

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

ULTRALIFE BATTERIES INC
Form 10-Q/A
August 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 26, 2004

or

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

_____ to _____

Commission file number 0-20852

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

Delaware
(State or other jurisdiction of incorporation or organization)

16-1387013
(I.R.S. Employer Identification No.)

2000 Technology Parkway, Newark, New York 14513
(Address of principal executive offices)
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.10 par value - 14,198,825 shares of common stock outstanding, net of 727,250 treasury shares, as of June 26, 2004.

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

ULTRALIFE BATTERIES, INC. INDEX

This Amendment No. 1 to Form 10-Q for Ultralife Batteries, Inc. for the period ended June 26, 2004, dated as of August 2, 2004, is being filed to correct typographical errors made in the Company's Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows. These errors occurred when the original documents provided to the financial printer were converted to EDGAR format. The totals and subtotals on these statements, and the operating results, have not changed as a result of these corrections.

		Page
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets - June 26, 2004 and December 31, 2003	3
	Condensed Consolidated Statements of Operations - Three and Six months ended June 26, 2004 and June 28, 2003	4
	Condensed Consolidated Statements of Cash Flows - Three and Six months ended June 26, 2004 and June 28, 2003	5
	Notes to Consolidated Financial Statements	6
PART II	OTHER INFORMATION	
Item 6.	Exhibits and Reports on Form 8-K	14
	Signatures	15
	Index to Exhibits	16

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 26, 2004	December 31, 2003
ASSETS	-----	-----
Current assets:		
Cash and cash equivalents	\$ 941	\$ 830
Restricted cash	51	50
Trade accounts receivable (less		

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

allowance for doubtful accounts of \$223 at June 26, 2004 and \$168 at December 31, 2003)	20,205	17,803
UTI note receivable	--	2,350
Inventories	16,131	10,209
Prepaid expenses and other current assets	1,662	1,314
	-----	-----
Total current assets	38,990	32,556
	-----	-----
Property, plant and equipment, net	19,169	18,213
Other assets:		
Investment in UTI	--	1,550
Technology license agreements (net of accumulated amortization of \$1,451 at June 26, 2004 and \$1,418 at December 31, 2003)	--	33
	-----	-----
	--	1,583
	-----	-----
Total Assets	\$ 58,159	\$ 52,352
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 5,439	\$ 8,295
Accounts payable	7,720	6,385
Income taxes payable	13	106
Other current liabilities	3,828	3,068
	-----	-----
Total current liabilities	17,000	17,854
Long-term liabilities:		
Debt and capital lease obligations	68	68
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 40,000,000 shares; issued - 14,926,075 at June 26, 2004 and 14,302,782 at December 31, 2003	1,493	1,430
Capital in excess of par value	124,276	120,626
Accumulated other comprehensive loss	(638)	(723)
Accumulated deficit	(81,662)	(84,525)
	-----	-----
	43,469	36,808
Less -- Treasury stock, at cost -- 727,250 shares	2,378	2,378
	-----	-----
Total shareholders' equity	41,091	34,430
	-----	-----
Total Liabilities and Shareholders'		

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Equity	\$ 58,159	\$ 52,352
	=====	=====

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

3

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

	Three Months Ended	
	June 26, 2004	June 28, 2003
	-----	-----
Revenues	\$ 28,439	\$ 20,110
Cost of products sold	21,391	15,379
	-----	-----
Gross margin	7,048	4,731
	-----	-----
Operating expenses:		
Research and development	560	646
Selling, general, and administrative	2,858	2,187
	-----	-----
Total operating expenses	3,418	2,833
	-----	-----
Operating income	3,630	1,898
Other income (expense):		
Interest income	27	4
Interest expense	(110)	(150)
Write-off of UTI investment and note receivable	(3,951)	--
Miscellaneous	32	397
	-----	-----
(Loss) income before income taxes	(372)	2,149
	-----	-----
Income taxes	--	--
	-----	-----
Net (loss) income	\$ (372)	\$ 2,149
	=====	=====
(Loss) earnings per share - basic	\$ (0.03)	\$ 0.17
	=====	=====
(Loss) earnings per share - diluted	\$ (0.03)	\$ 0.16
	=====	=====

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Weighted average shares outstanding - basic	14,115 =====	12,927 =====
Weighted average shares outstanding - diluted	14,115 =====	13,651 =====

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

4

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

	Six Months Ended	
	June 26, 2004	June 28, 2003
OPERATING ACTIVITIES		
Net income	\$ 2,863	\$ 2,460
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,705	1,504
Gain on asset disposal	(14)	--
Foreign exchange gain	(87)	(192)
Write-off of UTI investment and note receivable	3,951	--
Write-down of inventory damaged in fire	543	--
Write-down of fixed assets damaged in fire	112	
Non-cash stock-based compensation	10	26
Changes in operating assets and liabilities:		
Accounts receivable	(2,402)	(6,940)
Inventories	(6,465)	(916)
Prepaid expenses and other current assets	399	(142)
Insurance receivable relating to fires	(798)	--
Income taxes payable	(93)	--
Accounts payable and other current liabilities	2,095	3,957
	-----	-----
Net cash provided by (used in) operating activities	1,819	(243)
	-----	-----
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,628)	(3,278)
Proceeds from asset disposal	16	--
Purchase of securities	(1)	--
	-----	-----
Net cash used in investing activities	(2,613)	(3,278)

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

	-----	-----
FINANCING ACTIVITIES		
Change in revolving credit facilities	(2,456)	2,440
Proceeds from issuance of common stock	3,703	1,128
Proceeds from issuance of debt	--	500
Principal payments on long-term debt and capital lease obligations	(400)	(401)
Proceeds from grant	--	117
	-----	-----
Net cash provided by financing activities	847	3,784
	-----	-----
Effect of exchange rate changes on cash	58	27
	-----	-----
Increase in cash and cash equivalents	111	290
Cash and cash equivalents at beginning of period	830	1,322
	-----	-----
Cash and cash equivalents at end of period	\$ 941	\$ 1,612
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION		
Taxes paid	\$ 255	\$ --
	=====	=====
Interest paid	\$ 173	\$ 116
	=====	=====

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

5

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements contained in the Company's Form 10-K for the twelve-month period ended December 31, 2003.

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

The Company's monthly closing schedule is a weekly-based cycle as opposed to a calendar month-based cycle. While the actual dates for the quarter-ends will change slightly each year, the Company believes that there are not any material differences when making quarterly comparisons.

2. WRITE-OFF OF UTI INVESTMENT AND NOTE RECEIVABLE

In June 2004, the Company recorded a \$3,951 non-cash, non-operating charge related to the Company's ownership interest in Ultralife Taiwan, Inc. ("UTI") that consisted of a write-off of its \$2,401 note receivable from UTI, including accrued interest, and the book value of its \$1,550 equity investment in UTI. The Company decided to record this charge due to recent events that have caused increasing uncertainty over UTI's near-term financial viability, including a failure by UTI to meet commitments made to the Company and its other creditors to secure additional financial support before July 1, 2004. Based on these factors, and UTI's operating losses over several years, the Company's investment has had an other than temporary decline in fair value and the Company believes that the probability of being reimbursed for the note receivable is nominal. The Company continues to hold a 9.2% equity interest in UTI, and it is working with UTI to help it through its financial difficulties in an effort to ensure a satisfactory outcome for all parties involved. The Company does not believe the write-off poses a risk to its current operations or future growth prospects because UTI continues to manufacture product for it and the Company has taken steps to establish alternate sources of supply.

3. EARNINGS (LOSS) PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by dividing net income, adjusted for interest on convertible securities, by potentially dilutive common shares, which include stock options, warrants and convertible securities.

Net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. The impact of conversion of dilutive securities, such as stock options and warrants, are not considered where a net loss is reported as the inclusion of such securities would be anti-dilutive. As a result, basic loss per share is the same as diluted loss per share.

6

The computation of basic and diluted earnings per share is summarized as follows:

(In thousands, except per share data)

	Three Months Ended	
	June 26, 2004	June 28, 2003
Net (Loss) / Income (a)	\$ (372)	\$ 2,149
Effect of Dilutive Securities:		
Stock Options / Warrants	--	44
Convertible Note	--	6

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Net (Loss) / Income - Adjusted (b)	\$ (372)	\$ 2,199
<hr style="border-top: 1px dashed black;"/>		
Average Shares Outstanding - Basic (c)	14,115	12,927
Effect of Dilutive Securities:		
Stock Options / Warrants	--	557
Convertible Note	--	167
<hr style="border-top: 1px dashed black;"/>		
Average Shares Outstanding - Diluted (d)	14,115	13,651
<hr style="border-top: 1px dashed black;"/>		
EPS - Basic (a/c)	\$ (0.03)	\$ 0.17
EPS - Diluted (b/d)	\$ (0.03)	\$ 0.16

The Company also had the equivalent of 1,056,880 options and warrants outstanding for the three-month period ended June 26, 2004 which were not included in the computation of diluted EPS because these securities would have been anti-dilutive for that period.

4. STOCK-BASED COMPENSATION

The Company has various stock-based employee compensation plans. The Company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations which require compensation costs to be recognized based on the difference, if any, between the quoted market price of the stock on the grant date and the exercise price. As all options granted to employees under such plans had an exercise price at least equal to the market value of the underlying common stock on the date of grant, and given the fixed nature of the equity instruments, no stock-based employee compensation cost is reflected in net (loss) income. The effect on net (loss) income and (loss) earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of SFAS No. 123", to stock-based employee compensation is as follows:

7

(In thousands, except per share data)

	Three Months Ended	
	June 26, 2004	June 28, 2003
<hr style="border-top: 1px dashed black;"/>		
Net (loss) income, as reported	\$ (372)	\$ 2,149
Add: Stock-based employee compensation expense included in reported net (loss) income, net of related tax effects	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(467)	(317)
<hr style="border-top: 1px dashed black;"/>		
Pro forma net (loss) income	\$ (839)	\$ 1,832

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

(Loss) earnings per share:

Basic - as reported	\$ (0.03)	\$ 0.17
Basic - pro forma	\$ (0.06)	\$ 0.14
Diluted - as reported	\$ (0.03)	\$ 0.16
Diluted - pro forma	\$ (0.06)	\$ 0.13

During the first six months of 2004, the Company issued 623,293 shares of common stock as a result of exercises of stock options and warrants. The Company received approximately \$3,703 in cash proceeds as a result of these transactions.

5. COMPREHENSIVE (LOSS) INCOME

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

	Three Months Ended	
	June 26, 2004	June 28, 2003
Net (loss) income	\$ (372)	\$ 2,149
Foreign currency translation adjustments	15	(124)
Total comprehensive (loss) income	\$ (357)	\$ 2,025

8

6. INVENTORIES

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

	June 26, 2004	December 31, 2003
Raw materials	\$ 6,368	\$ 5,946
Work in process	4,004	2,306
Finished goods	6,266	2,699
	16,638	10,951
Less: Reserve for obsolescence	507	742
	\$ 16,131	\$ 10,209

7. PROPERTY, PLANT AND EQUIPMENT

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

	June 26, 2004	December 31, 2003
Land	\$ 123	\$ 123
Buildings and leasehold improvements	2,540	1,845

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Machinery and equipment	34,053	33,207
Furniture and fixtures	371	358
Computer hardware and software	1,664	1,554
Construction in progress	2,762	1,748

	41,513	38,835
Less: Accumulated depreciation	22,344	20,622

	\$ 19,169	\$ 18,213
	=====	

8. DEBT

As of June 26, 2004, the Company had \$867 outstanding under the term loan component of its credit facility with its primary lending bank, and had \$4,209 of borrowings outstanding under the revolver component of the credit facility. The Company's additional borrowing capacity under the revolver component of the credit facility as of June 26, 2004 was approximately \$5,900, net of outstanding letters of credit of \$3,600. At June 26, 2004, the Company's net worth was \$41,091, compared to the debt covenant requiring a minimum net worth of approximately \$22,406. (See Note 13 for information on the Company's new credit facility.)

As of June 26, 2004, the Company's wholly-owned U.K. subsidiary, Ultralife Batteries (UK) Ltd., had approximately \$345 outstanding under its revolving credit facility with a commercial bank in the U.K. This credit facility provides the Company's U.K. operation with additional financing flexibility for its working capital needs. Any borrowings against this credit facility are collateralized with that company's outstanding accounts receivable balances. There was approximately \$476 in additional borrowing capacity under this credit facility as of June 26, 2004.

9

9. 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. The Company recorded an income tax expense of \$79 for the six months ended June 26, 2004 relating to alternative minimum tax calculations.

As of December 31, 2003, the Company had foreign and domestic net operating loss carryforwards totaling approximately \$76,829 that are available to reduce future taxable income. The Company has not reported a deferred tax asset on its Consolidated Balance Sheet due to prior operating losses. It is reasonably possible the Company's profitability in 2003 and 2004 would result in the recognition of a deferred tax asset during 2004. The Company has determined that a change in ownership as defined under Internal Revenue Code Section 382 occurred during the fourth quarter of 2003. As a result, the net operating loss carryforwards will be subject to an annual limitation, currently estimated to be in the range of approximately \$14,000 to \$18,000. Such a limitation could result in the possibility of a cash outlay for income taxes in a future year when earnings exceed the amount of NOLs that can be used by the Company.

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

10. COMMITMENTS AND CONTINGENCIES

As of June 26, 2004, the Company had \$51 in restricted cash in support of a corporate credit card account.

As of June 26, 2004, the Company had open capital commitments to purchase approximately \$2,071 of production machinery and equipment.

The Company estimates future costs associated with expected product failure rates, material usage and service costs in the development of its warranty obligations. Warranty reserves, included in other current liabilities on the Company's Consolidated Condensed Balance Sheet, are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in the Company's product warranty liability during the first six months of 2004 were as follows:

Balance at December 31, 2003	\$ 278
Accruals for warranties issued	237
Settlements made	(147)

Balance at June 26, 2004	\$ 368
	=====

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

In conjunction with the Company's purchase/lease of its Newark, New York facility in 1998, the Company entered into a payment-in-lieu of tax agreement which provides the Company with real estate tax concessions upon meeting certain conditions. In connection with this agreement, a consulting firm performed a Phase I and II Environmental Site Assessment which revealed the existence of contaminated soil and ground water around one of the buildings. The Company retained an engineering firm which estimated that the cost of remediation should be in the range of \$230. This cost, however, is merely an estimate and the cost may in fact be much higher. In February, 1998, the

Company entered into an agreement with a third party, which provides that the Company and this third party will retain an environmental consulting firm to conduct a supplemental Phase II investigation to verify the existence of the contaminants and further delineate the nature of the environmental concern. The third party agreed to reimburse the Company for fifty percent (50%) of the cost of correcting the environmental concern on the Newark property. The Company has fully reserved for its portion of the estimated liability. Test sampling was completed in the spring of 2001, and the engineering report was submitted to the New York State Department of Environmental Conservation (NYSDEC) for review. NYSDEC reviewed the report and, in January 2002, recommended additional testing. The Company submitted a work plan to NYSDEC in October 2003, which was approved shortly thereafter. The Company sought proposals from engineering firms to complete the remedial work outlined in the work plan. A firm was selected to perform the tasks associated with the remediation activities, which were completed in December 2003. The test results were then forwarded to

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

NYSDEC for comment. NYSDEC responded to the Company in March 2004 requesting a report summarizing the data, findings, discussions and conclusions. The report has been submitted to NYSDEC who will review and make recommendations as to whether additional remediation is required. Because the Company believes that the source of the contamination has been removed, NYSDEC recommended that the Company conduct quarterly monitoring of the groundwater for one year. The Company believes that the final cost to remediate will not exceed the original estimate. The Company awaits final comments from the NYSDEC and will begin the additional sampling upon approval of the conclusions stated in the report. Because this is a voluntary remediation, there is no requirement for the Company to complete the project within any specific time frame. The ultimate resolution of this matter may have a significant adverse impact on the results of operations in the period in which it is resolved. Furthermore, the Company may face claims resulting in substantial liability which could have a material adverse effect on the Company's business, financial condition and the results of operations in the period in which such claims are resolved.

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

11. BUSINESS SEGMENT INFORMATION

The Company reports its results in three operating segments: Primary Batteries, Rechargeable Batteries, and Technology Contracts. The Primary Batteries segment includes 9-volt, cylindrical and various other non-rechargeable specialty batteries. The Rechargeable Batteries segment includes the Company's lithium polymer and lithium ion rechargeable batteries. The Technology Contracts segment includes revenues and related costs associated with various government and military development contracts. The Company looks at its segment performance at the gross margin level, and does not allocate research and development or selling, general and administrative costs against the segments. All other items that do not specifically relate to these three segments and are not considered in the performance of the segments are considered to be Corporate charges.

11

Three Months Ended June 26, 2004

	Primary Batteries	Rechargeable Batteries	Technol Contract
Revenues	\$ 26,321	\$ 1,691	\$ 42

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Segment contribution	7,048	(82)	8
Interest expense, net			
Write-down of UTI investment and note receivable			
Miscellaneous			
Income taxes			
Net loss			
Total assets	\$ 48,928	\$ 4,179	\$ 24

Three Months Ended June 28, 2003

	Primary Batteries	Rechargeable Batteries	Technol Contract
Revenues	\$ 19,570	\$ 258	\$ 28
Segment contribution	5,008	(389)	11
Interest expense, net			
Miscellaneous			
Income taxes			
Net income			
Total assets	\$ 31,956	\$ 3,249	\$ 14

Six Months Ended June 26, 2004

	Primary Batteries	Rechargeable Batteries	Technol Contract
Revenues	\$ 51,643	\$ 3,065	\$ 71
Segment contribution	13,822	(567)	12
Interest expense, net			
Write-down of UTI investment and note receivable			
Miscellaneous			
Income taxes			
Net income			
Total assets	\$ 48,928	\$ 4,179	\$ 24

Six Months Ended June 28, 2003

	Primary Batteries	Rechargeable Batteries	Technol Contract
Revenues	\$ 34,202	\$ 638	\$ 69
Segment contribution	8,172	(596)	31
Interest expense, net			
Miscellaneous			
Income taxes			

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Net income				
Total assets	\$ 31,956	\$ 3,249	\$	14

12

12. FIRES AT MANUFACTURING FACILITIES

In May 2004 and June 2004, the Company experienced two fires that damaged certain inventory and property at its facilities. The May 2004 fire occurred at the Company's U.S. facility and was caused by cells that shorted out when a forklift truck accidentally tipped the cells over in an oven in an enclosed area. Certain inventory, equipment and a small portion of the building where the fire was contained were damaged. The June 2004 fire happened at the Company's U.K. location and mainly caused damage to various inventory and the U.K. company's leased facility. The fire was contained mainly in a bunkered, non-manufacturing area designed to store various material, and there was additional smoke and water damage to the facility and its contents. It is unknown how the U.K. fire was started. The fires caused relatively minor disruptions to the production operations, and had no impact on the Company's ability to meet customer demand during the quarter.

The Company maintains replacement cost insurance on the property and equipment it owns or rents, with relatively low deductibles. The total of the two losses related to company-owned assets, including expenditures required to repair and clean up the facilities, is expected to be in the range of \$2,000. The Company is working closely with the insurance companies on these matters, and it expects to be fully reimbursed by the insurance companies for these losses. The impacts on the Consolidated Statement of Operations and the net cash outflows from the Company are expected to be negligible. At June 26, 2004, the Company's prepaid and other current assets on its Consolidated Balance Sheet included a receivable from insurance companies for approximately \$800 for equipment losses, inventory losses and clean-up costs incurred to date.

13. SUBSEQUENT EVENT - NEW CREDIT FACILITY

On June 30, 2004, the Company closed on a new secured \$25,000 credit facility, comprised of a five-year \$10,000 term loan component and a three-year \$15,000 revolving credit component. This agreement replaces the Company's \$15,000 credit facility that expired on the same date.

On June 30, 2004, the Company drew down the full \$10,000 term loan. The proceeds of the term loan, which is to be repaid in equal monthly installments over five years, are to be used for the retirement of outstanding debt and capital expenditures. Availability under the revolving credit component is subject to a debt to earnings ratio, whereas availability under the previous facility was limited by various asset values. The lenders of the new credit facility are JP Morgan Chase Bank and Manufacturers and Traders Trust Company, with JP Morgan Chase Bank acting as the administrative agent.

On July 1, 2004, the Company entered into an interest rate swap arrangement to be effective on August 2, 2004, related to the \$10,000 term loan, in order to take advantage of historically low interest rates. The Company received a fixed rate of interest in exchange for a variable rate. The swap rate received was 3.98% for five years and will be adjusted accordingly for a Eurodollar spread incorporated in the agreement, which

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

is dependent upon a debt to earnings ratio within a predetermined grid. At July 1, 2004, the total adjusted rate of interest that the Company will pay on the outstanding portion of the \$10,000 term loan was 5.23%.

13

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Credit Agreement dated as of June 30, 2004 with JPMorgan Chase Bank as Administrative Agent
- 10.2 General Security Agreement dated as of June 30, 2004 in favor of JPMorgan Chase Bank
- 31.1 Section 302 Certification - CEO
- 31.2 Section 302 Certification - CFO
- 32 Section 906 Certifications

(b) Reports on Form 8-K

On April 14, 2004, the Company filed Form 8-K with the Securities and Exchange Commission announcing that it will report its first quarter 2004 results for the period ended March 27, 2004 before the market opens on Thursday, April 29, 2004.*

On April 22, 2004, the Company filed Form 8-K with the Securities and Exchange Commission announcing it had received an order valued at approximately \$1.5 million to supply custom lithium ion batteries and chargers to Cubic Defense Applications.*

On April 27, 2004, the Company filed Form 8-K with the Securities and Exchange Commission announcing that it had received an order valued at \$6 million from the U.S. Army Communications Electronics Command (CECOM) for its BA-5372/U military batteries.*

On April 29, 2004, the Company filed a Form 8-K with the Securities and Exchange Commission announcing its financial results for the quarter ended March 27, 2004.*

On April 29, 2004, the Company filed a Form 8-K with the Securities and Exchange Commission disclosing that two sitting directors would not stand for re-election to the Board of Directors at the Annual Meeting.

On May 4, 2004, the Company filed a Form 8-K with the Securities and Exchange Commission announcing the election of Philip M. Meek, Vice President of Manufacturing, as an officer of the company.

On May 27, 2004, the Company filed Form 8-K with the Securities and Exchange Commission indicating that it would hold its annual meeting of shareholders for the period ending December 31, 2003, at the JPMorgan Chase Conference Center in New York City on Thursday, June 10, 2004.*

On June 15, 2004, the Company filed a Form 8-K with the Securities and Exchange Commission announcing the election of Paula H. J.

Edgar Filing: ULTRALIFE BATTERIES INC - Form 10-Q/A

Cholmondeley to its board of directors.*

*This information was furnished but not filed in accordance with Regulation FD.

14

SIGNATURES

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

ULTRALIFE BATTERIES, INC.
(Registrant)

Date: August 6, 2004

By: /s/ John D. Kavazanjian

John D. Kavazanjian
President and Chief Executive
Officer

Date: August 6, 2004

By: /s/ Robert W. Fishback

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

15

Index to Exhibits

- 31.1 Section 302 Certification - CEO
- 31.2 Section 302 Certification - CFO
- 32 Section 906 Certifications

16