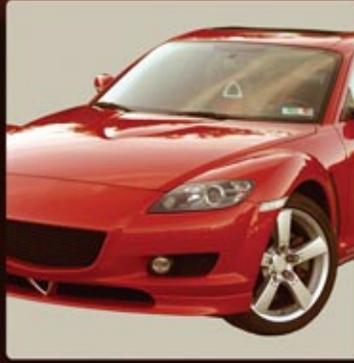


ULTRALIFE



Expanding our market opportunities

CORPORATE OVERVIEW

Ultralife, which began as a battery company, now offers products and services ranging from portable and standby power solutions to communications and electronics systems. Through its engineering and collaborative approach to problem solving, Ultralife serves government, defense and commercial customers across the globe.

Ultralife's family of brands includes: Ultralife Batteries, Stationary Power Services, Reserve Power Systems, ABLE, McDowell Research and RedBlack Communications. Ultralife's operations are in North America, Europe and Asia.

Ultralife's Family of Brands

- **Ultralife Batteries**
Ultralife Batteries specializes in developing and manufacturing a wide range of high-energy non-rechargeable and rechargeable power and charging systems for diverse applications in defense and commercial markets.
- **Stationary Power Services**
Stationary Power Services specializes in providing infrastructure power management in the engineering, installation and preventive maintenance of standby power systems, uninterrupted power supply systems, DC power systems and switchgear/control systems for the telecommunications, aerospace, technology, banking and information services industries.
- **Reserve Power Systems**
Reserve Power Systems specializes in providing lead acid batteries, systems, inverters, racks and accessories for use in the design and installation of standby power systems and other applications.
- **ABLE**
ABLE specializes in producing a range of non-rechargeable lithium-thionyl chloride and lithium-manganese dioxide batteries for use in a wide range of applications including: metering systems, automotive electronics, medical devices, portable military equipment, security systems, memory backup and asset tracking systems.
- **McDowell Research**
McDowell Research specializes in the design and manufacture of power solutions and accessories to support military communications systems with products that include: power supplies, RF amplifiers, battery chargers, amplified speakers, equipment mounts, case equipment and integrated communication systems.
- **RedBlack Communications**
RedBlack Communications specializes in providing engineering and technical services supporting the design, integration and fielding of mobile, modular and fixed-site communication and electronic systems.

TO OUR SHAREHOLDERS

Once simply a 9-volt battery company, Ultralife now serves larger and more diverse markets as a provider of advanced communications and electronics systems and power solutions to government, defense and commercial customers worldwide. Although we have been steadily evolving our market position for the past few years, in 2007 we took the biggest steps yet to substantially enlarge our set of growth opportunities. We broadened our portfolio of products; added design, installation and maintenance services; expanded our engineering services; enhanced our relationships with prime defense contractors; and entered the \$6 billion global standby power market. In doing so, we have positioned ourselves for sustainable profitable growth in 2008 and beyond.

Our financial results in 2007 mirrored our broadened market position. We delivered record revenue of \$137.6 million, an increase of 47% over last year's revenue of \$93.5 million led by increased sales of communications systems to government and defense customers. Also contributing to our growth were sales of non-rechargeable products to overseas government and defense customers which, for the first time in our history, exceeded sales to the U.S. Department of Defense.

Gross margins improved to 21% from 19% in 2006 on a greater mix of engineered products, material sourcing improvements and manufacturing efficiency gains, while operating income improved \$2.8 million to a loss of \$0.2 million from last year's loss of \$3.0 million. We produced net income of \$5.6 million, or \$0.36 per share, versus a net loss of \$27.5 million, or \$1.84 per share, for 2006. (Prior year results included a non-cash income tax charge of \$23.7 million to reflect our decision to fully reserve for the deferred tax asset.)

During the year, we continued to climb up the value chain, adding integrated systems and advanced power solutions to our portfolio of non-rechargeable and rechargeable batteries, charging systems and communications accessories, and we augmented our engineering services capabilities. Our total integrated systems approach – encompassing product design, engineering services, manufacturing and installation – is gaining greater recognition in our markets, strengthening our relationships with existing customers and attracting new customers. As an example, in 2007 we were awarded a \$24 million contract to supply SATCOM-on-the-Move satellite communications systems and then, toward the end of the year, we received two orders, together worth

approximately \$102 million, to supply advanced communications systems. These self-contained systems combine radios, radio mounts, speakers, amplifiers and antennas to enable secure broadband communications, including satellite communications. Clearly, we are succeeding in parlaying our communications systems capabilities into a solid reputation as the supplier of choice among prime contractors, both in the U.S. and abroad.

In addition to increasing the mix of higher-margin integrated systems, we acquired two companies – Innovative Solutions Consulting and Stationary Power Services. Through these acquisitions, we augmented our engineering services capabilities, moved even higher up the value curve and significantly enlarged our market opportunities.

Innovative Solutions Consulting, which we renamed RedBlack Communications, designs and installs sophisticated communications and electronics systems for U.S. government agencies and prime contractors. Having worked with this firm on systems installations involving equipment we supplied, we had first hand knowledge of its systems integration skills. We seized the opportunity to create additional value by supplementing our communications systems expertise with RedBlack's design and installation capabilities and by expanding our respective channels of distribution.

Stationary Power Services brings us a full portfolio of design, installation and maintenance services for standby power systems for telecommunications, utilities and data center applications. Acquiring a proven installer and systems integrator with strong customer relationships and established sales channels offered us a low-risk conduit into the rapidly growing, global market for standby power.

Burgeoning energy needs and increasing investment in telecommunications and utility infrastructure are driving demand for cost-effective uninterruptible power storage that standby power systems provide. In addition, incumbent technologies carry high maintenance and replacement costs. Against this demand backdrop, Stationary Power Services expands our opportunities in the market for rechargeable power solutions and positions us to displace incumbent lead acid batteries over time with smart lithium ion solutions in many applications confronted by the rising total cost of ownership over the life of a system.

Having learned important lessons about integrating and growing newly acquired companies, we brought both RedBlack Communications and Stationary Power Services under our oversight on day one, placing Ultralife management in operational and financial positions, and quickly integrating both companies into our corporate financial reporting and control systems.

2007 was not without its challenges. Our communications systems business was burdened by premium cost inventory for most of the year that resulted from sourcing decisions that have since been corrected. In addition to completing the integration of McDowell Research into our Newark, N.Y. facility, we also negotiated a \$7.9 million reduction in the purchase price of the company that was reflected as a \$7.6 million non-operating gain in the fourth quarter results.

On the strength of our backlog of orders at the end of 2007, we have in our sights revenue of at least \$238 million in 2008. Never in Ultralife's history have we had such an abundance of market opportunities nor has our market position been stronger. Our imperative in 2008 is to mature these opportunities while investing in products, services, markets and applications to sustain growth in 2009 and beyond.

The government and defense market will fuel much of our growth in 2008 as demand for reliable portable power continues to grow and communications systems continue to demand extended ranges, more power and more integration. Our SATCOM systems, thermal sight batteries, IED jammers and portable tactical repeater systems; our growing line of RF amplifiers, high-capacity batteries and chargers; and our development work with fuel cell-based systems are all directed at these trends.

We also intend to take full advantage of our entry into the standby power market by increasing design and installation activity and expanding our sales and service footprint. As we gain traction in this market and build market share, we will also complete development of our SmartCircuit™ lithium ion battery technology in preparation for a market launch in 2009. We believe our lithium ion power solution, with its improved energy density, long cycle life and minimal maintenance requirements, will offer the market an economical value proposition over incumbent lead acid batteries in many applications. The growth of small distributive hubs for wireless, fiber and cable communications networks presents a maintenance challenge that our SmartCircuit technology with its remote monitoring capability can solve. We are prepared for the growth in demand for high performance power storage technology solutions as the total cost of ownership continues to escalate

and investment in telecommunications and utility infrastructure continues to grow.

In addition to introducing lithium ion batteries into the standby power market, we are working on developing products capable of solving more complex problems, containing greater engineered content and utilizing smart batteries and chargers, solar cells and/or fuel cells. In other areas of product development, we plan to broaden our portfolio of amplifiers, batteries and uninterruptible power supplies. Our approach to new product development remains effective: we focus on anticipating technology trends and market displacements where we believe high-growth opportunities for viable applications exist.

As always, we will continue to create high-potential market opportunities that play to our strengths, by staying at the forefront of the technology trends for portable and standby power, and communications and electronics systems. Our expanded set of market opportunities, formidable product development capability, worldwide distribution channels, proven engineering skills and design expertise, and established collaborative relationships position Ultralife to deliver sustainable growth as we continue to expand our products, services, markets and geographies.

Ultralife now employs more than 1,000 people in the areas of manufacturing; design, installation and engineering services; and customer services and support for a worldwide organization – one that is much larger and more diverse today than it was at the beginning of 2007. Our success has been and will continue to be a testament to the dedication and talents of our employees, and I especially want to thank them for their ongoing commitment to helping Ultralife grow and prosper. Finally, I want to thank our customers and shareholders for their continued loyalty.



John D. Kavazanjian
President and Chief Executive Officer

CORPORATE & SHAREHOLDER INFORMATION

Board of Directors

Patricia C. Barron	Board Chair, Ultralife
Carole Lewis Anderson	Principal, Suburban Capital Markets, Inc.
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Paula H.J. Cholmondeley	Independent Strategy Consultant
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John D. Kavazanjian	President & Chief Executive Officer, Ultralife
Ranjit C. Singh	President & Chief Executive Officer, Aptara, Inc.
Bradford T. Whitmore	Managing Partner, Grace Brothers, Ltd.

Corporate Officers

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Peter F. Comerford	Vice President, Administration & General Counsel
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Philip A. Fain	Vice President, Business Development
Robert W. Fishback	Vice President, Finance & Chief Financial Officer
Patrick R. Hanna Jr.	Vice President, Corporate Strategy & Business Integration
Philip M. Meek	Chief Operating Officer, Stationary Power Services
Andrew J. Naukam	Vice President, Far East Operations

Exchange Listing

NASDAQ

Stock Symbol

ULBI

Stock Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038-4502

Annual Meeting

The next annual meeting of shareholders will be held on Thursday, June 5, 2008 at Ultralife's corporate headquarters located at 2000 Technology Parkway, Newark, New York.

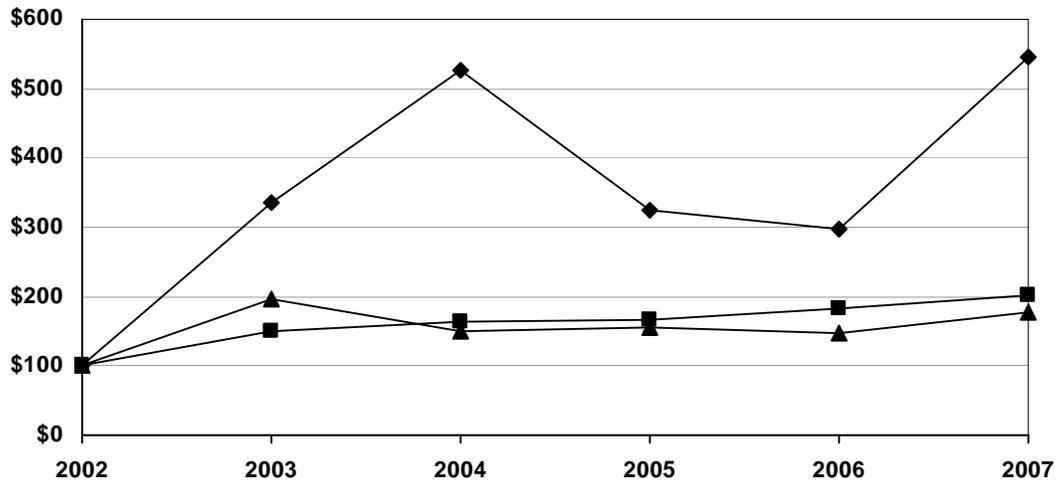
Form 10-K

Shareholders may obtain a copy of Ultralife's 2007 report to the Securities and Exchange Commission on Form 10-K by going to the Investor Info page at www.ulbi.com or by calling us at 1-800-332-5000. This information is also available at no charge by sending a request to Shareholder Services at the following address:

Ultralife
2000 Technology Parkway
Newark, NY 14513-2175

The most recent certifications by our Chief Executive and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K for the fiscal year ended December 31, 2007.

Comparison of Cumulative Five Year Total Return



◆ Ultralife Batteries, Inc. ■ Nasdaq U.S. Index ▲ Nasdaq Electronic Components Index

ULTRALIFE[®]

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