 common shares (market value of \$3,155) of Intermagnetics General Corporation ("IGC") at June 30, 1999 and 1998, respectively. During 1999, the company sold a portion of its investment in IGC and realized a gain on sale of securities of \$348. IGC is considered to be a related party since certain directors of the Company also serve as officers or directors of IGC.

During 1999, the Company paid \$214 for professional services to a firm affiliated with one of the members of the Board of Directors.

**Note 11-Business Segment Information**

Effective June 30, 1999, the Company adopted the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". This statement establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Adoption of this statement had no impact on the Company's consolidated financial position, results of operations or cash flows. Comparative information for prior years has been restated.

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

1999

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	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 19,559	\$ 49	\$ 1,456	\$ --	\$ 21,064
Segment contribution	\$ 2,651	\$ (5,617)	\$ 297	\$ (6,195)	\$ (8,864)
Interest income, net					1,456
Other income (expense), net					323
Income taxes					--
Net loss					\$ (7,085)
Long-lived assets	\$ 7,776	\$ 19,525	\$ 264	\$ 4,615	\$ 32,180
Total assets	\$ 16,494	\$ 19,554	\$ 735	\$ 29,637	\$ 66,420
Capital expenditures	\$ 1,798	\$ 1,036	\$ 20	\$ 573	\$ 3,427
Depreciation and amortization expense	\$ 952	\$ 898	\$ 66	\$ 289	\$ 2,205

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**Note 11-Business Segment Information (cont'd)**

1998

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 13,297	\$ 766	\$ 2,328	\$ --	\$ 16,391
Segment contribution	\$ 3,661	\$ (6,108)	\$ 361	\$ (5,789)	\$ (7,875)
Interest income, net					888
Other income (expense), net					(33)
Income taxes					--
Net loss					\$ (7,020)
Long-lived assets	\$ 7,085	\$ 19,337	\$ 295	\$ 4,321	\$ 31,038
Total assets	\$ 12,444	\$ 20,119	\$ 1,317	\$ 41,947	\$ 75,827
Capital expenditures	\$ 505	\$ 10,978	\$ 14	\$ 748	\$ 12,245
Depreciation and amortization expense	\$ 708	\$ 496	\$ 38	\$ 122	\$ 1,364

1997

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	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$ 14,765	\$ --	\$ 1,176	\$ --	\$ 15,941
Segment contribution	\$ 799	\$ (3,271)	\$ (867)	\$ (5,217)	(8,556)
Interest income, net					1,352
Other income (expense), net					(42)
Income taxes					--
Net loss					\$ (7,246)
Long-lived assets	\$ 5,712	\$ 12,863	\$ 85	\$ 897	\$ 19,557
Total assets	\$ 13,233	\$ 12,485	\$ 702	\$ 24,975	\$ 51,395
Capital expenditures	\$ 1,018	\$ 7,283	\$ 53	\$ 559	\$ 8,913
Depreciation and amortization expense	\$ 654	\$ 105	\$ 12	\$ 70	\$ 841

Geographical Information

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	Revenues			Long-lived Assets		
	1999	1998	1997	1999	1998	1997
United States	\$ 10,504	\$ 8,081	\$ 8,892	\$ 26,612	\$ 25,554	\$ 18,134
United Kingdom	3,423	1,716	4,234	5,648	5,484	1,423
Hong Kong	4,423	1,986	288	--	--	--
Europe, excluding UK	1,671	3,384	1,602	--	--	--
Other	1,043	1,224	925	(80)	--	--
Total	\$ 21,064	\$ 16,391	\$ 15,941	\$ 32,180	\$ 31,038	\$ 19,557
	=====	=====	=====	=====	=====	=====

**Note 12-Taiwan Venture**

In December 1998, the Company announced the formation of a venture with PGT Energy Corporation (PGT), together with a group of investors, to produce Ultralife's polymer rechargeable batteries in Taiwan. The agreement stipulated that Ultralife will provide the venture, named Ultralife Taiwan, Inc. (UTI), with its proprietary technology and 700,000 shares of Ultralife common stock, in exchange for approximately a 46% ownership interest. Ultralife will also hold half the seats on UTI's board of directors. PGT and the group of investors will ultimately fund UTI with \$21,250 in cash and hold the remaining seats on the board.

**ULTRALIFE BATTERIES, INC.**  
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**Note 12-Taiwan Venture (cont'd)**

In July 1999, the Company issued 700,000 shares of its common stock to UTI in exchange for \$8,750 in cash. Subsequently, in September 1999, the Company contributed \$8,750 in cash to the UTI venture, fulfilling its investment pursuant to the agreement.

## **JOINT VENTURE AGREEMENT**

This Agreement is entered into on the 10th day of October, 1998 by and between:

Ultralife Batteries, Inc., a corporation incorporated under the laws of State of Delaware, United States of America, having its principal office of business at 1350 Route 88 S., Newark New York 14513 (hereinafter referred to as "UBI"); and

PGT Energy Corporation, currently, a preparatory office for a corporation to be incorporated under the laws of the Republic of China (hereinafter referred to as "ROC") with its principal office of business located at 7F-1, No. 67, Tze-You Road, Hsinchu, Taiwan, Republic of China (hereinafter referred to as "PGT"), together with a group of investors (as shown in Appendix I hereto). Mr. J.F. Hsu is the Chairman to be of the PGT; after PGT is legally incorporated, all rights and obligations provided in this Agreement shall be immediately assigned to and assumed by PGT.

### **WITNESSETH**

WHEREAS, UBI and PGT (together hereinafter referred to as "Parties") desire to set up a Joint Venture Company in Taiwan, ROC, with the company name Ultralife Taiwan, Inc., (hereinafter referred to as "UTI".) UTI shall engage in the manufacture, distribution, sales, and R&D of lithium-ion solid polymer rechargeable batteries. ( hereinafter referred to as "Product".)

NOW, THEREFORE, in consideration of these premises and mutual agreements, the Parties agree as follows:

#### **Section 1 Total Paid-In Capital and Capital Contribution**

UTI shall have total paid-in Capital of US\$40 million, of which US\$21.25 million shall be subscribed to by PGT and its designated parties. US\$18.75 million shall be subscribed to by UBI and its designated parties (together contributing 46.875% of UTI's initial paid-in capital and constituting it as UTI's largest shareholder.) Nonetheless, a feasibility study conducted jointly by the Parties is to be completed in 60 days after the execution of this Agreement to provide for the final decision of the total capitalization of UTI. The ratio of the share subscription shall be the same as the above provided. Of the US\$18.75 million to be contributed by UBI, US\$8.75 million will be

in the form of cash contribution, and the other US\$10 million will be in the form of transferred technology. In order to determine the New Taiwan Dollars paid-in capital, it is agreed upon by the Parties that the aforesaid US\$40 million shall be converted into New Taiwan Dollars based on the closing rate quoted by the Taipei Foreign Exchange Market on the date two (2) business days prior to the date on which UBI files its foreign investment application with the Investment Commission. If the last digit of the New Taiwan Dollars paid-in capital is not zero, the last digit shall be rounded up so that one share can be subscribed by PGT.

The Parties shall undertake to cause UTI to invest US\$8.75 million to UBI for 0.7 million UBI's unregistered shares at a price of US\$12.5 per share. UBI shall warrant to permit UTI to acquire additional shares for a maximum of 0.7 million shares at the base price of US\$12.5 per share within five years commencing from the execution date of this Agreement. UBI shall remit US\$8.75 million to UTI for the share subscription of UTI. The US\$10 million, the remaining portion of the capital contribution by UBI, shall be in the form of UBI's current polymer rechargeable battery technology, patent, manufacturing know-how, reasonable technical assistance, marketing assistance, and reasonable personnel training including dispatching UBI's technicians to UTI. Furthermore, the capital contribution by parties shall be guided by the Parties in accordance with the Equity Structure annexed hereto and marked "Appendix II".

## Section 2 Force and Effect of this Agreement

The force and effect of this Agreement is subject to the fulfillment of the following conditions:

2.1 PGT has obtained the formal registration of incorporation from the Ministry of Economics Affairs ("MOEA") within thirty (30) days after the execution of this Agreement.

2.2 UBI's Board of Directors shall approve this Agreement and the transactions contemplated hereunder within fourteen (14) days after the execution of this Agreement.

## Section 3. Closing - Formation of UTI

Promptly after all conditions referred to in Section 2 have been fulfilled ("Effective Date"), the Parties shall proceed with and undertake the Closing at Taipei, Taiwan, ROC, or such other places as designated by both Parties on a date mutually acceptable, but shall not be later than ninety (90) days after the Effective Date.

On the date of Closing, the Parties shall undertake or cause to undertake the following:

### 3.1 Incorporation of UTI

Each party shall pay in its respective share of capital contributions as set forth in Section 1 in accordance with Equity Structure ("Appendix II") and shall cause UTI to be incorporated under the laws of the ROC.

The Parties share the same objective of turning UTI into a public company registered on Taiwan Stock Exchange or other reputable stock exchange agreed between the Parties as soon as possible and when appropriate. The Parties shall closely cooperate and consult with each other with respect to the procedures and specific details of the incorporation of UTI, and undertake all necessary steps to meet this objective.

Any fees, expenses or costs in connection with the incorporation of UTI shall be for the account of UTI; provided that if this Agreement is terminated prior to the incorporation of UTI, the Parties shall share the abovesaid fees, expenses or costs on an equal (50/50) basis.

### 3.2 Articles of Incorporation of UTI

On the date of Closing and at the time of incorporation of UTI, the Parties shall sign, execute, and cause UTI to adopt its Articles of Incorporation in Chinese having the effect of the English version as annexed hereto and marked "Appendix III". Both Parties shall cause the articles of incorporation of UTI to comply with this Agreement. In case of any discrepancy between the Articles of Incorporation and this Agreement, the provisions of this Agreement shall prevail.

### 3.3 Sales Agent Agreement

The Parties agree to cause UTI's preparatory office to enter into the Sales Agent Agreement with UBI within sixty (60) days after the execution of this Agreement in

order to exercise its best efforts respectively to promote products of UBI and UTI, and diligently refer marketing opportunities and sales leads to each other. UTI shall be the exclusive sales agent for the rechargeable batteries of UBI for Asia. UBI shall be the exclusive sales agent for the product of UTI for the entire world except Asia. The Sales Agent Agreement shall provide for allocation of sale areas for Products of UBI and UTI, the cross promotion and support of products of one Party by the other, the compensation or commission, sale support, and supervision for such sales efforts. The definition of Asia in this Section shall be as referred to in Section 20 of this Agreement.

### 3.4 Share subscription

For the purpose of this Agreement, the shares as subscribed to by the nominees designated by either party shall be considered as a part of the shares subscribed to by the party who designated such nominees as if the shares were subscribed to by the said party. The party nominating such nominees shall cause such nominees to exercise votes vested in such shares in the same manner as the nominating party.

### 3.5 UTI's Right of First Refusal

If UBI has any further joint venture project in Asia (other than ROC and the People's Republic of China), UTI shall have the right of first refusal to participate in each such project within thirty (30) days after UBI serves a notice upon UTI. With respect to the ROC, the Parties agree that UTI shall be the sole joint venture partner of UBI, and as to the People's Republic of China, UTI shall have the right of first refusal, but if UTI refuses to join, UBI may carry out the project alone under the condition that UBI is the controlling shareholder of such project. The right of first refusal shall have the effect that UTI may take the place of UBI.

## Section 4 Termination of Agreement

If one of the following conditions cannot be fulfilled with the prescribed period hereunder, either party shall be free to terminate this Agreement at its own wish.

### 4.1 Authorization and Approval to be Obtained

Promptly after the execution of this Agreement, PGT shall assist UBI to file with

the appropriate competent authorities of the Government of the ROC for an application for authorization under the Law Governing Foreign Investment with respect to the investment it will make in UTI as referred to in this Agreement. PGT shall apply for the approval of competent authorities for the establishment of UTI in the Hsinchu or Tainan Science-Based Industrial Park. Both parties shall apply for the approval of the relevant authority for the value of UBI's technology capital contribution.

#### 4.2 Technology Transfer Agreement to be Executed by Parties

Within sixty (60) days after the execution of this Agreement, the Parties shall cause UTI's preparatory office to enter into a Technology Transfer Agreement (hereinafter referred to as "Technology Transfer Agreement") with UBI or either Party shall be entitled to terminate this Joint Venture Agreement. The Technology Transfer Agreement shall specify the technology granted by UBI to UTI as its capital contribution in UTI, the disclosure of the technology granted to UTI by UBI including, but not limited to, the lithium-ion polymer rechargeable battery technology, patent, technical information, data, and know-how currently in possession by UBI, and the cooperation between the Parties for technical assistance, problem solving, and personnel training. UTI will pay to UBI a bonus in the amount of US\$2.5 Million in installment payments in the amount to be decided by the board of directors of UTI after UTI become profitable and before any dividends are paid out. The force and effect of the above Technology Transfer Agreement shall be canceled by either party if UTI cannot be incorporated.

#### Section 5 General Meeting of Shareholders

Prior written notice of all meetings of shareholders shall be sent to all shareholders at least twenty (20) days prior to the meeting in the case of the Annual General Meeting of Shareholders, and at least twenty (20) days prior to the meeting in the case of a Special Meeting of Shareholders. Such notice shall specify the time and place of the meeting and indicate matters to be resolved in the meeting, together with copies of reports, studies and any other relevant data.

5.1 Transactions regarding any of the following corporate matters shall be performed through resolutions approved by majority votes of shareholders present at a shareholders' meeting attended by shareholders holding and representing at least three-quarters of the total number of issued and outstanding shares under the ROC corporate

law.

1) Liquidation or dissolution of UTI

2) Merger and acquisition of UTI by another company.

5.2 Transactions regarding any of the following corporate matters shall be performed through resolutions approved by majority votes of shareholders present at a shareholders' meeting attended by shareholders holding and representing at least two-thirds of the total number of issued and outstanding shares under the ROC corporate law.

Sale, lease, transfer or disposal in any other manner of any substantial part of the assets or business of UTI to any other person, firm or company.

5.3 Other corporate matters shall be decided in accordance with the ROC corporate law.

#### Section 6 Board of Directors

6.1 The Board of directors shall consist of six (6) members, three (3) of whom shall be nominated by UBI and three (3) of whom shall be nominated by PGT. The Board of Directors shall appoint a chairman who shall have full authority and responsibility for the daily management of UTI. UBI and PGT shall have the equal right to nominate a person for appointment by the Board of Directors as the chairman of UTI. This arrangement shall continue for as long as UTI remains a private joint venture company. The Parties shall approve the necessary increase of the number of Board members for the inclusion of outside, independent directors in the event that UTI shall become a public company.

6.2 If for any reason, a vacancy occurs in the office of a Director nominated by PGT or UBI for any reason, such vacancy shall be filled exclusively by the original party (PGT or UBI) who had nominated such Director.

6.3 The Chairman of the Board of UTI shall externally represent UTI and internally preside at Board meetings and Shareholders Meeting. The Chairman's authority is restricted to those provided by laws and regulations of the ROC and resolutions of the Board of Directors and resolutions of the Shareholders' Meetings. The Chairman has no right to make a final decision if either party has equal votes to different proposals.

6.4 If the decision of the Board cannot be reached due to equality of votes on the Parties, then the Parties shall negotiate for a solution to be reached as a decision of the Board; if no such solution or decision can be reached as between the Parties, then the decision shall be determined through mediation. Each party shall appoint a mediator immediately and these two mediators shall decide on the third mediator. The Parties shall undertake to cause the Board to adopt the resolution in accordance with the any decision by the meeting of mediators.

6.5 The term of office of the Directors shall be three (3) years and each Director is entitled to be nominated for re-election.

6.6 Prior to any meeting of the Board of Directors, written notice shall be sent to each Director, and arriving at least fifteen (15) days prior to the date of the meeting specifying the time and place of the meetings and indicating all matters to be discussed and considered during the meeting together with copies of reports, studies and any other relevant data PROVIDED HOWEVER that such notice may be waived upon the occurrence of urgent circumstances. Any expenses of traveling or lodging in connection with the Board meetings shall be borne by UTI.

6.7 The Board of Directors shall appoint a President who shall have full authority and responsibility for the daily management of UTI. UBI and PGT shall have the equal right to nominate a person for appointment by the Board of Directors as the President of UTI.

6.8 There will be two supervisors in UTI; one is nominated by PGT and the other is by UBI. Supervisors shall have no vote in the UTI's s board meetings.

#### Section 7 Confidentiality

UBI and PGT hereby expressly agree to be bound that except to the extent legitimately required for the business operation of UTI, they shall not disclose or deliver to any third party any confidential document and technical information of UTI and UBI, provided that this paragraph shall not be applicable in the case of the following:

1) Information which is, at the time of disclosure, already known to the party receiving the same without obligation to keep it confidential;

2) Information which is publicly known; and

3) Disclosure as required by law.

#### Section 8 Share Transfer

8.1 Unless otherwise agreed in writing by the Parties, UBI and PGT each agrees not to sell the shares of UTI unless all of such shares shall first have been offered to the other Party and at same price offered by a third party to the Party wishing to sell and that such offer to the other Party has been conclusively declined or has been deemed to have been declined. To serve the purpose stated in the immediately preceding Paragraph, either Party of PGT or UBI shall request its investors (who have invested in UTI) to sign a covenant to the other Party to be so bound. As soon as either Party receives such covenant from the investor(s) in the other Party, the other Party is released from the liability imposed upon it as provided in Sub-Section 8.1 with respect to the said investor(s). This Section shall not apply to the share transaction(s) between PGT and its affiliates, where PGT owns more than 5% shares of outstanding shares of such affiliates or such affiliates which own more than 5% of the shares of PGT. This Section shall not be construed to prevent transfer of individual shares to persons or legal entities to the extent required by law. Any offer of share pursuant to this Sub-Section 8.1 shall be made in writing transmitted by registered letter with acknowledgment of receipt by the offeree Party and shall state the number of Shares desired to be transferred and the offering price. Within ninety (90) days after receipt of such offer, the Party receiving the offer shall either accept it or, in the absence of acceptance within such period, shall be deemed to have declined the offer. The right of the offeree Party to accept such offer shall be exercisable only if the offeree Party accepts all of the shares so offered. Any offer not so accepted within said ninety (90) day period shall be deemed to have been conclusively declined. Any shares offered pursuant to this Section and have been declined or deemed to have been declined as provided above may be transferred by the offering Party without restriction expect (a) that the transfer be accomplished at a price and on terms no more favorable to the transferee than those offered hereunder to the offeree Party; (b) that any such transfer shall be accomplished within six (6) months after the time when offer of such shares was declined or was deemed to have been declined hereunder; (c) that any such transfer can only be made to a third party whose identity and intended acceptance of the offer had been disclosed to the offeree Party; (d) that the transferee party becomes a party to this Agreement; and (e) subject to terms as set forth in Sub-Section 8.2.

8.2 Any transfer referred to in Sub-Section 8.2 shall be subject to the approval of the Government of the ROC, when and if required; and if necessary the option period shall be extended until such approval is obtained. Any transfer to a third party shall not be deemed completed and final unless the transferring party, prior to the occurrence of the transfer, had caused such third party to expressly agree in writing to be bound by all the terms and conditions of this Agreement as a subscribing party, and upon such transfer the said third party shall assume all the obligations of the transferring Party under this Agreement including the obligations on the transfer of shares as set forth in Sub-Section 8.1 of this Agreement.

8.3 Both UBI and PGT shall waive its rights respectively to acquire new shares to be issued on or about August, 1999 as a result of UTI's increase its capital by US\$4.6 million. Both UBI and PGT understand that according to Equity Structure and ROC laws, of the new shares to be issued on or about August, 1999, shares worth US\$2.0 million are reserved for acquisition by employees with consideration; shares of US\$2.0 million are reserved for employee's compensation and incentive to the extent permitted by law and practice in Taiwan; and shares of US\$0.6 million are to be subscribed by Jeffrey Sun with advisory fee paid by UTI .

## Section 9

9.1 If within two years from the incorporation of UTI, UTI needs to borrow loans from financial institutions, and if UBI is requested to provide guarantees or collaterals for such loans, PGT shall indemnify UBI against such guarantee or collateral liability within the range of US\$10,000,000.

9.2 If UTI increases its paid-in capital, UBI and PGT shall act jointly either to subscribe for new shares or to waive the subscription right, and in the latter case, UTI shall find a proper third party agreeable to UBI and PGT, to subscribe for such new shares.

## Section 10 Accounting System and Records

The Parties shall cause UTI to keep true and accurate accounting records of all business transactions and operations and to maintain accounting records and present its financial reports in accordance with generally accepted accounting principles in the ROC.

To the extent permissible by the generally accepted accounting principles of the ROC and the United States of America, the sales revenues of UTI can be entered into the book of UBI at its discretion.

#### Section 11 Covenants

PGT and its Partners shall not, directly or indirectly, invest in, operate, license, participate in or otherwise support a company or any other business entity which engages in any business that competes against any business engaged in by UTI and UBI during the term of the Agreement and for ten (10) years after the termination thereof.

#### Section 12 Duration of Agreement

12.1 This Agreement shall continue in full force and effect until UTI is wound up or otherwise cease to exist as separate corporate entity unless early termination occurs pursuant to sub-sections 12.2 or 12.3 of this Section.

12.2 If an official order is made or an effective resolution passed or analogous proceedings are taken for the winding up of UTI (other than for the purposes of amalgamation or reorganization) due to substantial losses of all of the assets or if UTI is unable to pay its debts, a general assignment for the benefit of its creditors has occurred or a receiver or manager has been appointed over all or a substantial part of its undertaking or assets, either of the Parties shall be entitled forthwith to terminate this Agreement by delivery of notice of termination to the other.

12.3 This Agreement shall be terminated automatically in the event that either Party ceases to hold any shares in UTI for any reason except however that in such event this Agreement shall continue to apply as between the other Party and any other person or company who upon transfer of shares has become a party to this Agreement.

12.4 Termination of this Agreement pursuant to this Section shall not release either Party from any other liability which at the time of termination has already accrued to the other Party. Nothing in the immediately preceding sentence of this Sub-Section shall affect or be construed or operate as a waiver by any Party aggrieved by breach of this Agreement the right to be compensated for any injury or damage resulting therefrom.

12.5 If UTI fails to obtain the governmental approvals by March 31, 1999, the Parties are entitled to extend the said date or cancel this Agreement unless the Parties can reschedule the capital contribution within a reasonable time.

12.6 Within the earlier of either one year after the execution of this Agreement or upon the date on which UTI orders production equipment of a value greater than US \$50,000 for the production of the Products, PGT shall be entitled to terminate this Agreement and in such event, (i) 700,000 UBI shares owned by UTI shall be returned to UBI without any consideration and free of charge, (ii) the technology transferred to UTI shall be returned to UBI and UTI shall cease from using such technology, (iii) all the UTI's shares owned by UBI shall be transferred to PGT without any consideration and free of charge, and (iv) PGT shall pay US\$1.0 million to UBI. Any fees or taxes arising from the above shall be for the account of PGT.

### Section 13 Force Majeure

If either party (the "Affected Party") shall be prevented from performing or observing any of the provisions of this Agreement due to wars, riots or insurrections, or by strikes, floods, fires, or other disturbances beyond the control of and without the fault of the Affected Party, the obligation of the Affected Party to perform or observe such provision of the Agreement shall be suspended until such event or circumstance or any other such event or circumstances cease to prevent the Affected Party from performing such provision of this Agreement provided that:

- 1) if the obligation of the Affected Party shall be so suspended for a period of more than 120 days, the other Party may by notice in writing to the Affected Party terminate this Agreement; and
- 2) the Affected Party shall use its best effort to remedy the effect of such event or circumstances and perform or observe such provision of this Agreement as soon as is practicable.

### Section 14 Entire Agreement

14.1 This Agreement contains the entire understanding between the Parties and any prior understanding and/or agreements between the Parties in connection with the subject matter of this Agreement are superseded if they have not been fully expressed herein.

14.2 If any provision of this Agreement is held invalid in any respect, it shall not affect the validity of any other provision of this Agreement.

#### Section 15 Notices

All notices and other communications required or permitted to be given hereunder shall be given in writing (and for these purposes writing includes facsimile, and shall be addressed to the appropriate party at the address of such party set forth below, or at such other address or place as such party may subsequently designate in writing:

UBI:	1350 Route, 88 S., Newark, New York 14513 Fax: 0021 201 930-1144 Tel.: 0021 201 930-4900
PGT:	7F-1, No. 67, Tze-You Road, Hsinchu, Taiwan, Republic of China Fax: 886-03-534-9539 Tel: 886-03-542-8475

#### Section 16 Non-Assignability

The benefit of this Agreement shall be non-assignable by either Party without the prior written consent of the other Party and shall be binding upon each Party until such time as it is replaced by a supplementary agreement.

#### Section 17 Miscellaneous

17.1 The failure of either Party at any time or times to require performance by the other Party of any provision of this Agreement shall in no way affect the right of such Party to require performance of the same provision or any other provision, and any waiver of claim by either Party with respect to any breach of this Agreement shall not be construed as a waiver of claim against any continuing or succeeding violation of such provision, a waiver of such provision itself or a waiver of any other right under this Agreement.

17.2 In the event that any provision of this Agreement shall be declared void or unenforceable by any competent authorities or court, other provisions of this Agreement which are capable of severance therefrom, shall remain unaffected.

Section 18 Counterparts

This Agreement may be executed in any number of counterparts by the Parties hereto separately; each of which when so executed and delivered shall be deemed an original, and all the counterparts together shall constitute one and the same instrument.

Section 19 Governing Law

This Agreement shall be construed in accordance with the laws of the Republic of China.

The Taiwan Taipei District Court of the Republic of China shall have the exclusive jurisdiction over any matter arising from or in relation to this Agreement.

Section 20 The Definition of Asia

The scope of "Asia" referred to in this Agreement, encompasses ROC, China, Hong Kong, Singapore, South & North Korea, Philippines, Indonesia, Malaysia, Vietnam, Laos, Cambodia, Thailand, Myanmar.

IN WITNESSETH WHEREOF, the Parties have signed this Agreement the day and year first written above.

*Ultralife Batteries, Inc. ,*

*PGT Energy Corporation  
Preparatory Office*

*By: /s/ Bruce Jagid*

*By: /s/ Mr. J. F. Hsu*

*-----  
Name: Bruce Jagid  
Title: Chairman &  
Chief Executive  
Officer*

*-----  
Name: Mr. J. F. Hsu  
Title: Chairman*

List of investors collectively referred to as PGT in this Agreement and their

respective and approximate shareholdings	
PGT Energy Co., Ltd.	30%
Mr. Paul Hsu and his related investors	30%
Mr. R.T. Sun and his related investors	30%
Mr. George Lin and his related investors	10%

## Equity Structure

US\$40M	Cash - PGT	21.25M	53%
	Cash - UBI	8.75M	47%
	Technology-UBI	10.00M	
	Total equity	40.00M	100%
Jan. 99	US\$22M ( 1st )	Cash-PGT	16.5M

Technology-UBI 5.5M Total 22.0M

\*Technology-UBI shall be less than 25% of total equity.

Feb. 99 1.UTI obtained company license from government

2.Apply for foreign investment to UBI, transfer US\$8.75M cash to UBI for 0.7M restricted shares at @12.5/share

Mar. 99 UBI transfers \$8.75M cash to UTI as paid-in capital

May 99	US\$18M ( 2nd )	Cash-UBI	8.75M
		Technology-UBI	4.50M
		Cash-PGT	4.75M
		Total	18.00M

US\$8.75M will be kept in the account of US currency for the procurement of equipment.

Aug. 99	US\$4.6M ( 3rd )	2.0M	Employee-Cash
		2.0M	Employee-Compensation & incentive
		0.6M	Jeffrey-Compensation
		Total	4.6M

\*UTI will pay for free compensation of 2M+0.6M. The paid amount will be used to purchase the shares as above mentioned.

Total closing equity= 1st + 2nd + 3rd = US\$44.6M

**ARTICLES OF INCORPORATION**

**OF**

**Ultralife Taiwan, Inc.**

**CHAPTER I GENERAL PROVISIONS**

ARTICLE 1: This company shall be incorporated as a company limited by shares under the Company Law of the Republic of China (hereinafter the "R.O.C."), and its name shall be [Chinese translation of Ultralife Taiwan, Inc.] in Chinese, and Ultralife Taiwan, Inc. in English.

ARTICLE 2: The scope of business of the Company shall be as follows:

1. To engage in the manufacture, distribution, sales, and research and development of lithium-ion solid polymer rechargeable batteries ("the Products").
2. To provide customers with design, engineering, installation, test, construction, technical consultation and after sales services related to the Products and accessories.
3. To import and export of the Products accessories and related materials, omponents and manufacturing equipment.

ARTICLE 3: The Company shall have its headquarters in the Science-Based Industrial Park, Hsinchu (or Tainan), Taiwan, R.O.C. When deemed necessary, branches may be set up at appropriate locations within or outside the territory of the R.O.C. upon resolution of the Board of Directors and approval of the competent authorities.

ARTICLE 4: The method of public announcements shall be made in accordance with Article 28 of the Company Law of the R.O.C.

**CHAPTER II SHARES**

ARTICLE 5: The authorized capital of the Company shall be in the amount of US\$40,000,000.00, which is divided into shares of common shares with a par value of NT\$ 10 each.

ARTICLE 6: All of the share certificates of the Company shall be signed by and sealed with the chops of not less than three Directors of the Company and duly attested to by the competent institution of issuance and registration before their issuance.

ARTICLE 7: A shareholder whose share certificates are lost or destroyed shall immediately notify the Company in writing and follow all necessary procedures for such loss as prescribed by relevant regulations issued by competent authorities from time to time.

ARTICLE 8: For the purpose of transfer of shares, both the transferor and the transferee shall fill out, sign and affix their chops on, the application forms prepared by the Company, and only after the transferee's name and domicile have been entered into the roster of the shareholders shall the transfer of shares be deemed valid as against the Company.

ARTICLE 9: All shareholders shall file their specimens of chops (hereinafter "registered chops") with the Company as identification for the purposes of receiving their dividends and bonuses and exercising their rights as shareholders.

ARTICLE 10: A shareholder who has lost his registered chop shall immediately notify the Company in writing and follow all necessary procedures for such loss as prescribed by relevant regulations issued by competent authorities from time to time.

ARTICLE 11: Registration for transfer of shares shall be suspended during the one month period immediately preceding the calling of Annual Shareholders' Meeting, or the fifteen-day period immediately preceding the calling of a Special Shareholders' Meeting, or the five-day period immediately preceding the base date on which bonuses, interest or dividends are to be allocated.

### **CHAPTER III SHAREHOLDERS' MEETING**

ARTICLE 12: Shareholders' Meeting of the Company are of two kinds: (a) Annual General Meeting of Shareholders and (2) Special Meeting of Shareholders.

Annual General Meeting of Shareholders shall be called by the Board of Directors within six (6) months after the closing of each fiscal year.

Special Meeting of Shareholders shall be called by the Board of Directors whenever necessary, or by proposal of the shareholder who has held three percent (3%) or more of the total issued and outstanding shares of the Company for at least one year, or by the supervisor of the Company as he/she may deem necessary.

Both Annual and Special Shareholders' Meetings shall as a principle be held within the territory of the R.O.C.

ARTICLE 13: Written notice for the calling of a Shareholders' Meeting shall be given to all shareholders at least twenty (20) days in advance in case of both Annual Meeting of Shareholders or Special Meeting of Shareholders. The time and place of the meeting and matters to be resolved in the meeting, together with copies of reports, studies and other relevant data shall be specified in the notice.

ARTICLE 14: Resolutions of Shareholders' Meetings shall be adopted, except as otherwise required by law or provided in Article 15 hereof, at Shareholders' Meetings attended by shareholders representing at least fifty percent (50%) of the total issued and outstanding shares of the Company and with more than fifty percent (50%) of the total number of votes represented at such Meetings in favor of the resolution.

ARTICLE 15: The following corporate matters shall be performed through resolutions approved by majority votes of shareholders present at a shareholders' meeting attended by shareholders holding and representing at least three-quarters of the total number of issued and outstanding shares under the ROC corporate law:

- 1) Liquidation or dissolution of UTI.
- 2) Merger and acquisition of UTI by another company.

ARTICLE 15: The following corporate matters shall performed through resolutions approved by majority votes of shareholders present at a shareholders' meeting attended by shareholders holding and representing at least two-thirds of the total number of issued and outstanding shares under the ROC corporate law:

Sale, lease, transfer or disposal in any other manner of any substantial part of the assets or business of UTI to any other person, firm or company.

ARTICLE 16: Each shareholder shall be entitled to one vote for each share he/she holds, provided, however, that for any shareholder who holds more than three percent (3%) of the total issued and outstanding shares of the Company, his votes attributable to the shares in excess of the said percentage shall be discounted by one percent (1%).

ARTICLE 17: A shareholder may by issuing a Power of Attorney appoint a proxy to attend and exercise his/her rights at a Shareholders' Meeting on his/her behalf in accordance with Article 177 of the Company Law of the R.O.C.

ARTICLE 18: Shareholders' Meeting shall be presided by the Chairman of the Board of Directors, provided that in the event of his/her absence, one of the directors of the Company shall preside in his/her place in accordance with Article 208 of the Company Law of the R.O.C.

ARTICLE 19: Minutes of Shareholders' Meetings shall be prepared and signed by the chairman of such meetings and distributed to all shareholders within fifteen (15) days of the meetings. The minutes shall be kept in the Company together with the attendance lists and powers of attorney.

#### **CHAPTER IV BOARD OF DIRECTORS**

ARTICLE 20: This Company shall have six (6) directors and two (2) supervisors. The directors and supervisors shall be elected from shareholders over twenty (20) years of age. The number of shares held by each director or supervisor shall not be less than the amount prescribed by the relevant regulations issued by competent authorities.

The term of office of the Directors or Supervisors shall be three (3) years and each Director or Supervisor is entitled to be re-elected. Each

Director or Supervisor holds office until his successor takes office or until is resignation or removal.

ARTICLE 21: The directors shall form the Board of Directors which shall have the following functions:

1. To design and realize the Company's business policy within the frame prescribed by the shareholders.
2. To propose profit allocation or loss coverage.
3. To propose capital increase/decrease.
4. To review and finalize major and material rules and contracts.
5. To appoint and remove the Company's President who shall have full authority and responsibility for the daily management of the Company.
6. To prepare budgets and final financial statement.
7. To fulfill other functions provided by the Company Law of the R.O.C. or resolutions of Shareholders' Meetings.
8. To approve any material corporate action.

The Board of Directors Shall fulfill its functions by resolution adopted at a meeting of the Board of Directors pursuant to Article 23 hereof.

ARTICLE 22: By a majority of votes of the first meeting of the Board of Directors of each term of newly elected Board of Directors, one Chairman shall be elected from among the directors. The Chairman shall, subject to the directions and policies made by the Board of Directors, have responsibility and all necessary powers and authorities to carry out such duties as may be prescribed by the Company Law of the R.O.C. and Board of Directors, provided that in the event of his/her absence, one of the directors of the Company shall preside in his/her place in accordance with Article 208 of the Company Law of the R.O.C.

ARTICLE 23: Except the first meeting of the Board of Directors of each term of newly elected Board of Directors which shall be called by the director who received the largest number of votes, meetings of Board of Directors shall be called by the Chairman of the Board. Resolutions shall be adopted, except as otherwise required by law, by a majority of votes of meetings of Board of Directors. Meeting of Board of Directors shall be held within the territory of the R.O.C. unless otherwise agreed to by and among all the directors.

ARTICLE 24: Except the first meeting of the Board of Directors of each term of newly elected Board of Directors which

shall be called within fifteen (15) days after the new directors are elected, meetings of Board of Directors shall be called by giving fifteen (15) days' prior written notice specifying the time and place of the

meetings and indicating all matters to be discussed and considered during the meeting together with copies of reports, studies, and any other relevant data, PROVIDE HOWEVER that such notice may be waived upon the occurrence of urgent circumstances.

ARTICLE 25: Meetings of the Board of Directors shall be held no less than once a year.

ARTICLE 26: A director may, by written authorization, appoint another director to be his/her proxy to attend and exercise his/her rights at a meeting of Board of Directors on his/her behalf in accordance with Article 205 of the Company Law of the R.O.C.

ARTICLE 27: Minutes of meetings of the Board of Directors shall be prepared and signed by the chairman of such meetings and distributed to all directors within fifteen (15) days of the meeting. The minutes shall be kept in the Company together with the attendance lists and powers of attorney.

ARTICLE 28: Meeting of the Board of Directors shall be presided by the Chairman of the Board, provided that in the event of his/her absence, one of the directors of the Company shall preside in his/her place in accordance with Article 208 of the Company Law of the R.O.C.

ARTICLE 29: The supervisor may, at any time, examine the business and financial condition of the Company, inspect the corporate books, records and documents including the annual financial statements and reports referred

to a Shareholders' Meeting by the Board of Directors, and request the Board of Directors to submit reports thereon. In performing any of such acts, the supervisor may, at the cost of the Company, retain a certified public accountant to review and audit the books, records and any documents pertaining to the matters under his/her examination or inspection.

ARTICLE 30: Each Supervisor may attend the meetings of the Board of Directors but shall not be entitled to vote.

ARTICLE 31: The Board of Directors may appoint or remove by a resolution the President of the Company.

ARTICLE 32: The President of the Company shall have responsibility and all necessary powers and authorities to supervise, manage and administer the operation and affairs of the Company in accordance with the laws and regulations of the R.O.C., the Articles of Incorporation of the Company, and directions and policies prescribed by the Board of Directors.

## **CHAPTER V ACCOUNTING**

ARTICLE 33: The fiscal year of the Company shall be from January 1 of each year to December 31 of that year.

ARTICLE 34: After the close of each fiscal year, the Board of Directors of the Company shall prepare the following documents and submit them for examination and approval by the supervisor at least thirty (30) days prior to the date fixed for the Regular Shareholders' Meeting:

1. annual report on business operation
2. annual balance sheet
3. annual property inventory
4. annual statement of profit and loss
5. annual statement of change of shareholders' equity

6. cash flow statement

7. annual proposals concerning allocation of profits or coverage of losses for the approval by the shareholders in the Shareholders' meeting.

Annual financial reports and statements shall be audited and certified by a Certified Public Accountant and one English version shall be in addition sent to UBI.

ARTICLE 35: Unless otherwise required by law, ten percent (10%) of the after-tax net profit of the Company of each fiscal year shall be set aside as legal reserve after having been first applied to covering for losses of the previous fiscal year. Up to fifteen percent (15%) of the after-tax net profit the Company shall be set aside as employees' bonus. Any remainder shall then be allocated according to resolutions adopted by the Shareholders' Meeting. No further amount shall be set aside as legal reserve when the total accumulated legal reserve has reached an amount which is equal to the total capital of the Company. ARTICLE 36: The rates of remuneration of the directors and supervisors shall be determined by resolution of the Shareholders' Meeting.

ARTICLE 37: The organizational and operational rules of the Company shall be separately determined and provided by resolution of the Board of Directors.

ARTICLE 38: Any matters not otherwise provided for herein shall be governed by the Company Law of the R.O.C.

ARTICLE 39: The Company may provide services as a guarantor in connection with businesses of the Company.

ARTICLE 41: These Articles of Incorporation were duly promulgated on \_\_\_\_\_.

## AMENDMENTS

To the Joint Venture Agreement dated October 10, 1998 between Ultralife Batteries, Inc. and PGT Energy Corporation

THESE AMENDMENTS of the Preamble, Sub-section 4.2, Section 7, Section 9 (including 9.1, 9.2 and 9.3), Section 11, and Sub-section 12.6 of the Joint Venture Agreement dated October 10, 1998 regarding the establishment of a joint venture company in Taiwan, ROC to be named Ultralife Taiwan, Inc., which shall manufacture, distribute, sell and conduct Research and Development (R&D) of lithium-ion solid polymer rechargeable batteries is made jointly by Ultralife Batteries, Inc. (UBI) and PGT Energy Corporation (PGT) as UBI and PGT mutually agree and consent to the Amendments below to the Joint Venture Agreement dated October 10, 1998.

It is further agreed by UBI and PGT that the following Amendments shall supersede, replace, add to, and prevail over the Preamble, Sub-section 4.2, Section 7, Section 9, Section 11, and Sub-section 12.6 of the Joint Venture Agreement dated October 10, 1998 between UBI and PGT and that these Amendments shall be attached to and incorporated into and become a part of the Joint Venture Agreement dated October 10, 1998 between UBI and PGT.

UBI and PGT may be collectively referred to in these Amendments as "the Parties" where appropriate.

WHEREAS, UBI and PGT hereby agree to amend and revise the Preamble of the Joint Venture Agreement so that it shall read as follows:

This Agreement is entered into on the 10th day of October, 1998 by and between:

Ultralife Batteries, Inc., a corporation incorporated under the laws of the State of Delaware, United States of America, having its principal office of business at 1350 Route 88 S., Newark, New York 14513 (hereinafter referred to as "UBI"); and

PGT Energy Corporation, currently a preparatory office for a corporation to be incorporated under the laws of the Republic of China (hereinafter referred to as "ROC") with its principal office of business located at 7F-1, No. 67, Tze-You Road, Hsinchu, Taiwan, Republic of China (hereinafter referred to as "PGT"), together with a group of investors (as shown in Appendix I hereto). Mr. J.F. Hsu is the Chairman to be of the PGT; after PGT is legally incorporated, all rights and obligations provided in this Agreement shall be immediately assigned to and assumed by PGT; except for the obligations as provided in Sections 9.1 and 11 below.

The Parties shall undertake to cause UTI to invest US\$ 8.75 million to UBI for 0.7 million UBI's unregistered shares at a price of US\$ 12.5 per share. UBI shall warrant to permit UTI to acquire additional shares for a maximum of 0.7 million shares at the base price of US\$ 25 per share within four years commencing from the execution date of this Agreement. UBI shall remit US\$ 8.75 million to UTI for the share subscription of UTI. The US\$ 10 million, the remaining portion of the

capital contribution by UBI, shall be in the form of UBI's current polymer rechargeable battery technology, patent, manufacturing know-how, reasonable technical assistance, marketing assistance, and reasonable personnel training including dispatching UBI's technicians to UTI. Furthermore, the capital contribution by parties shall be guided by the Parties in accordance with Equity Structure annexed hereto and marked "Appendix II."

The technology granted by UBI to UTI shall be UBI's current technology for the purpose of this Agreement. Any technology directly related to the lithium-ion solid polymer rechargeable batteries and developed by UTI shall belong to UTI, however, UBI shall have free access to and be entitled to use such technology. Any technology subsequently developed by UBI shall be made available to UTI in a manner to be defined in the Technology Transfer Agreement defined in Paragraph 4.2.

WHEREAS, UBI and PGT hereby further agree to amend and revise Sub-section 4.2 of the Joint Venture Agreement so that it shall read as follows:

#### 4.2 Technology Transfer Agreement to be executed by Parties

Within sixty (60) days after the execution of this Agreement, PGT shall enter into a Technology Transfer Agreement (hereinafter referred to as "Technology Transfer Agreement") with UBI otherwise either Party shall be entitled to terminate this Joint Venture Agreement. The Technology Transfer Agreement shall specify the technology granted by UBI to UTI as its capital contribution in UTI, the disclosure of the technology granted to UTI by UBI including, but not limited to, the lithium-ion polymer rechargeable battery technology, patent, technical information, data, and know-how currently in possession by UBI, and the cooperation between the Parties for technical assistance, problem solving, and personnel training. UTI will pay to UBI a bonus in the amount of US\$2.5 Million in installment payments in the amount to be decided by the board of directors of UTI after UTI becomes profitable and before any dividends are paid out. The force and effect of the above Technology Transfer Agreement shall be canceled by either party if UTI cannot be incorporated.

WHEREAS, UBI and PGT hereby further agree to amend and revise Section 7 of the Joint Venture Agreement so that it shall read as follows:

#### 7. Confidentiality

UBI and PGT hereby expressly agree to be bound that except to the extent legitimately required for the business operation of UTI, they shall not disclose or deliver to any third party and confidential document and technical information of UTI and UBI, provided that this paragraph shall not be applicable in the case of the following:

- 1) Information which is, at the time of disclosure, already known to the party receiving the same without obligation to keep it confidential;
- 2) Information which is publicly known; and
- 3) Disclosure as required by law.

WHEREAS, UBI and PGT hereby further agree to amend and revise Section 9 (including 9.1, 9.2 and 9.3) of the Joint Venture Agreement so that these Sections shall read as follows:

9.1 UTI may need to borrow loans from financial institutions in the event additional capitalization is required. The parties acknowledge that UBI may be requested to provide guarantees or collateral for such loans. During the first two (2) years of UTI's incorporation, PGT shall indemnify, and hold harmless, UBI against any such guarantees or collateral liability for the life of the loans incurred up to and including US \$10,000,000. After two (2) years of incorporation, any liability shall be shared between UBI and PGT. In the event PGT is no longer in existence, or is unable to satisfy its indemnification responsibility hereunder, then the individual investors, collectively referred to as PGT and as set forth in Appendix I, shall be jointly and severally liable to indemnify UBI against such guarantee or collateral liability.

9.2 If UTI increases its paid-in capital, UBI and PGT shall act jointly either to subscribe for new shares or to waive the subscription right, and in the latter case, UTI shall find a proper third party agreeable to UBI and PGT, to subscribe for such new shares.

9.3 Taxes related to this Agreement which occur in Taiwan shall be the responsibility of UTI.

WHEREAS, UBI and PGT hereby further agree to amend and revise Section 11 of the Joint Venture Agreement so that it shall read as follows:

PGT and the individual investors collectively referred to as PGT shall not, directly or indirectly, invest in, operate, license, participate in or otherwise support a company or any other business entity which engages in any business that competes against any business engaged in by UTI and UBI during the term of this Agreement and for ten (10) years after the termination thereof.

WHEREAS, UBI and PGT hereby further agree to amend and revise Sub-section 12.6 of the Joint Venture Agreement so that it shall read as follows:

12.6 a) Either party, UBI or PGT, shall be entitled to terminate this Agreement by giving proper written notice to the other party BEFORE the occurrence of either of the following:

1. UTI orders production equipment of a value greater than US \$50,000; or

2. The passage of one (1) year's time from the date of the incorporation of UTI.

b) It is the parties' intention that neither party may exercise its right if either (1) or (2) above has occurred.

c) In the event UBI or PGT terminates this Agreement:

1. The 700,000 UBI shares owned by UTI shall be returned to UBI without any consideration and free of charge, regardless of their then present value; and

2. The technology transferred to UTI shall be returned to UBI, and UTI shall cease from using such technology; and

3. All UTI shares owned by UBI shall be transferred to PGT without any consideration and free of charge, regardless of their then present value.

d) In the event PGT terminates this Agreement, then in addition to the provisions contained in 12.6 (c) 1, 2 and 3 above, PGT shall pay US \$1.0 million to UBI.

NOW THEREFORE, the Parties hereto, having carefully reviewed and agreed to the above Amendments, have each caused their duly authorized representatives to execute these Amendments in duplicate counterparts as of the respective dates indicated below. The effective date of these Amendments shall be that date on which the signatures of both UBI's and PGT's duly authorized representatives appear below.

BY: /s/ Bruce Jagid  
-----  
Bruce Jagid

FOR : Ultralife Batteries, Inc.

DATE: 12/4/98  
-----

BY: /s/ J.F. Hsu  
-----  
J.F. Hsu

FOR: PGT Energy Corporation

DATE: 12/4/98  
-----

## TECHNOLOGY TRANSFER AGREEMENT

THIS AGREEMENT is made and entered into this 4th day of December, 1998 by and between Ultralife Batteries, Inc. (hereinafter referred to as "UBI") and PGT Energy Corporation (hereinafter referred to as "PGT").

### WITNESSETH THAT

WHEREAS, UBI and PGT have entered into a Joint Venture Agreement on the 10th day of October 1998 (hereinafter referred to as "the JV Agreement") in which UBI and PGT agree to jointly establish a Joint Venture Company in Taiwan, ROC with the company name Ultralife Taiwan, Inc., (hereinafter referred to as "UTI",) such that UTI shall engage in the manufacture, distribution, sales and R&D of lithium-ion solid polymer rechargeable batteries, the parties have further entered into an amendment thereof on the 4th day of December 1998, (hereinafter referred to as "the Amendment"); after UTI is legally incorporated, all rights and obligations of PGT provided in this Agreement shall be immediately assigned to and assumed by UTI.

WHEREAS, subject to successful establishment and incorporation of UTI as defined in the JV agreement, UBI and UTI agree to set guidelines so that the current UBI technology transfer can be conducted most smoothly and efficiently.

WHEREAS, UBI has been engaged in the manufacture, use and sale of lithium solid polymer rechargeable batteries, and has through its research and development and general experience acquired certain confidential, proprietary, and technical information, data, material and know-how, with respect to such batteries.

WHEREAS, UTI desires to obtain from UBI, and UBI is willing to disclose to UTI, for the use of its current technical information, data, material and know-how for the purpose of developing, manufacturing, and selling such batteries on the terms and conditions set forth herein;

WHEREAS, UBI desires UTI, as an affiliate of UBI, to develop and manufacture for UBI such batteries, using UBI's current lithium ion solid polymer technology, for sale and distribution by UBI in sales regions as defined in the JV agreement by the parties; and

NOW, THEREFORE, in consideration of the covenants and mutual benefits and obligations contained herein, the parties agree as follows:

#### **Article 1 - Definitions:**

As used throughout this Agreement, the following terms shall have the meanings indicated:

1.1 "UBI" shall mean Ultralife Batteries, Inc., as hereinafter defined;

1.2 "UTI" shall mean Ultralife Taiwan, Inc., as hereinafter defined;

1.3 "Products" shall mean Solid Polymer Battery system consisting of but not limited to UBI's current LiMn2O4 based cathode, graphite anode and UBI's proprietary solid polymer separator;

1.4 "Technology" shall mean all necessary technical information , data, material, know-how, and designs of machinery owned, developed or controlled by UBI at the effective date, including any patent or patent applications in any way related to the manufacture or use of the Product, for:

1.4.1 the design, manufacture, testing, failure analysis, reliability, use and sale of the Product;

1.4.2 the design and layout of a plant for the manufacture and use of the Product;

1.5 "UBI's plant" shall mean UBI's plant located at Newark, New York;

1.6 "UTI's plant" shall mean UTI's plant located at Science-Based Industrial Park,Hsinchu,Taiwan, ROC;

1.7 "Services" shall mean plant supervision, equipment evaluation , equipment installation and hook-up to utilities provided by UTI, set-up operation, and bring up operation assisted by UBI for UTI at UTI's plant pursuant to this Agreement;

1.8 "Effective Date " shall mean the date of execution of this Agreement;

1.9 "TTC" shall mean technology transfer coordinator for both parties.

## **Article 2-Technology Transfer and Disclosure**

### 2.1 Initial Disclosure of Technology

Within 60 days after the incorporation of UTI, UBI shall furnish to UTI in English, duplicate copies of the following Technology:

2.1.1 Product specification. The specification shall include the most advanced available technology developed by UBI;

2.1.2 Cost analysis for the Product specified on 2.1.1;

2.1.3 Chemical and raw material list, specification, and quantities of consumable for the production of the Product;

2.1.4 Detailed Product process flow, process recipe and inspection criteria for UBI's Product;

2.1.5 UBI's current QA(quality assurance) laboratory layout and instrument list;

2.1.6 Product reliability testing check list , procedures and conditions;

2.1.7 UBI's most current Product process equipment list, specifications, drawings, blueprints, quotations and the list of suppliers for such equipment;

2.1.8 De-ionized or reverse osmosis water specifications and dry room specification for the production of the Product;

2.1.9 Technical information relating to devices, instruments, computer systems used for the design and development efforts;

2.1.10 Any recommendations for the selection and the improvement of the current production equipment, and the plant layout for the production capacity of approximately 2- 4 million watt-hours per month.

## 2.2 Other Assistance:

UBI shall provide the following efforts for the efficient transfer of the Technology:

- 2.2.1 Assistance in obtaining such special tooling and equipment as may be necessary;
- 2.2.2 Negotiation to obtain all the necessary technology licences and authorizations in the most cost-effective manner;
- 2.2.3 Obtaining quality control of parts and materials offered by suppliers of UBI;
- 2.2.4 Advise and consultation on the selection of key personnel;
- 2.2.5 Advise and special interpretation for the specifications and other materials supplied by UBI;
- 2.2.6 Samples shall be supplied in accordance with the current UBI sample policy;
- 2.2.7 Assistance in evaluation and development of equipment specifications and requirements;
- 2.2.8 Any other assistance which may be required or desired by UTI and which UBI is able and willing to render in order to implement the purpose of this Agreement.

## 2.3 Training

UBI shall provide up to 100 man-days of instructional training and 100 man-days of on-the-job experience to engineers from UTI at UBI's facilities. These training sessions shall be arranged at reasonable intervals and convenient times mutually agreed by the parties.

## 2.4 Technical Assistance

UBI shall provide reasonable efforts to assist UTI in the start up of the manufacturing of the product, including but not limited to the following:

- 2.4.1 The definition, specification development, selection of suppliers and the delivery schedule for the equipment and materials;
- 2.4.2 Assistance in the integrating of all equipment and equipment systems at UTI's plant for all equipment installation, hook-ups, qualification and acceptance, module process development, pilot run, reliability test by having UBI's TTC coordinate the technology transfer at UBI's production facility in Newark, New York for a period of 4-6 months after the signing of this agreement. At the end of this period, UBI's TTC will relocate to Taiwan and will become an employee of UTI as UTI's TTC. UBI will then designate another employee to serve as UBI's TTC. Additional UBI personnel shall assist the TTC as needed and mutually agreed by the parties. UTI is responsible for all transportation, hotel and board expenses for this technical assistance.
- 2.4.3 Assistance in providing technical know how and experience in developing products meeting potential customers' specification.

## 2.5 Observance of Instruction

Each party shall cause its engineers or trainees dispatched to the other party, as the case may be, to observe the other party's regulations, directions and instructions

while on the other party's premises in order to prevent accidents and other hazards. Each party shall be liable for any injury or damage caused to the other party or its employees on account of any acts or omissions of its engineers or trainees, as the case may be, which are contrary to the other party's regulations, directions and/or instructions and shall hold the other party harmless from and shall indemnify the other party for any claim by a third party with respect to injury and/or damage caused to that third party on account of any such acts or omissions.

## 2.6 Handling of Casualties

In the event that either party's engineers or trainees, as the case may be, dispatched to the other party become ill or are injured, the other party shall immediately notify the party dispatching such engineers or trainees, and shall arrange for proper medical care and hospitalization, if necessary. Further, in the event that on account of illness or injury the said engineers or trainees are unable to provide technical assistance or receiving training, as the case may be, the other party shall immediately notify the party dispatching such engineers or trainees, and the parties shall mutually determine the appropriate action to be taken.

## Article 3 - Technology Bonus

In consideration for the transfer and disclosure of the Technology pursuant to Article 2, UTI shall pay to UBI a technology bonus of US\$2,500,000 as set forth in the Joint Venture Agreement.

## Article 4 - Improvement

4.1 During the term of this agreement, UBI agrees to periodically disclose and exchange with UTI any improvement to the technology or product developed or acquired by UBI during the term hereof (except as provided in 4.3 below). The information exchange shall be limited to technology related to yield improvement, energy density, cycle life, fade optimization, shelf life improvement, stand life improvement, temperature improvement, cost reduction, and safety.

4.2 In the event that any such improvement to the Technology or Product is patentable and should any patent be applied for during the term of this agreement by either party, the patent shall be owned by the respect party, and the other party shall be entitled to have the free access of such improvement.

4.3 UTI shall be invited to participate in the R&D efforts of UBI. The R&D efforts may include the development of new materials, tolerance for the extremely high and low temperatures, new technology in packaging materials, aerospace cells, etc. UTI shall have free access to new technology if UTI contributes, in advance of the development, 50% of the cost or efforts agreed by partners for such development.

## Article 5 - Patent Infringement

UBI represents that, as of the date of this agreement and to the best of its knowledge, its current technology does not infringe on any U.S. or foreign patents. For the duration of this agreement, UBI will assist UTI in the defense of any action against UTI by a third

party claiming patent infringement. UBI's assistance will be in the form of transfer of information supportive of UTI's defense. In the event UBI is alleged to infringe on the patent of a third party during the duration this agreement, UBI will use reasonable efforts to extend to UTI, as its affiliate, the benefits of any settlement provisions that would insulate UTI from a separate action by such third party.

#### **Article 6 - Return of Technology**

This agreement and the authorization granted from UBI to UTI for the Manufacturing of the Product are automatically terminated if UTI is ceased to exist or during the terms of this Agreement, the JV Agreement is terminated. UTI shall promptly return to UBI all written information concerning and relating to the product specification, equipment design and specification, plant lay-out, quality control procedures, business development plan, and other written confidential information that is obtained from UBI.

#### **Article 7 - Notice**

Any and all notices given by either party to the other party shall be in writing sent by facsimile transmittal (with same day mailed confirmation) or by prepaid registered airmail (return receipt requested) , and shall be deemed served on the date actually received by the other party. Such notices shall be addressed respectively:

As to UBI:	Ultralife Batteries, Inc. 160 Summit Avenue, Montvale, New Jersey 07645 U.S.A.
Attention:	Bruce Jagid, CEO
Fax. No.:	201-930-1144
As to UTI:	Ultralife Taiwan , Inc. 5th Fl., No.6 Lih-sing Road, Science-Based Industrial Park, Hsinchu, Taiwan, ROC
Attention:	R.T. Lo, President
Fax. No.:	886-3-5785555

Or to any other address or Fax. No. which the parties may have subsequently communicated to the other party in writing.

Each party hereto agrees that upon receipt of any notice which is designated as an "Official Notice" for the other party, it shall confirm receipt of such official notice by return facsimile to the other party.

#### **Article 8 - Waiver**

No waiver by either party of any breach of any of the terms or conditions herein provided to be performed by the other party shall be construed as a waiver of any subsequent breach, whether of the same of any other term or condition hereof.

**Article 9 - Severability**

If any provision of this agreement shall, to any extent, be unlawful, invalid or unenforceable, the remainder of this Agreement shall not be affected thereby and shall be lawful, valid and enforceable to the fullest extent permitted by law; provided, however, that if such unlawfulness, invalidation or unenforceability substantially injures the rights and interests of either party hereunder, the parties hereto shall re-negotiate this Agreement in good faith.

**Article 10 - Term of Agreement**

The term of this agreement shall be three (3) years. It may be renewed for an additional two (2) year period upon the mutual consent of both parties.

The validity, construction and performance of this Agreement shall be determined, construed, and interpreted in accordance with the laws of the Republic of China. IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day and year hereinabove set forth.

*Ultralife Batteries, Inc.*

*BY: /s/ Bruce Jagid*  
-----

*Name: Bruce Jagid*

*Title: Chairman & Chief Executive Officer*

*Date: 12/4/98*  
-----

*PGT Energy Corporation*

*BY: /s/ J.F. Hsu*  
-----

*Name: J.F. Hsu*

*Title: Chairman*

*Date: 12/4/98*  
-----

## SALES AGREEMENT

THIS AGREEMENT is made and entered into this 4th day of December, 1998 by and between Ultralife Batteries, Inc. (hereinafter referred to as "UBI"), and PGT Energy Corporation (hereinafter referred to as "PGT") ,

### WITNESSETH

WHEREAS, UBI and PGT have entered into a Joint Venture Agreement on the 10th day of October 1998 (hereinafter referred to as " the JV Agreement") in which UBI and PGT agree to jointly establish a Joint Venture Company in Taiwan, ROC with the company name Ultralife Taiwan, Inc., (hereinafter referred to as "UTI",) such that UTI shall engage in the manufacture, distribution, sales, and R&D of lithium - ion solid polymer rechargeable batteries, (hereinafter referred to as "Products"); the Parties have further entered into an amendment thereof on the 4th day of December 1998 , ( hereinafter referred to as "the Amendment"; ) after UTI is legally incorporated , all rights and obligations of PGT provided in this Agreement shall be immediately assigned to and assumed by UTI.

WHEREAS, subject to successful establishment and incorporation of UTI as defined in the JV agreement, UBI and UTI desire to cooperate with each other for marketing and promotion of the sale of the Products to the benefits of each other; to achieve such common objectives, and in accordance with the purpose and provisions of the JV Agreement, UBI and UTI agree to set guidelines such that sales effort can be conducted most smoothly and efficiently, and profits can be maximized.

NOW THEREFORE, in consideration of the premises and of the mutual promises, UBI and UTI hereby agree to enter into this Agreement on the following terms and conditions:

#### 1. Sales Region

A Sales Region is a particular area in which either Party of UBI and UTI is entitled to sell the Products. Specific Sales Regions are as defined in the JV Agreement.

#### 2. Sales Referral

Either Party of UBI and UTI undertakes to use its best effort in referring sales opportunities to the other Party. Unless it is specifically agreed otherwise to the contrary between the Parties, either Party shall diligently perform sales referrals, but can not request for any compensation therefor.

#### 3. Cross - Region Sales

Either Party of UBI and UTI undertakes to act as exclusive sales agent for the other Party in the territory which is outside of the principle's Sales Region but within the agent's own Sales Region. With respect to each such sales transaction, the agent acts on behalf of the principle. For each such transaction, the principle shall issue a warranty to cover the Products.

#### 4. Agency Commission

Where one Party has acted as an agent for the other, it is entitled to a 5% agency commission based on the gross revenue generated from the sales of the Products made by the agent, unless it is agreed otherwise by and between the Parties.

## 5. Assignment

Either Party of UBI and UTI shall notify the other immediately if it appoints sub - agents or sub - distributors for the principle in its own Sales Region. The notification shall include the names of the sub - agents / sub distributors and their respective assigned territory. The agent undertakes to cause this Agreement binding on any such appointed sub - agents / sub - distributors.

## 6. Use of Trademark

UTI shall register and use the trademark of "Ultralife Taiwan" in its sales region, however UBI agrees that as long as it is a major shareholder (greater than 30%) of UTI, UTI is authorized to use the trademark name of "Ultralife"

## 7. Effective Date

This Agreement shall become effective as of the date of signing. Any amendments to this Agreement shall be made in writing and signed by the Parties.

## 8. Transitional sales

UBI shall continue the current marketing and sales efforts within the territory of UTI as defined in the JV agreement at no commission to UTI until UTI becomes fully operational. During the period, UBI shall introduce the UTI sales team to key customers and distributors, assist in the training of UTI sales, and jointly develop new business. Any sales to UBI in which UTI is instrumental shall be commissionable. All sales efforts in Taiwan shall be coordinated by UTI.

## 9. Governing Law

The validity, construction and performance of this Agreement shall be determined, construed, and interpreted in accordance with the laws of the Republic of China. IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day and year hereinabove set forth.

*Ultralife Batteries, Inc.*

*BY: /s/ Bruce Jagid*

-----

*Name: Bruce Jagid*

*Title: Chairman &  
Chief Executive  
Officer*

*Date: 12/4/98*

-----

*PGT Energy Corporation*

*BY : /s/ J.F. Hsu*

-----

*Name : J.F. Hsu*

*Title : Chairman*

*Date: 12/4/98*

-----

**Exhibit 23.1**

**CONSENT OF INDEPENDENT PUBLIC 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,

September 27, 1999

## ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1999
PERIOD START	JUL 01 1998
PERIOD END	JUN 30 1999
CASH	776
SECURITIES	22,780
RECEIVABLES	3,983
ALLOWANCES	429
INVENTORY	5,018
CURRENT ASSETS	34,240
PP&E	37,403
DEPRECIATION	5,626
TOTAL ASSETS	66,240
CURRENT LIABILITIES	5,805
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	1,051
OTHER SE	59,349
TOTAL LIABILITY AND EQUITY	66,420
SALES	21,064
TOTAL REVENUES	21,064
CGS	19,016
TOTAL COSTS	19,016
OTHER EXPENSES	10,832
LOSS PROVISION	271
INTEREST EXPENSE	42
INCOME PRETAX	(7,085)
INCOME TAX	0
INCOME CONTINUING	(7,085)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(7,085)
EPS BASIC	(0.68)
EPS DILUTED	(0.68)

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**End of Filing**

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