

ULTRALIFE CORP

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2000

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, 2000, the aggregate market value of the common stock of Ultralife Batteries, Inc. held by non-affiliates of the Registrant was approximately \$112,196,376 based upon the closing price for such Common Stock as reported on the NASDAQ National Market System on August 31, 2000.

As of September 15, 2000, the Registrant had 11,083,826 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 on Form 10-K 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, including those caused by fires, raw materials supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, estimated or expected.

ITEM 1. BUSINESS

General

Ultralife Batteries, Inc. (the "Company") develops, manufactures and markets a wide range of standard and customized primary lithium and polymer rechargeable batteries for use in a wide array of applications. 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 has introduced its advanced polymer rechargeable batteries which are based on its proprietary technology for use in portable electronic applications such as cellular telephones and computing devices 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, cylindrical 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.

Primary Batteries

The Company manufactures and markets a family of lithium-manganese dioxide (Li/MnO₂) primary batteries including 9-volt, 3-volt, C, 1 1/4 C and D configurations, Ultralife Thin Cell(R) and custom Pouch batteries, and silver-chloride seawater-activated 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 portable medical devices. 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 Seawater-activated batteries used for specialty marine applications.

Revenues for this segment in fiscal year 2000 were \$21,840,000 and segment contribution was a loss of \$1,244,000. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Rechargeable Batteries

The Company believes that its polymer rechargeable technology provides substantial benefits, including the ability to provide thin, lightweight 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 comparable to or better than other lithium-based rechargeable batteries currently available. The Company has begun manufacturing its polymer rechargeable batteries on its high-volume manufacturing equipment and supplying such product to aftermarket customers.

The global small cell rechargeable batteries market was approximately \$4.7 billion in 1998 and was expected to grow to \$6.1 billion by 2001. The widespread use of a variety of portable consumer electronic products 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 2000 were \$25,000 and segment contribution was a loss of \$5,306,000. 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 rechargeable and primary battery technologies.

Revenues for this segment in fiscal year 2000 were \$2,649,000 and segment contribution was \$246,000. 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 2000 and segment contribution was a loss of \$7,385,000. 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 seawater-activated 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 its research and development personnel, 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 the Company's polymer rechargeable batteries in Taiwan. During fiscal 2000, the Company provided the venture, named Ultralife Taiwan, Inc. (UTI), with its proprietary technology and 700,000 shares of the Company Common Stock. The Company is UTI's largest shareholder with approximately 46% ownership, and holds half of the seats on UTI's board of directors. PGT and the group of investors funded UTI with \$21.25 million in cash and hold the remaining seats on the board. See Item 5., Market for Registrant's Common Equity and Related Shareholder Matters.

Since its inception, the Company has concentrated significant resources on research and development activities related to polymer rechargeable batteries. The Company is currently engaged in volume production of advanced rechargeable batteries using automated custom-designed equipment.

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 and release energy in the form of electricity. The main components of a conventional battery are the anode, cathode, 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 seawater-activated batteries, are based on lithium-manganese dioxide technology. The following table sets forth the performance characteristics of battery technologies that the Company believes represent its most significant current or potential competition for its 9-volt and high-rate lithium batteries.

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
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 primarily on lithium-manganese dioxide technology. The Company believes that materials used in, and the chemical reactions inherent to, the 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, have sloping voltage profiles, which result in decreasing power outage 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 1999 were sold to OEMs. Applications for which the Company's 9-volt lithium battery are currently sold include:

Safety and Security Equipment
Smoke alarms
Wireless alarm systems
Tracking devices
Transmitters/receivers

Medical Devices
Bone growth stimulators
Telemetry equipment
Portable blood analyzers
Ambulatory Infusion Pumps

Specialty Instruments
Garage door openers
Electronic meters
Hand-held scanners
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 Agilent (previously Hewlett Packard), Siemens Medical Systems, Inc., i-STAT Corp. and Orthofix for medical devices, and to ADT and Interactive Technologies, Inc. for security devices. Fyrnetics, Inc. and Maple Chase have 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, as well as 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., TruValue, Chase Pitkin, Ace Hardware and a number of catalogs.

The Company believes that its 9-volt lithium battery market has expanded as a result of a state law enacted in Oregon. The Oregon statute required 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 was 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. It is anticipated that the New York bill will come up for vote in the Assembly during the next legislative session. 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 using cells from other manufacturers 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 and rescue applications. Significant industrial applications include pipeline inspection equipment, autoreclosers and oceanographic devices. Among the military uses are manpack radios, night vision goggles and thermal imaging equipment. Search and 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 was installed and is fully

operational. 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.

Seawater-activated Batteries. The Company produces a variety of seawater-activated batteries based on magnesium-silver chloride technology. Seawater-activated 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 seawater-activated batteries at the Abingdon, England facility and markets them to naval and other specialty OEMs. This facility was also damaged in the fire that occurred in December 1996 resulting in temporary cessation of its seawater-activated operation. Manufacture has now been fully restored.

BA-5372 Batteries. 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. This battery offers a combination of performance features suitable for military applications including high energy density, lightweight, long shelf life and ability to operate in a wide temperature range.

Pouch Cell Lithium Batteries. The Company is currently developing a pouch cell lithium battery. The pouch cell is a 3-volt, wound, rectangular-shaped, high-rate cell configured for packaging in a compact, lightweight laminated foil pouch. Based on the Company's Li/MnO₂ chemistry, the pouch cell, with solid cathode construction, is a non-pressurized, non-toxic system that is considered safer than liquid cathode systems. The pouch technology provides flexibility with a lightweight thin battery having high energy density. The Company's lithium technology provides these batteries with a long shelf life and eliminates voltage delay even after prolonged storage.

Thin Cell Batteries. The Company has developed a line of lithium-manganese dioxide primary batteries, which are called 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 two configurations of the Thin Cell battery, which range in capacity from 160 milliampere-hours to 1,000 milliampere-hours. The Company is currently marketing these batteries to OEMs for applications such as identification tags and theft detection systems.

3-Volt Lithium Batteries. 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 and reused many times. Generally, discharge and recharge cycles can be repeated hundreds 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 many 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 for a given energy content. 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 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 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. 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 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 the contact between the electrodes, the cells do not require a metal housing. Rather, they are packaged within a thin foil laminate.

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 and retailers 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 corporate marketing, a director of polymer product marketing, a number of marketing managers, 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, 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.

In fiscal 2000, one customer (Fyrnetics, Inc.) accounted for approximately \$2.9 million of sales, which amounted to approximately 12% 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. Currently, the Company does not experience significant seasonal trends in primary battery revenues.

The Company's sales are executed primarily through purchase orders with scheduled deliveries on a weekly or monthly basis. At the end of fiscal 2000, the Company's backlog was not significant.

Rechargeable Batteries

The Company has initially targeted sales of its advanced polymer rechargeable aftermarket cellular phone batteries to distributors and resellers of cellular phone accessories. UTI, the Company's Taiwan venture, will be responsible for sales of polymer rechargeable batteries in Asia. 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 plans to expand its marketing activities as part of its strategic plan to increase sales of its rechargeable batteries to manufacturers of cellular telephones, computing devices 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 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 relate to rechargeable polymer batteries, and has certain 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.

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 9,000,000 9-volt batteries per year. The Company believes that its current manufacturing capacity is adequate to meet customer demand. However, with the successful passage of certain legislation, demand could exceed current capacity, which would require the Company to install additional capital equipment 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 was 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-activated batteries and the fabrication of customized multi-cell battery packs.

Rechargeable Batteries

The Company's production line for advanced polymer rechargeable batteries consists of automated coating, assembly and packaging equipment capable of 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 has been established in Taiwan as Ultralife Taiwan, Inc. under a venture established in December 1998. The new facility has been completed, is occupied and equipment is being installed. Production is anticipated to commence in the second half of fiscal 2001.

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, computing devices and other portable electronic devices.

During the years ended June 30, 2000, 1999, and 1998, the Company expended approximately \$5,306,000, \$5,925,000, and \$6,651,000, 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.

Pouch Cell Lithium Batteries

The Company has been conducting research and development of pouch cell lithium batteries, which have a broad range of potential applications in military and industrial markets including radio communications, telematics and medical devices. Included in the activities are design programs specific cells and batteries to define volume manufacturing methodology. The designs will incorporate a lean manufacturing approach to optimize their construction. No assurance can be given that such efforts will be successful or that the products that result will be marketable.

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 7590 pouch cell primary battery, which lasts up to twice as long and could replace the current BA 5590 battery. 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 an additional cost sharing SBIR Phase III contract for the development of the BA 7590 pouch cell primary battery that was substantially completed in fiscal 2000. 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 and aerospace applications. As lead contractor, the Company will receive approximately \$4.6 million. In fiscal 2000, the Company received \$1.8 million, and \$2.5 million will be received over the remaining two years 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 nine 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 and 3-volt batteries 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 and 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.

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 2000 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, 2000, the Company employed 431 persons: 43 in research and development, 331 in production and 57 in sales, administration and management. Of the total, 362 are employed in the U.S. and 69 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, 2000, the Company was under contract for 25 production workers. None of the Company's employees is 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.

The Company leases a facility in Abingdon, England. The term of the lease was recently extended and continues until March 24, 2013. It currently has an annual rent of \$240,000 and is subject to review every five years based on current real estate market conditions. The next review is March 2004.

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. This matter was settled in January 2000. Consequently, the Company will incur no further liability in this matter.

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 maintained that the claim against it, for \$25 million, was without merit. After a jury trial in December of 1999, the case was dismissed. Plaintiffs have filed an appeal, which is pending.

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be re-filed. The shareholder action was subsequently refiled, asserting substantially the same claims as the in the prior pleading. Earlier this year, the Company again moved to dismiss the complaint. The motion is still pending before the Court. The Company believes that the litigation is without merit and will continue to defend it vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER 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 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
Fiscal Year 2000:		
Quarter ended September 30, 1999	\$ 6.13	\$4.00
Quarter ended December 31, 1999	8.00	3.63
Quarter ended March 31, 2000	15.50	7.00
Quarter ended June 30, 2000	12.88	7.38

During the period from July 1, 2000 through September 22, 2000, the high and low closing sales prices of the Company's Common Stock were \$13.38 and \$9.88, respectively.

Holders

As of August 31, 2000, there were 146 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 resulted 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 Annual 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. Additionally, pursuant to the credit facility between the Company and Congress Financial Corporation (New England), the Company shall not declare or pay any dividends under the covenants specified in the loan agreement.

ITEM 6.

SELECTED FINANCIAL DATA
(In Thousands, Except Per Share Amounts)

Statement of Operations Data:

	Year Ended June 30,				
	2000	1999	1998	1997	1996
Revenues	\$ 24,514	\$21,064	\$16,391	\$15,941	\$15,101
Cost of products sold	25,512	19,016	14,522	15,118	14,271
Gross margin	(998)	2,048	1,869	823	830
Research and development expenses	5,306	5,925	6,651	3,413	2,671
Selling, general and administrative expenses	7,385	6,195	5,790	5,218	4,993
Loss on China development program	--	--	--	805	--
(Gain) Loss on fires	--	(1,288)	(2,697)	(56)	352
Total operating and other expenses	12,691	10,832	9,744	9,380	8,016
Interest income, net	909	1,456	888	1,352	2,017
Equity loss in affiliate	(818)	(80)	--	--	--
Gain on sale of securities	3,147	348	--	--	1,930
Other income (expense), net	209	(25)	(33)	(41)	--
Loss before income taxes	(10,242)	(7,085)	(7,020)	(7,246)	(3,239)
Income taxes	--	--	--	--	--
Net loss	\$(10,242)	\$(7,085)	\$(7,020)	\$(7,246)	\$(3,239)
Net loss per common share	\$ (0.94)	\$ (0.68)	\$ (0.84)	\$ (0.91)	\$ (0.41)
Weighted average number of shares outstanding	10,904	10,485	8,338	7,923	7,814

Balance Sheet Data:

	June 30,				
	2000	1999	1998	1997	1996
Cash and available-for-sale securities	\$18,639	\$23,556	\$35,688	\$22,158	\$35,069
Working capital	\$22,537	\$28,435	\$37,745	\$27,205	\$44,666
Total assets	\$64,460	\$66,420	\$75,827	\$51,395	\$60,633
Total long-term debt and capital lease obligations	\$ 3,567	\$ 215	\$ 197	\$ --	\$ --
Stockholders' equity	\$54,477	\$60,400	\$68,586	\$46,763	\$56,435

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, including those caused by fires, raw materials supplies, environmental regulations, and other risks and uncertainties, certain of which are beyond the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those described herein as anticipated, believed, estimated or expected.

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

General

Ultralife Batteries, Inc. (the "Company") develops, manufactures and markets a wide range of standard and customized primary lithium batteries and polymer rechargeable batteries for use in a wide array of applications. 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 has introduced its advanced polymer rechargeable batteries which are based on its proprietary technology for use in portable electronic applications such as cellular telephones and computing devices manufactured and sold for commercial use.

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 polymer rechargeable 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. Currently, the Company does not experience significant seasonal trends in primary battery revenues.

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.

Results of Operations

Fiscal Year Ended June 30, 2000 Compared With the Fiscal Year Ended June 30, 1999

Revenues. Total revenues of the Company increased \$3,450,000 from \$21,064,000 for the year ended June 30, 1999 to \$24,514,000 for the year ended June 30, 2000. Primary battery sales increased \$2,281,000 or approximately 12% from \$19,559,000 for the year ended June 30, 1999 to \$21,840,000 for the year ended June 30, 2000. The increase in primary battery sales was primarily due to an increase in BA-5372 battery shipments. Greater sales of high rate and 9-volt batteries also contributed to the increased revenue. Rechargeable battery sales amounted to \$25,000 for the year ended June 30, 2000, mainly as a result of shipments of small quantities of samples. Rechargeable battery revenues were \$24,000 less than in the prior year due to fewer samples shipped in fiscal 2000 as compared to fiscal 1999. Technology contract revenues increased \$1,193,000, or 82%, from \$1,456,000 to \$2,649,000 reflecting a full year of the Company's involvement with one key development program. In April 1999, the Company commenced work on a \$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 \$4,600,000 during the three-year program. In fiscal 2000, the Company recorded revenues of \$2,235,000 for the ATP program, compared with \$267,000 in fiscal 1999.

Cost of Products Sold. Cost of products sold increased \$6,496,000 from \$19,016,000 for the year ended June 30, 1999 to \$25,512,000 for the year ended June 30, 2000. Cost of products sold as a percentage of revenue increased from approximately 90% to 104% for the year ended June 30, 2000. Cost of primary batteries sold increased \$5,273,000 from \$17,811,000, or 91% of revenues, for the year ended June 30, 1999 to \$23,084,000, or 106% of revenues, for the year ended June 30, 2000. The increase in cost of primary batteries sold as a percentage of revenues was principally the result of costs related to the implementation of lean manufacturing practices and higher material costs in fiscal 2000. Also, receipt of insurance proceeds of \$1,547,000 reduced the cost of products sold in fiscal 1999. To date, lean manufacturing practices have resulted in the reduction of excess inventory, quicker manufacturing throughput times and improvements in operating efficiencies throughout the Company. Technology contracts cost of sales increased \$1,245,000, or approximately 108%, from \$1,158,000 for the year ended June 30, 1999 to \$2,403,000 for the year ended June 30, 2000. Technology contracts cost of sales as a percentage of revenue increased from 80% to 91% for the year ended June 30, 2000, reflecting a change in the mix of contracts.

Operating and Other Expenses. Operating and other expenses increased \$1,859,000 from \$10,832,000 for the year ended June 30, 1999 to \$12,691,000 for the year ended June 30, 2000. Operating and other expenses as a percentage of revenue increased slightly from approximately 51% to 52% for the year ended June 30, 2000. Of the Company's operating and other expenses, research and development expenses decreased \$619,000, or 10% from \$5,925,000 for the year ended June 30, 1999 to \$5,306,000 for the year ended June 30, 2000. Research and development expenses decreased as a result of a shift in resources to the U.S. Department of Commerce's ATP Program and a narrower focus on key rechargeable development programs. Selling, general and administration expenses increased \$1,190,000, approximately 19%, from \$6,195,000 for the year ended June 30, 1999 to \$7,385,000 for the year ended June 30, 2000. Selling and administrative expenses increased as a result of certain one-time costs relating mostly to legal fees and settlement costs associated with the conclusion of several legal matters, as well as additional expenditures required to build an infrastructure necessary to support the volume production of polymer rechargeable batteries. Lastly, the gain on fires of \$1,288,000 for the year ended June 30, 1999 resulted from the receipt of insurance proceeds to replace assets previously written off due to fires at Ultralife UK.

Other Income (Expense). Net interest income decreased \$547,000 from \$1,456,000 for the year ended June 30, 1999 to \$909,000 for the year ended June 30, 2000. The decrease in interest income is the result of lower average balances on cash and investment securities which were used for operations. The equity loss of \$818,000 in fiscal 2000 and \$80,000 in fiscal 1999 resulted from the Company's ownership interest in its venture in Taiwan. The gain on sale of securities of \$3,147,000 and \$348,000 in fiscal 2000 and 1999, respectively, resulted from the sale of the Company's investment in Intermagnetics General Corporation common shares.

Net Losses. Net losses increased \$3,157,000, or approximately 45%, from \$7,085,000, or \$0.68 per share, for the year ended June 30, 1999 to \$10,242,000, or \$0.94 per share, for the year ended June 30, 2000, primarily as a result of the reasons described above.

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.

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 (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.

Liquidity and Capital Resources

As of June 30, 2000, cash equivalents and available for sale securities totaled \$18,639,000. During the year ended June 30, 2000, the Company used \$10,532,000 of cash in operating activities as compared to \$8,027,000 for the year ended June 30, 1999. The increase in cash used in operations is the net result of the net loss for the year, the gain on sale of securities and increased inventories offset by depreciation and amortization expenses, equity losses, increased provisions for inventory obsolescence and lower prepaid and other current expenses. The increase in inventories at June 30, 2000 is the result of increased production volumes. Months cost of sales in inventory at June 30, 2000 was 2.8 months as compared to 2.9 months at June 30, 1999. In the year ended June 30, 2000, the Company used \$2,946,000 to purchase plant, property and equipment. Of this amount, \$449,000 relates to the acquisition of machinery and equipment for the Company's primary battery operations, \$1,697,000 relates to rechargeable battery machinery and equipment and the balance is substantially for facilities upgrades.

In June 2000, the Company entered into a \$20 million secured credit facility with a lending institution. The financing agreement consists of an initial \$12 million term loan component (of which \$4 million was outstanding at June 30, 2000) and a revolving credit facility component for an initial \$8 million, based on eligible net accounts receivable (as defined) and eligible net inventory (as defined). There was no balance outstanding on the revolving credit facility component as of June 30, 2000. The amount available under the term loan component amortizes over time. Principal and interest are paid monthly on outstanding amounts borrowed. The loans bear interest at the prime rate or other LIBOR-based rate options at the discretion of the Company. The Company also pays a facility fee on the unused portion of the commitment.

At June 30, 2000, the Company had a capital lease obligation outstanding of \$180,000 for the Company's Newark, New York offices and manufacturing facilities. In addition, the Company had a capital lease on computer equipment, which had an outstanding balance of \$348,000 at June 30, 2000.

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

U.S. Army Contract - BA-X372/U. 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. On April 13, 2000, the Company further announced that it has been awarded a new three-year contract to provide its BA-X372/U primary (disposable) lithium-manganese dioxide batteries to the U.S. Army. The initial contract order is valued at \$572,000 and has the potential to reach approximately \$2.5 million per year should the Army exercise its option to purchase additional batteries.

U.S. Army Contract - Pouch. In June 2000, the Company announced that it entered into an agreement with CECOM to complete the development of its primary (disposable) lithium-manganese

dioxide (Li/MnO₂) pouch batteries for the Army for manufacture in high volume on a flexible manufacturing line. The activities required under this agreement have begun and are expected to last 24 months. The Government will fund approximately \$3.1 million for engineering efforts. The principal goals of this program are to develop the manufacturing technology required for high-volume production of Li/MnO₂ pouch batteries in a cost effective manner, manufacturing of pre-production prototype batteries for testing, and providing technical input for the development and updating of military battery performance specifications. Research and development efforts, previously undertaken by the Company and CECOM, have demonstrated that the Li/MnO₂ pouch technology is capable of meeting all of the Army's battery performance requirements.

Advanced Technology Program. 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.

Year 2000. The Company has not experienced any significant problems related to the Year 2000-date rollover. In general, however, all problems related to the Year 2000-date rollover may not yet have become apparent. The Company will continue to monitor all related Year 2000 issues. Total costs associated with the Year 2000 effort were approximately \$450,000, the majority of which were capitalized in fiscal 1999. The Company's Year 2000 costs were funded out of cash flows from operations.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

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

The section entitled "Certain Transactions" in the Proxy Statement is incorporated herein by reference.

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, 2000 and 1999	F-2
Consolidated Statements of Operations for the years ended June 30, 2000, 1999 and 1998	F-3
Consolidated Statements of Changes in Shareholders' Equity and Accumulated Other Comprehensive Loss for the years ended June 30, 2000, 1999 and 1998	F-4
Consolidated Statements of Cash Flows for the years ended June 30, 2000, 1999 and 1998	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
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 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 for incentive stock options	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 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 on Form S-1 filed on October 7, 1994, File No. 33-84888 (the "1994 Registration Statement")
10.20	Technology Transfer Agreement relating to Lithium Batteries Confidential treatment has been granted as to certain portions of this agreement)	Exhibit 10.20 of the 1994 Registration Statement
10.21	Employment Agreement between the Registrant and Bruce Jagid	Exhibit 10.21 of the Company's Form 10-K for the fiscal year ended June 30, 1995 (the "1995 10-K")
10.22	Amendment to the Employment Agreement between the Registrant and Bruce Jagid	Exhibit 10.22 of the 1995 10-K
10.23	Amendment to the Employment Agreement between the Registrant and Bruce Jagid	Exhibit 10.23 of the Company's Form 10-K for the fiscal year ended June 30, 1996 (the "1996 10-K")
10.24	Amendment to the Agreement relating to rechargeable batteries. (Confidential treatment has been granted as to certain portions of this agreement)	Exhibit 10.24 of the 1996 10-K
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 (the "1998 10-K")
10.27	Purchase orders from Mitsubishi Electronics America, Inc.	Exhibit 10.27 of the 1998 10-K
10.28	Lease agreement between Wayne County Industrial Development Agency and the Company, dated as of February 1, 1998	Exhibit 10.1 of Registration Statement, File No. 333-47087
10.29	Joint Venture Agreement for Ultralife Taiwan, Inc. dated October 10, 1998	Exhibit 10.29 to the Company's Report on Form 10-K for the year ended June 30, 1999 (the "1999 10-K")
10.30	Amendments to the Joint Venture Agreement dated October 10, 1998 between Ultralife Batteries, Inc. (UBI) and PGT Energy Corporation (PGT)	Exhibit 10.30 of the 1999 10-K
10.31	Technology Transfer Agreement dated December 4, 1998 between UBI and PGT	Exhibit 10.31 of the 1999 10-K

10.32	Sales Agreement dated December 4, 1998 between UBI and PGT	Exhibit 10.32 of the 1999 10-K
10.33	Loan and Security Agreement dated June 15, 2000 between Congress Financial Corporation (New England) and Ultralife Batteries, Inc.	Filed herewith
10.34	Term Promissory Note dated June 15, 2000 between Congress Financial Corporation (New England) and Ultralife Batteries, Inc.	Filed herewith
10.35	Term Promissory Note dated June 15, 2000 between Congress Financial Corporation (New England) and Ultralife Batteries (UK), Ltd.	Filed herewith
10.36	Employment Agreement between the Registrant and John D. Kavazanjian	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, 2000

By: /s/ John D. Kavazanjian

*John D. 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, 2000

/s/ John D. Kavazanjian

*John D. Kavazanjian
President, Chief Executive Officer
and Director*

Date: September 27, 2000

/s/ Robert W. Fishback

*Robert W. Fishback
Vice President Finance and
Chief Financial Officer
(Principal Financial Officer)*

Date: September 27, 2000

/s/ Joseph C. Abeles

Joseph C. Abeles (Director)

Date: September 27, 2000

/s/ Joseph N. Barrella

Joseph N. Barrella (Director)

Date: September 27, 2000

/s/ Richard W. Hansen

Richard W. Hansen (Director)

Date: September 27, 2000

/s/ Arthur M. Lieberman

Arthur M. Lieberman (Director)

Date: September 27, 2000

/s/ Carl H. Rosner

Carl H. Rosner (Director)

Date: September 27, 2000

/s/ Ranjit Singh

Ranjit Singh (Director)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Ultralife Batteries, Inc.:

We have audited the accompanying consolidated balance sheets of Ultralife Batteries, Inc. (a Delaware corporation) and subsidiary as of June 30, 2000 and 1999, and the related consolidated statements of operations, changes in comprehensive loss and shareholders' equity and cash flows for each of the three years in the period ended June 30, 2000. 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 auditing standards generally accepted in the United States. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Rochester, New York
August 10, 2000

ULTRALIFE BATTERIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

ASSETS	June 30,	
	2000	1999
	----	----
Current assets:		
Cash and cash equivalents	\$ 5,712	\$ 776
Available-for-sale securities	12,927	22,780
Trade accounts receivable (less allowance for doubtful accounts of \$268 and \$429 at June 30, 2000 and 1999, respectively)	3,456	3,554
Inventories	5,682	5,018
Prepaid expenses and other current assets	1,176	2,112
	-----	-----
Total current assets	28,953	34,240
Property, plant and equipment	32,785	31,777
Other assets:		
Investment in affiliates	2,339	--
Technology license agreements (net of accumulated amortization of \$1,068 and \$968 at June 30, 2000 and 1999, respectively)	383	403
	-----	-----
	2,722	403
	-----	-----
Total Assets	\$ 64,460	\$ 66,420
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 1,087	\$ 107
Accounts payable	2,886	3,216
Accrued compensation	338	653
Other current liabilities	2,105	1,829
	-----	-----
Total current liabilities	6,416	5,805
Long-term liabilities:		
Long-term debt and capital lease obligations	3,567	215
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, par value \$0.10 per share, authorized 1,000,000 shares; none outstanding	--	--
Common stock, par value \$0.10 per share, authorized 20,000,000 shares; issued - 11,410,286 and 10,512,386 at June 30, 2000 and 1999, respectively	1,141	1,051
Capital in excess of par value	98,790	93,605
Accumulated other comprehensive (loss) income	(689)	267
Accumulated deficit	(44,462)	(34,220)
	-----	-----
	54,780	60,703
Less--Treasury stock, at cost -- 27,250 shares	303	303
	-----	-----
Total shareholders' equity	54,477	60,400
	-----	-----
Total Liabilities and Shareholders' equity	\$ 64,460	\$ 66,420
	=====	=====

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,		
	2000	1999	1998
	----	----	----
Revenues	\$ 24,514	\$ 21,064	\$ 16,391
Cost of products sold	25,512	19,016	14,522
	-----	-----	-----
Gross margin	(998)	2,048	1,869
Operating and other expenses (income):			
Research and development	5,306	5,925	6,651
Selling, general, and administrative	7,385	6,195	5,790
Gain on fires	--	(1,288)	(2,697)
	-----	-----	-----
Total operating and other expenses, net	12,691	10,832	9,744
Other income (expense):			
Interest income, net	909	1,456	888
Equity loss in affiliate	(818)	(80)	--
Gain on sale of securities	3,147	348	--
Other income (expense), net	209	(25)	(33)
	-----	-----	-----
Loss before income taxes	(10,242)	(7,085)	(7,020)
Income taxes	--	--	--
	-----	-----	-----
Net loss	\$(10,242)	\$ (7,085)	\$ (7,020)
	=====	=====	=====
Net loss per common share	\$ (0.94)	\$ (0.68)	\$ (0.84)
	=====	=====	=====
Weighted average number of shares outstanding	10,904	10,485	8,338
	=====	=====	=====

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

ULTRALIFE BATTERIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS

(Dollars in Thousands)	Accumulated Other Comprehensive Income (Loss)			
	Common Stock		Capital in excess of Par Value	Foreign Currency Translation Adjustment
	Number of Shares	Amount		
Balance as of June 30, 1997	7,953,336	\$ 796	\$64,786	\$ 291
Comprehensive loss:				
Net loss				
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				67
Unrealized net loss on securities				
Other comprehensive 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	10,512,386	1,051	93,605	358
Comprehensive loss:				
Net loss				
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				(459)
Unrealized net loss on securities				
Other comprehensive loss				
Comprehensive loss				
Balance as of June 30, 1999	10,512,386	1,051	93,605	(101)
Comprehensive loss:				
Net loss				
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				(590)
Unrealized net loss on securities				
Other comprehensive income loss				
Comprehensive loss				
Shares issued to affiliate	700,000	70	3,168	
Shares issued under stock option plan and other stock options	197,900	20	2,017	
Balance as of June 30, 2000	11,410,286	\$ 1,141	\$98,790	\$ (691)

(Dollars in Thousands)	Accumulated Other Comprehensive Income (Loss)			
	Unrealized Net Gain on Securities	Accumulated Deficit	Treasury Stock	Total
Balance as of June 30, 1997	\$ 1,311	\$ (20,115)	\$ (306)	\$46,763
Comprehensive loss:				
Net loss		(7,020)		(7,020)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				67
Unrealized net loss on securities	(301)			(301)
Other comprehensive 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	1,010	(27,135)	(303)	68,586

Comprehensive loss:				
Net loss		(7,085)		(7,085)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				(459)
Unrealized net loss on securities	(642)			(642)

Other comprehensive loss				(1,101)

Comprehensive loss				(8,186)

Balance as of June 30, 1999	368	(34,220)	(303)	60,400

Comprehensive loss:				
Net loss		(10,242)		(10,242)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments				(590)
Unrealized net loss on securities	(366)			(366)

Other comprehensive income loss				(956)

Comprehensive loss				(11,198)

Shares issued to affiliate				3,238
Shares issued under stock option plan and other stock options				2,037

Balance as of June 30, 2000	\$ 2	\$(44,462)	\$(303)	\$ 54,477

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,		
	2000	1999	1998
OPERATING ACTIVITIES			
Net loss	\$(10,242)	\$ (7,085)	\$ (7,020)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,038	2,205	1,364
Gain on sale of securities	(3,147)	(348)	--
Equity in loss of Taiwan venture	818	80	--
Provision for loss on accounts receivable	42	271	(120)
Provision for inventory obsolescence	410	68	(659)
Changes in operating assets and liabilities:			
Accounts receivable	56	(779)	(210)
Inventories	(1,074)	(1,175)	2,051
Prepaid expenses and other current assets	936	32	(483)
Accounts payable and other current liabilities	(369)	(1,296)	2,362
Net cash used in operating activities	(10,532)	(8,027)	(2,715)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(2,946)	(3,427)	(12,245)
Investment in affiliates	(3,237)	--	(350)
Purchase of securities	(70,934)	(94,417)	(164,438)
Sales of securities	46,064	75,130	137,104
Maturities of securities	37,504	31,029	12,064
Net cash provided by (used in) investing activities	6,451	8,315	(27,865)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	5,275	--	29,074
Proceeds from issuance of debt	4,423	115	--
Principal payments under capital lease obligations	(91)	(40)	--
Net cash provided by financing activities	9,607	75	29,074
Effect of exchange rate changes on cash	(590)	(459)	67
Change in cash and cash equivalents	4,936	(96)	(1,439)
Cash and cash equivalents at beginning of period	776	872	2,311
Cash and cash equivalents at end of period	\$ 5,712	\$ 776	\$ 872
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	\$ 42	\$ 40	\$ 3
Cash paid for taxes	\$ --	\$ --	\$ --

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 a wide range of standard and customized lithium primary and polymer rechargeable batteries. The Company's primary manufacturing and research and development (R&D) facility is in Newark, New York. The Company also maintains a production and R&D facility in Abingdon, England.

b. Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States and include the accounts of the Company and its wholly owned subsidiary, Ultralife Batteries UK, Ltd. ("Ultralife UK"). 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 financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. For example, estimates are used in determining valuation allowances for uncollectible trade receivables, obsolete inventory and deferred income taxes. Actual results could differ from those estimates.

d. Cash Flows

For purposes of the Consolidated 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.

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, if any, are included in the determination of net income (loss) as gains (losses) on sale of securities.

f. Inventories

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

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)

g. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of 3 to 20 years. Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other repairs and maintenance costs are expensed when incurred. 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 other income (expense).

h. Impairment of Long-Lived Assets

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 discounted 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 2000, 1999 or 1998.

i. 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 3 to 10 years. Amortization expense was \$100, \$407, and \$144 in 2000, 1999, and 1998, respectively.

During 1998, in connection with the settlement of a lawsuit (see Note 6(e)), the Company acquired an additional technology license agreement for \$350, which expired in May 1999.

j. 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". Exchange gains or losses included in net loss for the years ended June 30, 2000, 1999 and 1998 were not significant.

k. 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.

l. Research and Development

Research and development expenditures are charged to operations as incurred.

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)

m. Revenue Recognition

Battery Sales

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

Technology Contracts

The Company recognizes revenue using the percentage of completion method based on the relationship of costs incurred to date to the total estimated cost to complete the contract. Elements of cost include direct material, labor and overhead. 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, or for revenue deferred until expenditures have been incurred.

n. Concentration of Credit Risk

The Company generally does not distribute its products 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 \$2,937, or 12% of total revenues in 2000; \$4,192, or 20% of total revenues in 1999; and \$1,993, or 12% of total revenues in 1998. The Company does not normally obtain collateral on trade accounts receivable.

o. 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, 2000, 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, 2000, 1999 and 1998. Fair values have been determined through information obtained from market sources.

p. 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 shareholders by weighted average shares outstanding for the period. Diluted EPS includes the dilutive effect of securities calculated using the treasury stock method, if any. No dilution for common share equivalents is included in fiscal 2000, 1999 and 1998 as the effects would be antidilutive. For all years reported, diluted earnings per share were the equivalent of basic earnings per share due to the net loss.

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)

q. 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 shareholders' equity on the Consolidated Balance Sheet. The components of other comprehensive income for the Company consist of unrealized net gains and losses, net of tax, on investment 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 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.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which was subsequently amended in June, 1999 by SFAS No. 137, which requires the Company to adopt SFAS No. 133 no later than the first quarter of fiscal 2001. SFAS No. 133 will require the Company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or for forecasted transactions, deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. As of July 1, 1999, the Company adopted SFAS No. 133. The Company, on occasion, has used derivative financial instruments for purposes other than trading and does so to reduce its exposure to fluctuations in foreign currency exchange rates. As of June 30, 2000, the Company did not have any outstanding derivative financial instruments.

r. 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 may have a material adverse effect on the Company's financial condition or results of operations. See Note 6 - Commitments and Contingencies.

s. Reclassifications

In order to conform to the 2000 presentation, certain amounts in the 1999 and 1998 financial statements have been reclassified.

ULTRALIFE BATTERIES, INC.
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Note 2-Investments

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

June 30, 2000 -----	Cost	Unrealized Gains/(Losses)	Estimated Fair Value
	-----	-----	-----
Commercial Paper and other	\$ 9,427	\$--	\$ 9,427
U.S. corporate bonds	3,496	--	3,496
	-----	-----	-----
Total debt securities	12,923	--	12,923
Intermagnetics General Corporation Equity Securities	2	2	4
	-----	-----	-----
	\$12,925	\$ 2	\$12,927
	=====	===	=====
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
	=====	====	=====

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 2000 and 1999, the Company realized a gain on sale of securities of \$3,147 and \$348, respectively, relating to the sale of a portion of the Company's investment in Intermagnetics General Corporation.

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.

	June 30, -----	
At Cost:	2000	1999
	-----	-----
Less than one year	\$10,429	\$22,412
More than one year	2,496	--
	-----	-----
Total	\$12,925	\$22,412
	=====	=====

Note 3-Supplemental Balance Sheet Information

The composition of inventories was:

	June 30, -----	
	2000	1999
	-----	-----
Raw materials.....	\$3,032	\$2,984
Work in process.....	1,427	2,080
Finished products.....	1,622	249
	-----	-----
Less: Reserve for obsolescence.....	6,081	5,313
	399	295
	-----	-----
	\$5,682	\$ 5,018
	=====	=====

ULTRALIFE BATTERIES, INC.
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Note 3-Supplemental Balance Sheet Information (cont'd)

The composition of property, plant and equipment was:

Land.....	\$ 123	\$ 123
Buildings and Leasehold Improvements.....	1,202	1,115
Machinery and Equipment.....	18,638	18,524
Furniture and Fixtures.....	196	194
Computer Hardware and Software.....	1,041	624
Construction in Progress.....	19,149	16,823
	-----	-----
	40,349	37,403
Less: Accumulated Depreciation.....	7,564	5,626
	-----	-----
	\$32,785	\$31,777
	=====	=====

In July 2000, \$16,500 of amounts in Construction in Progress have been completed and are in production. As a result, these assets have been transferred to their respective property and equipment component.

Note 4-Operating Leases

The Company leases various buildings, land, automobiles and office equipment. Rental expenses for all operating leases were approximately \$333, \$379 and \$713 for the years ended June 30, 2000, 1999 and 1998, respectively. Future minimum lease payments under noncancelable operating leases as of June 30, 2000 are as follows: 2001 - \$319, 2002 - \$271, 2003 - \$224, 2004 - \$220, and thereafter - \$1,935. The above amounts do not include contingent or additional rent.

Note 5-Long-term Debt and Capital Leases

Credit Facility

In June 2000, the Company entered into a \$20,000 secured credit facility with a lending institution. The financing agreement consists of an initial \$12,000 term loan component (of which \$4,000 was outstanding at June 30, 2000) and a revolving credit facility component for an initial \$8,000, based on eligible net accounts receivable (as defined) and eligible net inventory (as defined). There was no balance outstanding on the revolving credit facility component as of June 30, 2000. The amount available under the term loan component amortizes over time. Principal and interest are paid monthly on outstanding amounts borrowed. The loans bear interest at the prime rate or other LIBOR-based rate options at the discretion of the Company. The Company also pays a facility fee on the unused portion of the commitment.

The Company is required to maintain specified tangible net worth levels throughout the agreement. At June 30, 2000, the Company is in compliance with this restriction. The loan is collateralized by substantially all of the tangible assets of the Company.

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Note 5-Long-term Debt and Capital Leases (cont'd)

Debt issue costs amounting to \$198 were incurred in connection with the initiation of the term of the agreement and will be amortized over the life of the agreement.

New York Power Authority

In May 1999, the Company borrowed approximately \$150 from New York Power Authority (NYPA) that was 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.

Capital leases

The Company has two capital leases. The first is a capital lease commitment for the 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. The second capital lease is for computer equipment. The lease expires in 2003 and requires monthly payments of \$13.

Payment Schedule

Principal payments under the current amount outstanding of the long term debt and capital leases is as follows:

		CREDIT FACILITY	NYPA	CAPITAL LEASES		TOTAL
				----- Building	Equipment	
Fiscal	2001	\$800	\$121	\$30	\$136	\$1,087
	2002	800		33	150	983
	2003	800		15	67	882
	2004	800		16		816
	2005	800		86		886
	Thereafter	--	--	--	--	--
		-----	-----	-----	-----	-----
		\$4,000	\$121	\$180	\$353	\$4,654
Less:	Current portion	\$ 800	\$121	\$ 30	\$136	\$1,087
		-----	-----	-----	-----	-----
	Long Term	\$3,200	\$ --	\$150	\$217	\$3,567
		=====	=====	=====	=====	=====

Letters of Credit

In conjunction with the purchase/lease agreement to acquire the Company's Newark, New York facilities, the Company established a letter of credit in the amount of \$200, which expires in 2001. As of June 30, 2000, \$180 remains outstanding. All letters of credit are collateralized by the Company's investments.

ULTRALIFE BATTERIES, INC.
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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 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. 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.

c. Purchase Commitments

As of June 30, 2000, the Company has made commitments to purchase approximately \$2,084 of production machinery and equipment.

d. 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.

e. Legal Matters

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 for sales made on behalf of the Company and \$100 for the Company's alleged breach of its duty of good faith and fair dealings. This matter was settled in January. Consequently, the Company will incur no further liability in this matter.

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

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

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 maintained that the claim against it, for \$25,000, was without merit. After a jury trial in December of 1999, the case was dismissed. Plaintiffs have filed an appeal, which is pending.

In August 1998, the Company, its Directors, and certain underwriters were named as defendants in a complaint filed in the United States District Court for the District of New Jersey by certain shareholders, purportedly on behalf of a class of shareholders, alleging that the defendants, during the period April 30, 1998 through June 12, 1998, violated various provisions of the federal securities laws in connection with an offering of 2,500,000 shares of the Company's Common Stock. The complaint alleged that the Company's offering documents were materially incomplete, and as a result misleading, and that the purported class members purchased the Company's Common Stock at artificially inflated prices and were damaged thereby. Upon a motion made on behalf of the Company, the Court dismissed the shareholder action, without prejudice, allowing the complaint to be re-filed. The shareholder action was subsequently refiled, asserting substantially the same claims as the in the prior pleading. Earlier this year, the Company again moved to dismiss the complaint. The motion is still pending before the Court. The Company believes that the litigation is without merit and will continue to defend it vigorously. The amount of alleged damages, if any, cannot be quantified, nor can the outcome of this litigation be predicted. Accordingly, management cannot determine whether the ultimate resolution of this litigation could have a material adverse effect on the Company's financial position and results of operations.

In conjunction with the Company's purchase/lease 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 real estate tax concessions upon meeting certain conditions. In connection with this agreement, the Company received an environmental assessment, which revealed contaminated soil. The assessment indicated potential actions that the Company may be required to undertake upon notification by the environmental authorities. The assessment also proposed that a second assessment be completed and provided an estimate of total potential costs to remediate the soil of \$230. However, there can be no assurance that this will be the maximum cost. The Company entered into an agreement whereby a third party has agreed to reimburse the Company for fifty percent of the costs associated with this matter. The next phase of the project is expected to begin in late calendar year 2000. 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-Shareholders' 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, 2000, no preferred shares were issued or outstanding.

b. Common Stock

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.

In June of 1998, the shareholders approved an increase in the number of authorized shares of Common Stock from 12,000,000 to 20,000,000.

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

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 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 \$12,333, \$8,043 and \$8,851 for the years ended June 30, 2000, 1999 and 1998, compared with the reported losses of \$10,242, \$7,085 and \$7,020. Loss per share would have been \$1.13, \$0.77 and \$1.06 in the years ended June 30, 2000, 1999 and 1998, respectively, as compared to reported loss per share of \$0.94, \$0.68 and \$0.84, 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 2000, 1999 and 1998:

	2000	1999	1998
Risk-free interest rate	6.4%	5.3%	5.8%
Volatility factor	74.1%	68.2%	67.1%
Weighted average expected life (years)	6	5	5
Weighted average fair value of options granted	\$5.48	\$5.48	\$5.48

The shareholders of the Company have approved three stock option plans that permit the grant of options. In addition, the shareholders 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 shareholders 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 shares of Common Stock 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. Of these shares, 60,000 vested prior to his termination and remain exercisable until March 1, 2001. There were

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

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 of Common Stock at \$11.00 per share under the terms of an employment agreement and outside of any of the stock option plans. As of June 30, 2000, all of these shares have been exercised.

Effective July 12, 1999, the Company granted the current CEO options to purchase 500,000 shares of Common Stock at \$5.188 per share outside of any of the stock options plans. Of these, 50,000 options were exercisable on the grant date, and the remaining options are exercisable in annual increments of 90,000 over a five-year period commencing July 12, 2000 through July 12, 2004, and expire on July 12, 2005. The following table summarizes data for the stock options issued by the Company:

	2000		1999		1998	
	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	1,721,460	\$10.16	1,661,900	\$10.96	1,301,300	\$11.34
Options granted	1,033,500	\$ 6.59	338,000	\$ 6.44	562,700	\$10.32
Options exercised	(202,000)	\$10.22	--	\$ --	(54,700)	\$ 9.27
Options canceled	(363,080)	\$ 8.94	(278,440)	\$10.31	(147,400)	\$12.95
Shares under option at end of year...	2,189,880	\$ 8.68	1,721,460	\$10.16	1,661,900	\$10.96
Options exercisable at end of year...	633,320	\$10.49	1,073,240	\$10.98	899,800	\$11.19

The following table represents additional information about stock options outstanding at June 30, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at June 30, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at June 30, 2000	Weighted-Average Exercise Price	
\$3.56 - \$5.19	595,600	4.97	\$ 5.11	79,700	\$ 5.04	
\$5.38 - \$8.25	628,500	4.97	\$ 7.42	131,200	\$ 7.68	
\$8.38 - \$11.00	596,080	2.53	\$ 9.80	231,820	\$ 9.64	
\$11.13 - \$24.50	369,700	2.53	\$14.74	190,600	\$15.74	
\$3.56 - \$24.50	2,189,880	3.89	\$ 8.68	633,320	\$10.49	

d. Warrants

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

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Note 7-Shareholders' Equity (cont'd)

to fund certain equipment purchases and are contingent upon the Company achieving and maintaining minimum employment levels. The remaining unamortized balance of \$250 relating to the grant is included in other current liabilities in the accompanying Consolidated Balance Sheet as of June 30, 2000. 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 of the Company's Common Stock during the 20 trading days prior to the grant.

e. Reserved Shares

The Company has reserved 2,226,225 shares of Common Stock under the various stock option plans and warrants as of June 30, 2000, and 1,953,000 as of 1999 and 1998.

Note 8-Income Taxes

Foreign and domestic loss carryforwards totaling approximately \$49,700 are available to reduce future taxable income. Foreign loss carryforwards of \$4,100 can be carried forward indefinitely. The domestic net operating loss carryforward of \$45,600 expires through 2020. If it is determined that a change in ownership as defined under Internal Revenue Code Section 382 has occurred, 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 \$2,445, \$2,901 and \$2,843 for the years ended June 30, 2000, 1999 and 1998, respectively, to offset the deferred tax assets based on the Company's estimates of its future earnings and the expected timing of temporary difference reversals.

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

	2000	1999
	----	----
Deferred tax liabilities:		
Unrealized gain on securities.....	\$ 1	\$ 125
Tax over book depreciation.....	1,031	892
	-----	-----
Total deferred tax liabilities.....	1,032	1,017
Deferred tax assets:		
Net operating loss carryforward.....	15,509	13,159
Other.....	482	372
	-----	-----
Total deferred tax assets.....	15,991	13,531
Valuation allowance for deferred assets.....	(14,959)	(12,514)
Net deferred tax assets.....	1,032	1,017
	-----	-----
Net deferred income taxes.....	\$ --	\$ --

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Note 8-Income Taxes (cont'd)

There were no income taxes paid for the years ended June 30, 2000, 1999 and 1998. For financial reporting purposes, income (loss) from continuing operations before income taxes included the following:

	2000	June 30, 1999	1998
	-----	-----	-----
United States.....	\$ (7,658)	\$(7,830)	\$(9,053)
Foreign.....	(2,584)	745	2,033
	-----	-----	-----
Total.....	\$(10,242)	\$(7,085)	\$(7,020)

There are no undistributed earnings of Ultralife UK, the Company's foreign subsidiary, at June 30, 2000.

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, 2000, 1999 and 1998, the Company contributed \$150, \$177 and \$124, respectively.

Note 10-Related Party Transactions

During 2000 and 1999, the Company sold the majority of its investment in Intermagnetics General Corporation (IGC) Common Stock and realized a gain on sale of securities of \$3,147 and \$348, respectively. IGC is considered a related party since certain directors of the Company serve as officers or directors of IGC.

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.

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Note 11-Business Segment Information (cont'd)

2000

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$21,840	\$ 25	\$2,649	\$ --	\$ 24,514
Segment contribution	\$(1,244)	\$(5,306)	\$ 246	\$(7,385)	\$(13,689)
Interest income, net				\$ 909	\$ 909
Other income (expense), net				\$ 2,538	\$ 2,538
Income taxes				\$ --	\$ --
Net loss					\$(10,242)
Long-lived assets	\$10,892	\$19,985	\$ 281	\$ 4,349	\$ 35,507
Total assets	\$19,171	\$20,632	\$ 493	\$24,164	\$ 64,460
Capital expenditures	\$ 1,377	\$ 1,012	\$ --	\$ 557	\$ 2,946
Depreciation and amortization expense	\$ 1,128	\$ 591	\$ 1	\$ 318	\$ 2,038

1999

	Primary Batteries	Rechargeable Batteries	Technology Contracts	Corporate	Total
Revenues	\$19,559	\$ 49	\$1,456	\$ --	\$21,064
Segment contribution	\$ 2,651	\$(5,537)	\$ 297	\$(6,195)	\$(8,784)
Interest income, net				\$ 1,456	\$ 1,456
Other income (expense), net				\$ 243	\$ 243
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

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	\$ 888
Other expense, net				\$ (33)	\$ (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

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Note 11-Business Segment Information (cont'd)

Geographical Information

	Revenues			Long-lived Assets		
	2000	1999	1998	2000	1999	1998
United States	\$13,587	\$10,504	\$ 8,081	\$30,685	\$26,532	\$25,554
United Kingdom	2,874	3,423	1,716	4,822	5,648	5,484
Hong Kong	3,211	4,423	1,986	--	--	--
Europe, excluding UK	2,812	1,671	3,384	--	--	--
Other	2,030	1,043	1,224	--	--	--
Total	\$24,514	\$21,064	\$16,391	\$35,507	\$32,180	\$31,038

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. During fiscal 2000, Ultralife provided 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 holds half the seats on UTI's board of directors. PGT and the group of investors funded UTI with \$21,250 in cash and hold the remaining seats on the board. This agreement is accounted for using the equity method of accounting.

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

Condensed Statements of Operations	(unaudited) Year Ended June 30,		
	2000	1999	1998
Net revenue	\$ --	\$ --	\$--
Operating loss	1,897	205	--
Net loss	1,778	174	--
 Condensed Balance Sheets	 June 30,		
	2000	1999	
Current assets	\$17,125	\$15,213	
Non-current assets	23,005	5,444	
	\$40,130	\$20,657	
Current liabilities	\$4,446	\$ 123	
Non-current liabilities	--	--	
Shareholders' equity	35,684	20,534	
	\$40,130	\$20,657	

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

Note 13 - Selected Quarterly Information (unaudited)

The following table presents reported net revenues, gross margin (net sales less cost of products sold), net loss and net loss per share for each quarter during the past two years:

Fiscal 2000	Quarter ended				Full Year
	Sept. 30, 1999	Dec. 31, 1999	March 31, 2000	June 30, 2000	
Revenues	\$6,225	\$6,677	\$6,199	\$5,413	\$24,514
Gross margin	419	302	(1,005)	(714)	(998)
Net loss	1,926	2,989	1,205	4,122	10,242
Net loss per common share	0.18	0.28	0.11	0.37	0.94

Fiscal 1999	Quarter ended				Full Year
	Sept. 30, 1998	Dec. 31, 1998	March 31, 1999	June 30, 1999	
Revenues	\$4,222	\$5,160	\$5,594	\$6,088	\$21,064
Gross margin	288	657	626	477	2,048
Net loss	1,930	1,005	2,053	2,097	7,085
Net loss per common share	0.18	0.10	0.20	0.20	0.68

Exhibit 10.33

Loan and Security Agreement

by and between

CONGRESS FINANCIAL CORPORATION (NEW ENGLAND)
as Lender

and

ULTRALIFE BATTERIES, INC.

and

ULTRALIFE BATTERIES (UK) LTD.
as Borrowers

Dated: June ___, 2000

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EXHIBITS AND SCHEDULES**

Exhibit A	Information Certificate
Exhibit B	Form of Borrowing Base Certificate
Exhibit C	Form of Term Promissory Note

LOAN AND SECURITY AGREEMENT

This Loan and Security Agreement dated June ___, 2000 is entered into by and between Congress Financial Corporation (New England), a Massachusetts corporation ("Lender"), Ultralife Batteries, Inc., a Delaware corporation ("Parent") and Ultralife Batteries (UK) Ltd., a limited liability company organized under the laws of England ("Ultralife (UK)" and, together with Parent, the "Borrowers").

WITNESSETH:

WHEREAS, Borrowers have requested that Lender enter into certain financing arrangements with Borrowers pursuant to which Lender may make loans and provide other financial accommodations to Borrowers; and

WHEREAS, Lender is willing to make such loans and provide such financial accommodations on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS

All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Parent, Ultralife (UK) and Lender pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words "hereof", "herein", "hereunder", "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word "including" when used in this Agreement shall mean "including, without limitation". An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 11.3 or is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured as determined by Lender in good faith, provided that this provision is not intended to limit Borrowers' rights with respect to events or conditions which with the passage of time or notice or both might become an Event of Default but which have not become an Event of Default and for which a cure period is provided under Section 10 hereof. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1 "Accounts" shall mean all present and future rights of Borrowers to payment for goods sold or leased or for services rendered, which are not evidenced by instruments or chattel paper, and whether or not earned by performance.

1.2 "Adjusted Eurodollar Rate" shall mean, with respect to each Interest Period for any Eurodollar Rate Loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) determined by dividing (a) the Eurodollar Rate for such Interest Period by (b) a percentage equal to: (i) one (1) minus (ii) the Reserve Percentage. For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of United States dollars in a non-United States or an international banking office of Reference Bank used to fund a Eurodollar Rate Loan or any Eurodollar Rate Loan made with the proceeds of such deposit, whether or not the Reference Bank actually holds or has made any such deposits or loans. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

1.3 "Adjusted Net Worth" shall mean as to any Person, at any time, in accordance with GAAP (except as otherwise specifically set forth below), on a consolidated basis for such Person and its subsidiaries (if any), the amount equal to: (a) the difference between: (i) the aggregate net book value of all assets of such Person and its subsidiaries, calculating the book value of inventory for this purpose on a first-in-first-out basis, after deducting from such book values all appropriate reserves in accordance with GAAP (including all reserves for doubtful receivables, obsolescence, depreciation and amortization) and (ii) the aggregate amount of the indebtedness and other liabilities of such Person and its subsidiaries (including tax and other proper accruals) plus (b) indebtedness of such Person and its subsidiaries which is subordinated in right of payment to the full and final payment of all of the Obligations on terms and conditions acceptable to Lender.

1.4 "Availability Reserves" shall mean, as of any date of determination, such amounts as Lender may from time to time establish and revise in good faith reducing the amount of Revolving Loans and Letter of Credit Accommodations which would otherwise be available to Parent under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined by Lender in good faith, do or may affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets, business or prospects of Borrower or any Obligor or (iii) the security interests and other rights of Lender in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Lender's good faith belief that any collateral report or financial information furnished by or on behalf of any Borrower or any Obligor to Lender is or may have been incomplete, inaccurate or misleading in any material respect or (c) to reflect outstanding Letter of Credit Accommodations as provided in Section 2.2 hereof or (d) in respect of any state of facts which Lender determines in good faith constitutes an Event of Default or is reasonably expected, with notice or passage of time or both, to constitute an Event of Default.

1.5 "Blocked Accounts" shall have the meaning set forth in Section 6.3 hereof.

1.6 "Business Day" shall mean any day other than a Saturday, Sunday, or other day on which commercial banks are authorized or required to close under the laws of the State of New

York or the Commonwealth of Pennsylvania or England, and a day on which the Reference Bank and Lender are open for the transaction of business, except that if a determination of a Business Day shall relate to any Eurodollar Rate Loans, the term Business Day shall also exclude any day on which banks are closed for dealings in dollar deposits in the London interbank market or other applicable Eurodollar Rate market.

1.7 "Borrowing Base Certificate" shall mean a certificate substantially in the form of Exhibit B hereto, as such form may from time to time be modified by Lender, which is duly completed (including all schedules thereto) and executed by the chief financial officer or other appropriate financial officer of Parent acceptable to Lender and delivered to Lender.

1.8 "Cash Position" shall mean, at any time, the difference between (a) the value of Eligible Investments, which are not subject to any pledge, security interest, lien or encumbrance other than in favor of the Lender less (b) the then outstanding principal amount of the Loans. The value of Eligible Investments shall be determined using the national securities exchange or market in which the applicable security is listed or quoted provided that if no such listing or quotation is available, value shall be determined by Lender, acting reasonably.

1.9 "Change in Control" shall mean, at any time, that any Person, together with the affiliates and associates of such Person within the meaning of Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), shall acquire beneficial ownership within the meaning of Rule 13d of the Exchange Act of more than thirty (30%) percent of the voting stock or total equity of Parent, or if a change in the Board of Directors of Parent occurs in which the individuals who constituted the Board of Directors at the beginning of the two (2) year period immediately preceding such change (together with any other director whose election by the Board of Directors was approved by at least two-thirds of the directors then in office at the beginning of such period) cease for any reason to constitute a majority of the directors of Parent then in office.

1.10 "Code" shall mean the Internal Revenue Code of 1986, as the same now exists or may from time to time hereafter be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.11 "Collateral" shall have the meaning set forth in Section 5 hereof.

1.12 "Eligible Accounts" shall mean Accounts created by Parent which are and continue to be acceptable to Lender based on the criteria set forth below. In general, Accounts shall be Eligible Accounts if:

(a) such Accounts arise from the actual and bona fide sale and delivery of goods by Parent or rendition of services by Parent in the ordinary course of its business which transactions are completed in accordance with the terms and provisions contained in any documents related thereto;

(b) such Accounts are not unpaid more than ninety (90) days after the date of the original invoice for them;

(c) such Accounts comply with the terms and conditions contained in Section 7.2(c) of this Agreement;

(d) such Accounts do not arise from sales on consignment, guaranteed sale, sale and return, sale on approval, or other terms under which payment by the account debtor may be conditional or contingent;

(e) except for Eligible Fyrentics Accounts, the chief executive office of the account debtor with respect to such Accounts is located in the United States of America, or, at Lender's option, if: (i) the account debtor has delivered to Parent an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable only in the United States of America and in U.S. dollars, sufficient to cover such Account, in form and substance satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (ii) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (iii) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine);

(f) such Accounts do not consist of progress billings, bill and hold invoices or retainage invoices, except as to bill and hold invoices, if Lender shall have received an agreement in writing from the account debtor, in form and substance satisfactory to Lender, confirming the unconditional obligation of the account debtor to take the goods related thereto and pay such invoice;

(g) the account debtor with respect to such Accounts has not asserted a counterclaim, defense or dispute and does not have, and does not engage in transactions which may give rise to, any right of setoff against such Accounts (but the portion of the Accounts of such account debtor in excess of the amount at any time and from time to time owed by Parent to such account debtor or claimed owed by such account debtor shall be deemed Eligible Accounts);

(h) there are no facts, events or occurrences which would impair the validity, enforceability or collectability of such Accounts or reduce the amount payable or delay payment thereunder;

(i) such Accounts are subject to the first priority, valid and perfected security interest of Lender and any goods giving rise thereto are not, and were not at the time of the sale thereof, subject to any liens except those permitted in this Agreement;

(j) neither the account debtor nor any officer or employee of the account debtor with respect to such Accounts is an officer, employee or agent of or affiliated with Parent directly or indirectly by virtue of family membership, ownership, control, management or otherwise;

(k) the account debtors with respect to such Accounts are not any foreign government, the United States of America, any State, political subdivision, department, agency or instrumentality thereof, unless, if the account debtor is the United States of America, any State, political subdivision, department, agency or instrumentality thereof, upon Lender's request,

the Federal Assignment of Claims Act of 1940, as amended or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Lender;

(l) there are no proceedings or actions which are threatened or pending against the account debtors with respect to such Accounts which might result in any material adverse change in any such account debtor's financial condition;

(m) such Accounts of a single account debtor or its affiliates (other than Eligible Fyrnetics Accounts) do not constitute more than twenty (20%) percent of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Accounts);

(n) such Accounts are not owed by an account debtor who has Accounts unpaid more than ninety (90) days after the date of the original invoice for them which constitute more than fifty (50%) percent of the total Accounts of such account debtor;

(o) such Accounts are owed by account debtors whose total indebtedness to Parent does not exceed the credit limit with respect to such account debtors as determined by Lender in good faith from time to time and of which Lender has informed chief financial officer or controller of Parent (but the portion of the Accounts not in excess of such credit limit shall be deemed Eligible Accounts); and

(p) such Accounts are owed by account debtors deemed creditworthy at all times by Lender, as determined by Lender in good faith and, if Lender determines that an account debtor is not creditworthy, of which from Lender has informed chief financial officer or controller of Parent.

General criteria for Eligible Accounts may be established and revised from time to time by Lender in good faith. Any Accounts which are not Eligible Accounts shall nevertheless be part of the Collateral.

1.13 "Eligible Equipment" shall mean Equipment owned by Parent or by Ultralife (UK), located at Parent's premises or at Ultralife (UK)'s premises, as the case may be and acceptable to Lender in all respects. General criteria for Eligible Equipment may be established and revised from time to time by Lender in Lender's good faith judgment. In determining such acceptability Lender may, but need not, rely on reports furnished to Lender by Borrowers, but reliance thereon by Lender from time to time shall not be deemed to limit Lender's right to revise standards of eligibility at any time. In general, except in Lender's discretion, Eligible Equipment shall not include (a) Equipment at the premises of third parties or subject to a security interest or lien in favor of any third parties, (b) Equipment which is not subject to Lender's perfected security interest or fixed charge, as the case may be, (c) fixtures, (d) defective, damaged, obsolete or unserviceable Equipment (e) Equipment not in good condition and repair or (f) Equipment not used or usable in the ordinary course of Parent's or Ultralife (UK)'s business as presently conducted; provided, however, any Equipment which would otherwise be deemed Eligible Equipment at locations which are not owned and operated by Parent or Ultralife (UK) may nevertheless be considered Eligible Equipment if Lender shall have received an agreement in writing, in form and substance satisfactory to Lender, from the owner and/or operator of such

location, as the case may be, pursuant to which such owner and/or operator, if required by Lender: (i) acknowledges the first priority lien of Lender on such Equipment, (ii) agrees to waive any and all claims such owner and/or operator may, at any time, have against such Equipment and (iii) grants to Lender the right to enter and remain on the premises in order to exercise Lender's rights and remedies on terms acceptable to Lender. Any Equipment which Lender determines to be ineligible or unacceptable for purposes of the lending formula shall nevertheless be and remain at all times part of the Collateral.

1.14 "Eligible Fyrnetics Account" shall mean any Account arising out of a sale of Inventory to Fyrnetics (Hong Kong) Limited ("Fyrnetics") that satisfies all the criteria of Eligible Accounts hereunder other than the limitations set forth in clauses (e) and (m) to the definition of Eligible Accounts, which shall not apply; provided, however, that the aggregate outstanding amount of all Eligible Accounts to Fyrnetics shall not exceed \$1,250,000.00 (but the portion of the Eligible Accounts not in excess of such amount shall be deemed to be Eligible Accounts).

1.15 "Eligible Inventory" shall mean Inventory consisting of finished goods held for resale in the ordinary course of the business of Parent and raw materials for such finished goods which are acceptable to Lender based on the criteria set forth below. In general, Eligible Inventory shall not include (a) work-in-process; (b) components which are not part of finished goods; (c) spare parts for equipment; (d) packaging and shipping materials; (e) supplies used or consumed in Parent's business; (f) Inventory at premises other than those owned and controlled by Parent, except if Lender shall have received an agreement in writing from the person in possession of such Inventory and/or the owner or operator of such premises in form and substance satisfactory to Lender acknowledging Lender's first priority security interest in the Inventory, waiving security interests and claims by such person against the Inventory and permitting Lender access to, and the right to remain on, the premises so as to exercise Lender's rights and remedies and otherwise deal with the Collateral;

(g) Inventory subject to a security interest or lien in favor of any person other than Lender except those permitted in this Agreement; (h) bill and hold goods; (i) unserviceable, obsolete or slow moving Inventory; (j) Inventory which is not subject to the first priority, valid and perfected security interest of Lender; (k) returned, damaged and/or defective Inventory; and (l) Inventory purchased or sold on consignment. General criteria for Eligible Inventory may be established and revised from time to time by Lender in good faith. Any Inventory which is not Eligible Inventory shall nevertheless be part of the Collateral.

1.16 "Eligible Investments" shall mean any one or more of the following obligations or securities:

(a) direct short term obligations of, and obligations fully guaranteed as to timely payment of principal and interest by, the United States of America or any agency or instrumentality of the United States of America the obligations of which are backed by the full faith and credit of the United States of America;

(b) repurchase agreements or obligations with respect to any security described in clause (a) above where such security has a remaining maturity of one year or less and where the repurchase agreement has been entered into with a depository institution or trust company (acting as principal) described in clause (c) below;

(c) cash, federal funds, demand and time deposits in, short term certificates of deposits of, or bankers' acceptances issued by, any depository institution or trust company incorporated or organized under the laws of the United States of America or any state thereof and subject to supervision and examination by federal and/or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution or trust company are rated no lower than A-1 by Standard & Poor's Rating Group, a division of McGraw Hill, Inc. ("S&P") (or such equivalent rating by Moody's Investors Services ("Moody's")) and the long-term obligations of such depository institution or trust company are rated in one of the two highest rating categories by S&P or Moody's;

(d) securities bearing interest or sold at a discount with a maturity of less than one year issued by any corporation incorporated under the laws of the United States of America or any state thereof which have a credit rating from S&P no lower than A-1 (or an equivalent rating from Moody's) with respect to short-term debt obligations, and within one of the two highest rating categories applicable to long-term debt obligations from either S&P or Moody's, with respect to long-term debt obligations;

(e) commercial paper (including both non-interest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) rated by S&P no lower than A-1 (or an equivalent rating by Moody's); and

(f) shares of money market funds provided that such fund is registered under the Investment Company Act of 1940, has assets of at least \$1,000,000,000 and invests exclusively in investments listed under clauses (a) through (e) above.

1.17 "Environmental Law" shall mean all foreign, Federal, State and local laws (including common law), legislation, rules, codes, licenses, permits (including conditions imposed therein), authorizations, judicial or administrative decisions, injunctions or agreements between Parent or Ultralife (UK) and any governmental authority: relating to pollution and the protection, preservation or restoration of the environment (including air, water vapor, surface water, ground water, drinking water, drinking water supply, surface land, subsurface land, plant and animal life or any other natural resource), or to human health or safety, (b) relating to the exposure to, or the use, storage, recycling, treatment, generation, manufacture, processing, distribution, transportation, handling, labeling, production, release or disposal, or threatened release, of Hazardous Materials, or (c) relating to all laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials. The term "Environmental Laws" includes (i) the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Federal Superfund Amendments and Reauthorization Act, the Federal Water Pollution Control Act of 1972, the Federal Clean Water Act, the Federal Clean Air Act, the Federal Resource Conservation and Recovery Act of 1976 (including the Hazardous and Solid Waste Amendments thereto), the Federal Solid Waste Disposal and the Federal Toxic Substances Control Act, the Federal Insecticide, Fungicide and Rodenticide Act, and the Federal Safe Drinking Water Act of 1974, (ii) applicable state or foreign counterparts to such laws, and (iii) any common law or equitable doctrine that may impose liability or obligations for injuries or damages due to, or threatened as a result of, the presence of or exposure to any Hazardous Materials.

1.18 "Equipment" shall mean all of Borrowers' now owned and hereafter acquired equipment, machinery, computers and computer hardware and software (whether owned or licensed), vehicles, tools, furniture, fixtures, all attachments, accessions and property now or hereafter affixed thereto or used in connection therewith, and substitutions and replacements thereof, wherever located.

1.19 "ERISA" shall mean the United States Employee Retirement Income Security Act of 1974, as the same now exists or may hereafter from time to time be amended, modified, recodified or supplemented, together with all rules, regulations and interpretations thereunder or related thereto.

1.20 "ERISA Affiliate" shall mean any person required to be aggregated with Parent or any of its Subsidiaries under Sections 414(b), 414(c), 414(m) or 414(o) of the Code.

1.21 "Eurodollar Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Adjusted Eurodollar Rate in accordance with the terms hereof.

1.22 "Eurodollar Rate" shall mean with respect to the Interest Period for a Eurodollar Rate Loan, the interest rate per annum equal to the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one (1%) percent) at which Reference Bank is offered deposits of United States dollars in the London interbank market (or other Eurodollar Rate market selected by Borrower and approved by Lender) on or about 9:00 a.m. (New York time) two (2) Business Days prior to the commencement of such Interest Period in amounts substantially equal to the principal amount of the Eurodollar Rate Loans requested by and available to a Borrower in accordance with this Agreement, with a maturity of comparable duration to the Interest Period selected by such Borrower.

1.23 "Event of Default" shall mean the occurrence or existence of any event or condition described in Section 10.1 hereof.

1.24 "Excess Availability" shall mean the amount, as determined by Lender, calculated at any time, equal to the lesser of: (i) the amount of the Revolving Loans available to Parent as of such time based on the applicable lending formulas multiplied by the Net Amount of Eligible Accounts and the Value of Eligible Inventory, as determined by Lender, and subject to the sublimits and Availability Reserves from time to time established by Lender hereunder, and (ii) the Maximum Credit (less the then outstanding aggregate principal amount of the Term Loans), minus the sum of: (i) the amount of all then outstanding aggregate and unpaid Obligations (but not including for this purpose the then outstanding principal amount of the Term Loans), plus (ii) the aggregate amount of all then outstanding and unpaid trade payables of Borrowers which are more than sixty (60) days past due as of such time (unless such trade payables are subject to a binding agreement permitting longer payment terms or are being contested in good faith by Borrower or are to be repaid with the Revolving Loan then requested by Parent), plus (iii) the amount of checks issued by Borrower to pay trade payables, but not yet sent and the book overdraft of Borrower.

1.25 "Financing Agreements" shall mean, collectively, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by any Borrower or any Obligor in connection with this

Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.26 "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the circumstances as of the date of determination consistently applied, except that, for purposes of Section 9.15 hereof, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

1.27 "Hazardous Materials" shall mean any hazardous, toxic or dangerous substances, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials, or wastes and including any other substances, materials or wastes that are or become regulated under any Environmental Law (including any that are or become classified as hazardous or toxic under any Environmental Law).

1.28 "Information Certificate" shall mean the Information Certificate of Parent and the Information Certificate of Ultralife (UK) constituting Exhibit A hereto containing material information with respect to Parent and Ultralife (UK), their business and assets provided by or on behalf of Borrower to Lender in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.29 "Interest Period" shall mean for any Eurodollar Rate Loan, a period of approximately one (1), two (2), or three (3) months duration as Borrowers may elect, the exact duration to be determined in accordance with the customary practice in the applicable Eurodollar Rate market; provided, that, Borrowers may not elect an Interest Period which will end after the last day of the then-current term of this Agreement.

1.30 "Interest Rate" shall mean, as to Prime Rate Loans, a rate of three quarters of one (.75%) percent per annum in excess of the Prime Rate and, as to Eurodollar Rate Loans, a rate of two and three quarters (2.75%) percent per annum in excess of the Adjusted Eurodollar Rate (based on the Eurodollar Rate applicable for the Interest Period selected by Borrowers as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrowers); provided, that, the Interest Rate shall mean the rate of three and three quarters (3.75%) percent per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of five and three quarters (5.75%) percent per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Lender's option, without notice, (a) for the period (i) from and after the date of termination or non-renewal hereof until Lender has received full and final payment of all obligations (notwithstanding entry of a judgment against any Borrower) and (ii) from and after the date of the occurrence of an Event of Default for so

long as such Event of Default is continuing as determined by Lender, and (b) on the Revolving Loans at any time outstanding in excess of the amounts available to Parent under Section 2 (whether or not such excess(es), arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default).

1.31 "Inventory" shall mean all of Borrowers' now owned and hereafter existing or acquired raw materials, work in process, finished goods and all other inventory of whatsoever kind or nature, wherever located.

1.32 "Investment Property" shall mean all of Borrowers' now owned and hereafter existing or acquired securities, financial assets, securities accounts, securities entitlements and all other investment property of whatsoever kind or nature, wherever located, including, without limitation, securities issued by any subsidiary of Borrowers.

1.33 "Letter of Credit Accommodations" shall mean the letters of credit, merchandise purchase or other guaranties which are from time to time either (a) issued or opened by Lender for the account of Parent or (b) with respect to which Lender has agreed to indemnify the issuer or guaranteed to the issuer the performance by Parent of its obligations to such issuer..

1.34 "Loans" shall mean the Revolving Loans and the Term Loans.

1.35 "Maximum Credit" shall mean the amount of \$20,000,000.00.

1.36 "Net Amount of Eligible Accounts" shall mean the gross amount of Eligible Accounts less (a) sales, excise or similar taxes included in the amount thereof and (b) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed with respect thereto.

1.37 "Obligations" shall mean any and all Revolving Loans, all Term Loans, Letter of Credit Accommodations and all other obligations, liabilities and indebtedness of every kind, nature and description owing by any Borrower to Lender and/or its affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of this Agreement or after the commencement of any case with respect to Borrower under the United States Bankruptcy Code or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender.

1.38 "Obligor" shall mean any guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than a Borrower.

1.39 "Orderly Liquidation Value" or "OLV" shall mean, with respect to Eligible Equipment, the orderly liquidation value thereof as determined by an appraisal in form, scope and methodology acceptable to Lender and from an appraiser acceptable to Lender.

1.40 "Payment Account" shall have the meaning set forth in Section 6.3 hereof.

1.41 "Permanent Availability Reserve" shall mean an Availability Reserve established on the date hereof in the amount of \$1,500,000.00, which Availability Reserve shall be reduced monthly by the amount by which the outstanding principal amount of the Term Loans amortizes and otherwise shall not be released except in the sole discretion of the Lender.

1.42 "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.43 "Prime Rate" shall mean the rate announced by First Union National Bank, or its successors, from time to time as its prime rate, whether or not such announced rate is the best rate available at such bank.

1.44 "Prime Rate Loans" shall mean any Loans or portion thereof on which interest is payable based on the Prime Rate in accordance with the terms thereof.

1.45 "Records" shall mean all of Borrowers' present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of Borrowers with respect to the foregoing maintained with or by any other person).

1.46 "Reference Bank" shall mean First Union National Bank, or such other bank as Lender may from time to time designate.

1.47 "Revolving Loans" shall mean the loans now or hereafter made by Lender to or for the benefit of Parent on a revolving basis (involving advances, repayments and readvances) as set forth in Section 2.1 hereof.

1.48 "Term Loans" shall mean the term loans now or hereafter made by Lender to Borrowers as provided for in Section 2.3 hereof.

1.49 "Term Loan Availability Limit" shall mean \$12,000,000 less (a) the original principal amount of each Term Loan made under Section 2.3 hereof, less (b) commencing on August 1, 2000 and continuing on the first day of each month thereafter, an amount equal to (i) \$200,000 less (ii) the aggregate principal amount payable each month on the Term Promissory Notes.

1.50 "Term Promissory Note" shall mean a term promissory note in substantially the form of Exhibit C hereto evidencing Term Loans made to Parent or Ultralife (UK) and all amendments, modifications and changes thereto.

1.51 "Ultralife (UK)" shall mean Ultralife Batteries (UK) Ltd., a limited liability company organized under the laws of England.

1.52 "Value" shall mean, as determined by Lender in good faith, with respect to Inventory, the lower of (a) cost computed on a first-in-first-out basis in accordance with GAAP or (b) market value.

2. CREDIT FACILITIES

2.1 Revolving Loans.

(a) Subject to and upon the terms and conditions contained herein, Lender agrees to make Revolving Loans to Parent from time to time in amounts requested by Parent up to the amount equal to the sum of:

(i) eighty-five (85%) percent of the Net Amount of Eligible Accounts, plus

(ii) the lesser of: (A) fifty-three (53%) percent of the Value of Eligible Inventory or (B) \$6,000,000.00, less

(iii) any Availability Reserves.

(b) Lender may, in its discretion, from time to time, upon not less than five (5) days prior notice to Parent, (i) reduce the lending formula with respect to Eligible Accounts to the extent that Lender determines in good faith that: (A) the dilution with respect to the Accounts for any period (based on the ratio of (1) the aggregate amount of reductions in Accounts other than as a result of payments in cash to (2) the aggregate amount of total sales) has increased in any material respect or may be reasonably anticipated to increase in any material respect above historical levels, or (B) the general creditworthiness of account debtors has declined or (ii) reduce the lending formula(s) with respect to Eligible Inventory to the extent that Lender determines that: (A) the number of days of the turnover of the Inventory for any period has changed in any material respect or (B) the liquidation value of the Eligible Inventory, or any category thereof, has decreased, or (C) the nature and quality of the Inventory has deteriorated. In determining whether to reduce the lending formula(s), Lender may consider events, conditions, contingencies or risks which are also considered in determining Eligible Accounts, Eligible Inventory or in establishing Availability Reserves.

(c) Except in Lender's discretion, the aggregate amount of the Loans and the Letter of Credit Accommodations outstanding at any time shall not exceed the Maximum Credit. In the event that the outstanding amount of any component of the Loans, or the aggregate amount of the outstanding Loans and Letter of Credit Accommodations, exceed the amounts available under the lending formulas, or the Maximum Credit, as applicable, such event shall not limit, waive or otherwise affect any rights of Lender in that circumstance or on any future occasions and Borrowers shall, upon demand by Lender, which may be made at any time or from time to time, immediately repay to Lender the entire amount of any such excess(es) for which payment is demanded.

(d) For purposes only of applying the sublimit on Revolving Loans based on Eligible Inventory pursuant to Section 2.1(a)(ii)(B), without duplication for Availability Reserves, Lender may treat the then undrawn amounts of outstanding Letter of Credit Accommodations for the purpose of purchasing Eligible Inventory as Revolving Loans to the extent Lender is in effect basing the issuance of the Letter of Credit Accommodations on the Value of the Eligible Inventory being purchased with such Letter of Credit Accommodations. In determining the actual amounts of such Letter of Credit Accommodations to be so treated for purposes of the sublimit, the outstanding Revolving Loans and Availability Reserves shall be attributed first to any components of the lending formulas in Section 2.1(a) that are not subject to such sublimit, before being attributed to the components of the lending formulas subject to such sublimit.

2.2 Letter of Credit Accommodations.

(a) Subject to and upon the terms and conditions contained herein, at the request of Parent, Lender agrees to provide or arrange for Letter of Credit Accommodations for the account of Parent containing terms and conditions acceptable to Lender and the issuer thereof. Any payments made by Lender to any issuer thereof and/or related parties in connection with the Letter of Credit Accommodations shall constitute additional Revolving Loans to Parent pursuant to this Section 2.

(b) In addition to any charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations, Parent shall pay to Lender a letter of credit fee at a rate equal to one and one half (1.5%) percent per annum ("Letter of Credit Fee") on the daily outstanding balance of the Letter of Credit Accommodations for the immediately preceding month (or part thereof), payable in arrears as of the first day of each succeeding month, except that Parent shall pay to Lender such Letter of Credit Fee, at Lender's option, without notice, at a rate equal to four and one half (4.5%) percent per annum on such daily outstanding balance for: (i) the period from and after the date of termination or non-renewal hereof until Lender has received full and final payment of all Obligations (notwithstanding entry of a judgment against Parent) and (ii) the period from and after the date of the occurrence of an Event of Default for so long as such Event of Default is continuing as determined by Lender. Such Letter of Credit Fee shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed and the obligation of Parent to pay such fee shall survive the termination or non-renewal of this Agreement.

(c) No Letter of Credit Accommodations shall be available unless on the date of the proposed issuance of any Letter of Credit Accommodations, the Revolving Loans available to Parent (subject to the Maximum Credit and any Availability Reserves) are equal to or greater than: (i) if the proposed Letter of Credit Accommodation is for the purpose of purchasing Eligible Inventory, the sum of (A) the percentage equal to one hundred (100%) percent minus the then applicable percentage set forth in Section 2.1(a)(ii)(A) above of the Value of such Eligible Inventory, plus (B) freight, taxes, duty and other amounts which Lender estimates must be paid in connection with such Inventory upon arrival and for delivery to one of Parent's locations for Eligible Inventory within the United States of America and (ii) if the proposed Letter of Credit Accommodation is for any other purpose, an amount equal to one hundred (100%) percent of the face amount thereof and all other commitments and obligations made or incurred by Lender with

respect thereto. For example, prior to the issuance of a Letter of Credit Accommodation, Parent shall be able, under the formula set forth in Section 2.1(a), to borrow a Revolving Loan in the amount of (i) such Letter of Credit Accommodation, if the Letter of Credit Accommodation is for a standby letter of credit and (ii) forty-seven (47%) percent of such Letter of Credit Accommodation, if the letter of credit is a documentary letter of credit. Effective on the issuance of each Letter of Credit Accommodation, an Availability Reserve shall be established in the applicable amount set forth in Section 2.2(c)(i) or Section 2.2(c)(ii).

(d) Except in Lender's discretion, the amount of all outstanding Letter of Credit Accommodations and all other commitments and obligations made or incurred by Lender in connection therewith shall not at any time exceed \$5,000,000.00. At any time an Event of Default exists or has occurred and is continuing, upon Lender's request, Borrower will either furnish cash collateral to secure the reimbursement obligations to the issuer in connection with any Letter of Credit Accommodations or furnish cash collateral to Lender for the Letter of Credit Accommodations, and in either case, the Revolving Loans otherwise available to Borrower shall not be reduced as provided in Section 2.2(c) to the extent of such cash collateral.

(e) Parent shall indemnify and hold Lender harmless from and against any and all losses, claims, damages, liabilities, costs and expenses which Lender may suffer or incur in connection with any Letter of Credit Accommodations and any documents, drafts or acceptances relating thereto, including any losses, claims, damages, liabilities, costs and expenses due to any action taken by any issuer or correspondent with respect to any Letter of Credit Accommodation unless such losses, claims, damages, liabilities, costs and expenses are determined by a final and non-appealable judgment or court order binding on Lender to be due to the gross negligence or willful misconduct of Lender. Parent assumes all risks with respect to the acts or omissions of the drawer under or beneficiary of any Letter of Credit Accommodation and for such purposes the drawer or beneficiary shall be deemed Parent's agent. Parent assumes all risks for, and agrees to pay, all foreign, Federal, State and local taxes, duties and levies relating to any goods subject to any Letter of Credit Accommodations or any documents, drafts or acceptances thereunder. Parent hereby releases and holds Lender harmless from and against any acts, waivers, errors, delays or omissions, whether caused by Parent, by any issuer or correspondent or otherwise with respect to or relating to any Letter of Credit Accommodation. The provisions of this Section 2.2 (e) shall survive the payment of Obligations and the termination or non-renewal of this Agreement.

(f) Nothing contained herein shall be deemed or construed to grant Parent any right or authority to pledge the credit of Lender in any manner. Lender shall have no liability of any kind with respect to any Letter of Credit Accommodation provided by an issuer other than Lender unless Lender has duly executed and delivered to such issuer the application or a guarantee or indemnification in writing with respect to such Letter of Credit Accommodation. Parent shall be bound by any interpretation made in good faith by Lender, or any other issuer or correspondent under or in connection with any Letter of Credit Accommodation or any documents, drafts or acceptances thereunder, notwithstanding that such interpretation may be inconsistent with any instructions of Parent. Lender shall have the sole and exclusive right and authority to, and Parent shall not: (i) at any time an Event of Default exists or has occurred and is continuing, (A) approve or resolve any questions of non-compliance of documents, (B) give any instructions as to acceptance or rejection of any documents or goods or (C) execute any and all applications for steamship or airway guaranties, indemnities or delivery orders, and (ii) at all

times, (A) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (B) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letter of Credit Accommodations, or documents, drafts or acceptances thereunder or any letters of credit included in the Collateral. Lender may take such actions either in its own name or in Parent's name.

(g) Any rights, remedies, duties or obligations granted or undertaken by Parent to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been granted or undertaken by Parent to Lender. Any duties or obligations undertaken by Lender to any issuer or correspondent in any application for any Letter of Credit Accommodation, or any other agreement by Lender in favor of any issuer or correspondent relating to any Letter of Credit Accommodation, shall be deemed to have been undertaken by Parent to Lender and to apply in all respects to Parent.

2.3 Term Loans. Lender agrees to make Term Loans to Parent and to Ultralife (UK) from time to time up to an aggregate original principal amount equal to the lesser of (a) 100% of the OLV of Eligible Equipment or (b) the Term Loan Availability Limit, provided that the aggregate principal amount of the Term Loans made to Parent shall not exceed \$11,000,000 and the aggregate principal amount of Term Loans to Ultralife (UK) shall not exceed \$1,000,000. The Term Loans made on the date hereof shall be in the aggregate original principal amount of \$4,000,000.00 and be comprised of a \$3,000,000 Term Loan to the Parent and a \$1,000,000 Term Loan to Ultralife (UK) (the "Initial Term Loans") and thereafter each Term Loan requested by Parent or by Ultralife (UK) shall be in the minimum principal amount of \$500,000.00 and in integral multiples of \$500,000.00 in excess thereof, or the remaining principal amount available to be drawn by Parent and by Ultralife (UK) hereunder. Each Term Loan shall be (a) evidenced by a Term Promissory Note in the original principal amount borrowed, duly executed and delivered by Parent or by Ultralife (UK), as the case may be, to Lender concurrently with the borrowing of such Term Loan; (b) repaid, together with interest and other amounts, in accordance with this Agreement, the applicable Term Promissory Note, and the other Financing Agreements and (c) secured by all of the Collateral. Term Loans that are repaid or prepaid may not be reborrowed. The Initial Term Loans shall not be prepaid unless Parent and Ultralife (UK) simultaneously terminate this Agreement in accordance with the requirements of Section 12.1 including, without limitation, by making the payment of any termination fee then due under Section 12.1(c)

2.4 Availability Reserves. All Revolving Loans otherwise available to Parent pursuant to the lending formulas and subject to the Maximum Credit and other applicable limits hereunder shall be subject to the Permanent Availability Reserve and to Lender's continuing right, acting in good faith and upon notice to Borrower, to establish and revise additional Availability Reserves.

2.5 Liabilities. Ultralife (UK) shall be liable hereunder for the Term Loans made to it and for all interest, fees, charges, costs and expenses relating thereto or arising hereunder with respect thereto and as otherwise may be set forth herein. Ultralife (UK) shall not be liable for the Revolving Loans, Term Loans or Letter of Credit Accommodations made to or on behalf of the

Parent or for the interest, fees, charges, costs and expenses relating thereto or arising hereunder with respect thereto. Parent has entered into a Guarantee of all of the liabilities, indebtedness and obligations of Ultralife (UK), which Guarantee shall be secured by all of the Collateral.

3. INTEREST AND FEES

3.1 Interest.

(a) Each Borrower shall pay to Lender interest on the outstanding principal amount of the non-contingent Obligations (outstanding to each such Borrower) at the Interest Rate. All interest accruing hereunder on and after the date of any Event of Default or termination or non-renewal hereof shall be payable on demand.

(b) Borrowers may from time to time request that Prime Rate Loans be converted to Eurodollar Rate Loans or that any existing Eurodollar Rate Loans continue for an additional Interest Period. Such request from Borrowers shall specify the amount of the Prime Rate Loans which will constitute Eurodollar Rate Loans (subject to the limits set forth below) and the Interest Period to be applicable to such Eurodollar Rate Loans. Subject to the terms and conditions contained herein, three (3) Business Days after receipt by Lender of such a request from Borrowers, such Prime Rate Loans shall be converted to Eurodollar Rate Loans or such Eurodollar Rate Loans shall continue, as the case may be, provided, that, (i) no Event of Default, or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing, (ii) no party hereto shall have sent any notice of termination or non-renewal of this Agreement, (iii) Borrowers shall have complied with such customary procedures as are established by Lender and specified by Lender to Borrower from time to time for requests by Borrowers for Eurodollar Rate Loans,

(iv) no more than four (4) Interest Periods may be in effect at any one time,

(v) the aggregate amount of the Eurodollar Rate Loans must be in an amount not less than \$2,000,000 or an integral multiple of \$1,000,000 in excess thereof,

(vi) the maximum amount of the Eurodollar Rate Loans at any time requested by Borrowers shall not exceed the amount equal to (A) the principal amount of the Term Loans which it is anticipated will be outstanding as of the last day of the applicable Interest Period plus (B) eighty (80%) percent of the lowest principal amount of the Revolving Loans which it is anticipated will be outstanding during the applicable Interest Period, in each case as determined by Lender (but with no obligation of Lender to make such Revolving Loans) and (vii) Lender shall have determined that the Interest Period or Adjusted Eurodollar Rate is available to Lender through the Reference Bank and can be readily determined as of the date of the request for such Eurodollar Rate Loan by Borrowers. Any request by Borrowers to convert Prime Rate Loans to Eurodollar Rate Loans or to continue any existing Eurodollar Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Lender and Reference Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable Eurodollar Rate market to fund any Eurodollar Rate Loans, but the provisions hereof shall be deemed to apply as if Lender and Reference Bank had purchased such deposits to fund the Eurodollar Rate Loans.

(c) Any Eurodollar Rate Loans shall automatically convert to Prime Rate Loans upon the last day of the applicable Interest Period, unless Lender has received and approved a

request to continue such Eurodollar Rate Loan at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any Eurodollar Rate Loans shall, at Lender's option, upon notice by Lender to Borrowers, convert to Prime Rate Loans in the event that (i) an Event of Default or event which, with the notice or passage of time, or both, would constitute an Event of Default, shall exist, (ii) this Agreement shall terminate or not be renewed, or (iii) the aggregate principal amount of the Prime Rate Loans which have previously been converted to Eurodollar Rate Loans or existing Eurodollar Rate Loans continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceed either (A) the aggregate principal amount of the Loans then outstanding, or (B) the sum of the then outstanding principal amount of the Term Loans plus the Revolving Loans then available to Parent under Section 2 hereof. Borrowers shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of Borrowers) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person, as a result of the conversion of Eurodollar Rate Loans to Prime Rate Loans pursuant to any of the foregoing.

(d) Interest shall be payable by Borrowers to Lender monthly in arrears not later than the first day of each calendar month and shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. The interest rate on non-contingent Obligations (other than Eurodollar Rate Loans) shall increase or decrease by an amount equal to each increase or decrease in the Prime Rate effective on the first day of the month after any change in such Prime Rate is announced based on the Prime Rate in effect on the last day of the month in which any such change occurs. In no event shall charges constituting interest payable by Borrower to Lender exceed the maximum amount or the rate permitted under any applicable law or regulation, and if any such part or provision of this Agreement is in contravention of any such law or regulation, such part or provision shall be deemed amended to conform thereto.

(e) The Interest Rate shall be subject to adjustment based upon the annual consolidated net income (loss) from continuing operations of the Parent, excluding all extraordinary and nonrecurring gains, determined in accordance with GAAP ("Net Income" or "Loss") as shown on the annual audited financial statements of the Borrower delivered to Lender pursuant to Section 9.6(a)(ii) hereof. If Parent's Net Income is in excess of \$1.00, the Interest Rate shall be decreased by .25%, provided that in no event shall the Interest Rate as to Prime Rate Loan be less than one quarter of one percent (.25%) per annum in excess of the Prime Rate and the Interest Rate as to Eurodollar Rate Loans be less than two and one quarter percent (2.25%) per annum in excess of the Adjusted Eurodollar Rate. If Parent incurs a Loss, the Interest Rate shall be increased by .25%, provided that in no event, absent the occurrence of an event or condition described in the proviso to the definition of "Interest Rate," shall the Interest Rate as to Prime Loans be greater than one and one quarter percent (1.25%) per annum in excess of the Prime Rate and the Interest Rate as to Eurodollar Rate Loans be greater than three and one quarter percent (3.25%) per annum in excess of Adjusted Eurodollar Rate. Each adjustment to the Interest Rate hereunder shall be effective, as to Prime Rate Loans, as of the first day of the month following Lender's receipt of Borrower's Section 9.6(a)(ii) annual audited financial statements and, as to Eurodollar Rate Loans, for Eurodollar Rate Loans made after the first day of such month.

(f) (i) Otherwise than pursuant to this Section 3.1(f), Ultralife (UK) shall not be liable to pay any amount for taxes imposed by the UK Inland Revenue by virtue of Lender being a "person whose usual place of abode is outside the United Kingdom" and not a bank for the purposes of Section 349 of the "Income and Corporation Taxes Act" (1988).

(ii) Where, pursuant to Section 3.1(f)(i) above, Ultralife (UK) makes a deduction (a "Required Deduction") in respect of any interest payment to Lender, Ultralife (UK) shall, on the date on which such interest is due to be paid to Lender, advance to Lender an interest free, unsecured loan in an amount equal to the amount of such Required Deduction (an "Interest Advance") repayable in accordance with Section 3.1(f)(iii).

(iii) Each Interest Advance shall be repayable to Lender immediately following payment by the Inland Revenue, to the Lender, of an amount equal to the Required Deduction.

(iv) Ultralife (UK) agrees to provide to Lender (and, for the avoidance of doubt, Lender shall be under no obligation to repay any Interest Advance unless Ultralife (UK) complies with the provisions of this Section 3.1(f)(iv)):

(A) a tax deduction certificate in relation to the Required Deduction; and

(B) such other documents as are required by Lender to enable it to obtain a repayment equal to the amount of the Required Deduction.

(v) In the event that Ultralife (UK) receives any written notification from the Inland Revenue requiring it to make payments in respect of any Required Deduction otherwise than in the manner provided for in this Section 3.1(f), then the parties shall make such amendments to this Section 3.1(f) as may be necessary to comply with the terms of such notification from the Inland Revenue and so far as possible to put the parties in the same position as they would have been had the provisions of Sections 3.1(f)(ii), (iii), and (iv) been implemented.

3.2 Closing Fee. Borrowers shall pay to Lender as a closing fee the amount of \$150,000.00, which shall be fully earned as of the date hereof and payable one-half on the date hereof and one-half on the first to occur of the first anniversary of the date hereof or the termination of this Agreement.

3.3 Intentionally Omitted.

3.4 Servicing Fee. Borrowers shall pay to Lender monthly a servicing fee in an amount equal to \$1,000.00 in respect of Lender's services for each month (or part thereof) while this Agreement remains in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be fully earned as of and payable in advance on the date hereof and on the first day of each month hereafter.

3.5 Unused Line Fee. Parent shall pay to Lender monthly an unused line fee at a rate equal to one quarter of one (.25%) percent per annum calculated upon the amount by which the Maximum Credit exceeds the average daily principal balance of the outstanding Loans and Letter of Credit Accommodations during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

3.6 Changes in Laws and Increased Costs of Loans.

(a) Notwithstanding anything to the contrary contained herein, all Eurodollar Rate Loans shall, upon notice by Lender to Borrowers, convert to Prime Rate Loans in the event that (i) any change in applicable law or regulation (or the interpretation or administration thereof) shall either (A) make it unlawful for Lender, Reference Bank or any participant to make or maintain Eurodollar Rate Loans or to comply with the terms hereof in connection with the Eurodollar Rate Loans, or (B) shall result in the increase in the costs to Lender, Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans by an amount deemed by Lender to be material, or (C) reduce the amounts received or receivable by Lender in respect thereof, by an amount deemed by Lender to be material or (ii) the cost to Lender, Reference Bank or any participant of making or maintaining any Eurodollar Rate Loans shall otherwise increase by an amount deemed by Lender to be material. Borrowers shall pay to Lender, upon demand by Lender (or Lender may, at its option, charge any loan account of Borrowers) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any loss (including loss of anticipated profits), cost or expense incurred by such person as a result of the foregoing, including, without limitation, any such loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain the Eurodollar Rate Loans or any portion thereof. A certificate of Lender setting forth the basis for the determination of such amount necessary to compensate Lender as aforesaid shall be delivered to Borrowers and shall be conclusive, absent manifest error.

(b) If any payments or prepayments in respect of the Eurodollar Rate Loans are received by Lender other than on the last day of the applicable Interest Period (whether pursuant to acceleration, upon maturity or otherwise), including any payments pursuant to the application of collections under Section 6.3 or any other payments made with the proceeds of Collateral, Borrowers shall pay to Lender upon demand by Lender (or Lender may, at its option, charge any loan account of Borrowers) any amounts required to compensate Lender, the Reference Bank or any participant with Lender for any additional loss (including loss of anticipated profits), cost or expense incurred by such person as a result of such prepayment or payment, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such person to make or maintain such Eurodollar Rate Loans or any portion thereof. Lender shall apply prepayments and payments made on the Loans first to the Prime Rate Loans of the type of Loan (either Revolving Loans or Term Loans) being repaid and thereafter to Eurodollar Rate Loans of the type of Loan being repaid and, so long as no Event of Default exists or has occurred and is continuing, Lender will hold such payments as cash collateral to apply to the Eurodollar Rate Loans upon the first to occur of the expiration of the applicable Interest Period or such time as no cost or expense would be incurred by Borrowers for the prepayment of such Eurodollar Rate Loan.

4. CONDITIONS PRECEDENT

4.1 Conditions Precedent to Initial Loans and Letter of Credit Accommodations. Each of the following is a condition precedent to Lender making the initial Loans and providing the initial Letter of Credit Accommodations hereunder:

- (a) Lender shall have received, in form and substance satisfactory to Lender, all releases, terminations and such other documents as Lender may request to evidence and effectuate the termination by the existing lender or lenders to Borrowers of their respective financing arrangements with Borrowers and the termination and release by it or them, as the case may be, of any interest in and to any assets and properties of each Borrower and each Obligor, duly authorized, executed and delivered by it or each of them, including, but not limited to, (i) UCC termination statements for all UCC financing statements previously filed by it or any of them or their predecessors, as secured party and any Borrower or any Obligor, as debtor and (ii) satisfactions and discharges of any mortgages, deeds of trust or deeds to secure debt by any Borrower or any Obligor in favor of such existing lender or lenders, in form acceptable for recording in the appropriate government office;
- (b) Lender shall have received evidence, in form and substance satisfactory to Lender, that Lender has valid perfected and first priority security interests in and liens upon the Collateral and any other property which is intended to be security for the Obligations or the liability of any Obligor in respect thereof, subject only to the security interests and liens permitted herein or in the other Financing Agreements;
- (c) all requisite corporate action and proceedings in connection with this Agreement and the other Financing Agreements shall be satisfactory in form and substance to Lender, and Lender shall have received all information and copies of all documents, including records of requisite corporate action and proceedings which Lender may have requested in connection therewith, such documents where requested by Lender or its counsel to be certified by appropriate corporate officers or governmental authorities;
- (d) no material adverse change shall have occurred in the assets, business or prospects of any Borrower since the date of Lender's latest field examination and no change or event shall have occurred which would impair the ability of any Borrower or any Obligor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce the Obligations or realize upon the Collateral;
- (e) Lender shall have completed a field review of the Records and such other information with respect to the Collateral as Lender may require to determine the amount of Revolving Loans available to Parent, the results of which shall be satisfactory to Lender, not more than three (3) business days prior to the date hereof;
- (f) Lender shall have received, in form and substance satisfactory to Lender, all consents, waivers, acknowledgments and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect its security interests in and liens upon the Collateral or to effectuate the provisions or purposes of this Agreement and the other Financing Agreements, including acknowledgments by lessors, mortgagees and

warehousemen of Lender's security interests in the Collateral, waivers by such persons of any security interests, liens or other claims by such persons to the Collateral and agreements permitting Lender access to, and the right to remain on, the premises to exercise its rights and remedies and otherwise deal with the Collateral;

(g) the sum of (i) the Excess Availability as determined by Lender, as of the date hereof, after giving effect to the initial Loans made or to be made and Letter of Credit Accommodations issued or to be issued in connection with the initial transactions hereunder plus (ii) the value of the Parent's Eligible Investments, as reasonably determined by Lender, plus (iii) the balance of the undrawn amount of the Term Loans under Section 2.3 shall not be less than \$20,000,000.00;

(h) Lender shall have received evidence of insurance and loss payee endorsements required hereunder and under the other Financing Agreements, in form and substance satisfactory to Lender, and certificates of insurance policies and/or endorsements naming Lender as loss payee;

(i) Lender shall have received, in form and substance satisfactory to Lender, all instruments, agreements and documents necessary for Lender to make Term Loans to Ultralife (UK) and to grant to Lender charges over all of Ultralife (UK)'s assets and an undertaking by such subsidiary;

(j) Lender shall have received, in form and substance satisfactory to Lender, such opinion letters of counsel to Borrowers with respect to the Financing Agreements and such other matters as Lender may request;

(k) Lender shall have received a Borrowing Base Certificate setting forth the Loans available to Parent as of the date hereof as completed in a manner reasonably satisfactory to the Lender and duly authorized, executed and delivered on behalf of Parent; and

(l) the other Financing Agreements and all instruments and documents hereunder and thereunder shall have been duly executed and delivered to Lender, in form and substance satisfactory to Lender.

4.2 Conditions Precedent to All Loans and Letter of Credit Accommodations. Each of the following is an additional condition precedent to Lender making Loans and Letter of Credit Accommodations to Parent and Ultralife (UK), including the initial Loans and / or providing Letter of Credit Accommodations and any future Loans and Letter of Credit Accommodations:

(a) all representations and warranties contained herein and in the other Financing Agreements shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of the making of each such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto; and

(b) no Event of Default and no event or condition which, with notice or passage of time or both, would constitute an Event of Default, shall exist or have occurred and be

continuing on and as of the date of the making of such Loan or providing each such Letter of Credit Accommodation and after giving effect thereto.

5. GRANT OF SECURITY INTEREST

To secure payment and performance of all Obligations, each Borrower hereby grants to Lender a continuing security interest in, a lien upon, and a right of set off against, and hereby assigns to Lender as security, the following property and interests in property of each Borrower, whether now owned or hereafter acquired or existing, and wherever located (collectively, the "Collateral"):

5.1 Accounts;

5.2 all present and future contract rights, general intangibles (including tax and duty refunds, registered and unregistered patents, trademarks, service marks, copyrights, trade names, applications for the foregoing, trade secrets, goodwill, processes, drawings, blueprints, customer lists, licenses, whether as licensor or licensee, choses in action and other claims and existing and future leasehold interests in equipment, real estate and fixtures), chattel paper, documents, instruments, securities and other investment property, letters of credit, bankers' acceptances and guaranties;

5.3 all present and future monies, securities, credit balances, deposits, deposit accounts and other property of each Borrower now or hereafter held or received by or in transit to Lender or its affiliates or at any other depository or other institution from or for the account of such Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all present and future liens, security interests, rights, remedies, title and interest in, to and in respect of Accounts and other Collateral, including (a) rights and remedies under or relating to guaranties, contracts of suretyship, letters of credit and credit and other insurance related to the Collateral, (b) rights of stoppage in transit, replevin, repossession, reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, (c) goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, Accounts or other Collateral, including returned, repossessed and reclaimed goods, and (d) deposits by and property of account debtors or other persons securing the obligations of account debtors;

5.4 Inventory;

5.5 Equipment;

5.6 Investment Property (provided that the Lender's pledge of share capital of Ultralife (UK) shall not exceed sixty six (66%) percent thereof);

5.7 Records; and

5.8 all products and proceeds of the foregoing, in any form, including insurance proceeds and all claims against third parties for loss or damage to or destruction of any or all of the foregoing.

6. COLLECTION AND ADMINISTRATION

6.1 Borrowers' Loan Account. Lender shall maintain one or more loan account(s) on its books in which shall be recorded (a) all Loans, Letter of Credit Accommodations and other Obligations and the Collateral, (b) all payments made by or on behalf of Borrowers and (c) all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest. All entries in the loan account(s) shall be made in accordance with Lender's customary practices as in effect from time to time.

6.2 Statements. Lender shall render to Parent each month a statement setting forth the balance in the Borrowers' loan account(s) maintained by Lender for Borrower pursuant to the provisions of this Agreement, including principal, interest, fees, costs and expenses. Each such statement shall be subject to subsequent adjustment by Lender but shall, absent manifest errors or omissions, be considered correct and deemed accepted by Borrowers and conclusively binding upon Borrowers as an account stated except to the extent that Lender receives a written notice from Borrowers of any specific exceptions of Borrowers thereto within forty-five (45) days after the date such statement has been mailed by Lender. Until such time as Lender shall have rendered to Parent a written statement as provided above, the balance in Borrowers' loan account(s) shall be presumptive evidence of the amounts due and owing to Lender by Borrower.

6.3 Collection of Accounts.

(a) Borrowers shall establish and maintain, at their expense, blocked accounts or lockboxes and related blocked accounts (in either case, "Blocked Accounts"), as Lender may specify, with such banks as are acceptable to Lender into which Borrowers shall promptly deposit and direct its account debtors to directly remit all payments on Accounts and all payments constituting proceeds of Inventory or other Collateral in the identical form in which such payments are made, whether by cash, check or other manner. The banks at which the Blocked Accounts are established shall enter into an agreement, in form and substance satisfactory to Lender, providing that all items received or deposited in the Blocked Accounts are the property of Lender, that the depository bank has no lien upon, or right to setoff against, the Blocked Accounts, the items received for deposit therein, or the funds from time to time on deposit therein and that the depository bank will wire, or otherwise transfer, in immediately available funds, on a daily basis, at such time as Lender shall direct, all funds received or deposited into the Blocked Accounts to such bank account of Lender as Lender may from time to time designate for such purpose ("Payment Account"). Lender shall instruct the depository banks at which the Blocked Accounts are maintained to transfer the funds on deposit in the Blocked Accounts to such operating bank account of Borrowers as Borrowers may specify in writing to Lender until such time as Lender shall notify the depository bank otherwise. Lender may instruct the depository banks at which the Blocked Accounts are maintained to transfer all funds received or deposited into the Blocked Accounts to the Payment Account at any time that either: (i) an Event of Default, or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred, or (ii) Borrowers shall have failed to deliver any Borrowing Base Certificate in accordance with the terms hereof, or (iii) upon Lender's good faith belief that any information contained in any Borrowing Base Certificate is incomplete, inaccurate or misleading, or (iv) Borrower's Cash Position is equal to or less than \$3,000,000.00, or (v) Parent

requests a Revolving Loan and for so long as any Revolving Loan is outstanding. Borrowers agree that all payments made to such Blocked Accounts or other funds received and collected by Lender, whether on the Accounts or as proceeds of Inventory or other Collateral or otherwise shall be the property of Lender.

(b) For purposes of calculating the amount of the Loans available to Borrowers, such payments will be applied (conditional upon final collection) to the Obligations on the business day of receipt by Lender of immediately available funds in the Payment Account provided such payments and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit Borrowers' loan account on such day, and if not, then on the next business day. For the purposes of calculating interest on the Obligations, such payments or other funds received will be applied (conditional upon final collection) to the Obligations one (1) business day(s) following the date of receipt of immediately available funds by Lender in the Payment Account provided such payments or other funds and notice thereof are received in accordance with Lender's usual and customary practices as in effect from time to time and within sufficient time to credit Borrowers' loan account on such day, and if not, then on the next business day.

(c) Each Borrower and all of its affiliates, subsidiaries, shareholders, directors, employees or agents shall, acting as trustee for Lender, receive, as the property of Lender, any monies, checks, notes, drafts or any other payment relating to and/or proceeds of Accounts or other Collateral which come into their possession or under their control and immediately upon receipt thereof, shall deposit or cause the same to be deposited in the Blocked Accounts, or remit the same or cause the same to be remitted, in kind, to Lender. In no event shall the same be commingled with Borrowers' own funds. Each Borrower agrees to reimburse Lender on demand for any amounts owed or paid to any bank at which a Blocked Account is established or any other bank or person involved in the transfer of funds to or from the Blocked Accounts arising out of Lender's payments to or indemnification of such bank or person. The obligation of Borrowers to reimburse Lender for such amounts pursuant to this Section 6.3 shall survive the termination or non-renewal of this Agreement.

6.4 Payments. All Obligations shall be payable to the Payment Account as provided in Section 6.3 or such other place as Lender may designate from time to time. Lender may apply payments received or collected from Borrowers or for the account of Borrowers (including the monetary proceeds of collections or of realization upon any Collateral) to such of the Obligations, whether or not then due, in such order and manner as Lender determines. At Lender's option, all principal, interest, fees, costs, expenses and other charges provided for in this Agreement or the other Financing Agreements may be charged directly to the loan account(s) of Borrowers. Borrowers shall make all payments to Lender on the Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. If any taxes, levies, imposts, duties, charges, fees, deductions or withholdings (collectively, "Taxes") are required to be withheld from any amounts payable to Lender, the amounts so payable to Lender shall be increased to the extent necessary to yield to Lender (after payment of all Taxes) interest or any other amounts payable hereunder at the rates or in the amounts specified in this Agreement. Whenever any Taxes are payable by a Borrower, as promptly as possible thereafter, the applicable Borrower shall send to Lender a certified copy of an original

official receipt received by such Borrower showing payment thereof. If any Borrower fails to pay any Taxes when due or fails to remit the required receipts or other required documentary evidence, Borrowers shall indemnify and hold Lender harmless for any incremental, interest, penalties, charges, costs and expenses (including reasonable attorneys' fees and expenses) that Lender may incur or pay as a result thereof. If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Each Borrower shall be liable to pay to Lender, and does hereby indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 6.4 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 6.4 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

6.5 Authorization to Make Loans. Lender is authorized to make the Loans and provide the Letter of Credit Accommodations based upon telephonic or other instructions received from anyone purporting to be an officer of a Borrower or other authorized person or, at the discretion of Lender, if such Loans are necessary to satisfy any Obligations. All requests for Loans or Letter of Credit Accommodations hereunder shall specify the date on which the requested advance is to be made or Letter of Credit Accommodations established (which day shall be a business day) and the amount of the requested Loan. Requests received after 11:00 a.m. Eastern time on any day shall be deemed to have been made as of the opening of business on the immediately following business day. All Loans and Letter of Credit Accommodations under this Agreement shall be conclusively presumed to have been made to, and at the request of and for the benefit of, Borrowers when deposited to the credit of a Borrower or otherwise disbursed or established in accordance with the instructions of a Borrower or in accordance with the terms and conditions of this Agreement.

6.6 Use of Proceeds. Borrowers shall use the initial proceeds of the Loans provided by Lender to Borrowers hereunder only for: (a) payments to each of the persons listed in the disbursement direction letter furnished by Borrowers to Lender on or about the date hereof and (b) costs, expenses and fees in connection with the preparation, negotiation, execution and delivery of this Agreement and the other Financing Agreements. All other Loans made or Letter of Credit Accommodations provided by Lender to Borrowers pursuant to the provisions hereof shall be used by Borrowers only for general operating, working capital and other proper corporate purposes of Borrowers not otherwise prohibited by the terms hereof. None of the proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purposes of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Loans to be considered a "purpose credit" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, as amended.

6.7 Appointment of Parent as Representative. Ultralife (UK) hereby irrevocably appoints Parent, and Parent agrees to act under this Agreement, as the agent and representative of Ultralife (UK) for all purposes under this Agreement, including requesting Loans, selecting whether any Loan or portion thereof is to bear interest as a Prime Rate Loan or Eurodollar Rate

Loan, providing notices, Borrowing Base Certificates and other reports and certificates from the Borrowers, and receiving any notices and communications to the Borrowers from the Lender. Lender may rely, and shall be fully protected in relying, on any notice, reports, requests, information or other communication made or given by Parent whether in its own name, or on behalf of the Borrowers and Lender shall have no obligation to make any inquiry or request any confirmation from or on behalf of Ultralife (UK) as to the binding effect thereof on all of the Borrowers.

7. COLLATERAL REPORTING AND COVENANTS

7.1 Collateral Reporting.

(a) Parent shall provide Lender with the following documents in a form satisfactory to Lender:

(i) prior to the time that any Revolving Loans are outstanding hereunder, on a monthly basis on or before the fifteenth (15th) day of each month or more frequently at Parent's option or as Lender may reasonably request, a Borrowing Base Certificate setting forth Parent's calculation of the Revolving Loans and Letter of Credit Accommodations available to Parent pursuant to the terms and conditions contained herein as of the last business day of the immediately preceding month as to the Accounts and as of the last day of the preceding month as to Inventory, duly completed and executed by the chief financial officer or other appropriate financial officer acceptable to Lender, together with all schedules required pursuant to the terms of the Borrowing Base Certificate duly completed (including, without limitation, a schedule of all Accounts created, collections received and credit memos issued for each day of the immediately preceding week); provided, that, without limiting any other rights of Lender, upon Lender's request, Parent shall provide Lender on a daily basis with a schedule of Accounts, collections received and credits issued and on a monthly basis with an inventory report in the event that at any time: (A) an Event of Default or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred, or (B) Parent shall have failed to deliver any Borrowing Base Certificate in accordance with the terms hereof, or (C) upon Lender's good faith belief, any information contained in any Borrowing Base Certificate is incomplete, inaccurate or misleading, or (D) Parent's Cash Position is equal to or less than \$3,000,000.00, or (E) Parent requests a Revolving Loan and for so long as any Revolving Loan is outstanding;

(ii) on a monthly basis or more frequently as Lender may request, (A) perpetual inventory reports, (B) inventory reports by category and (C) agings of accounts payable;

(iii) upon Lender's request, (A) copies of customer statements and credit memos, remittances advices and reports, and copies of deposit slips and bank statements, (B) copies of shipping and delivery documents, and (C) copies of

purchase orders, invoices and delivery of documents for Inventory and Equipment acquired by any Borrower;

(iv) agings of accounts receivable on a monthly basis or more frequently as Lender may request; and

(v) such other reports as to the Collateral as Lender shall request from time to time.

(b) Nothing contained in any Borrowing Base Certificate shall be deemed to limit, impair or otherwise affect the rights of Lender contained herein and in the event of any conflict or inconsistency between the calculation of the Revolving Loans and Letter of Credit Accommodations available to Parent as set forth in any Borrowing Base Certificate and as determined by Lender, the determination of Lender shall govern and be conclusive and binding upon Parent. Without limiting the foregoing, Parent shall furnish to Lender any information which Lender may reasonably request regarding the determination and calculation of any of the amounts set forth in the Borrowing Base Certificate. If any Borrowers' records or reports of the Collateral are prepared or maintained by an accounting service, contractor, shipper or other agent, each Borrower hereby irrevocably authorizes such service, contractor, shipper or agent to deliver such records, reports and related documents to Lender and to follow Lender's instructions with respect to further services at any time that an Event of Default exists or has occurred and is continuing.

7.2 Accounts Covenants.

(a) Parent shall notify Lender promptly of: (i) any material delay in Parent's performance of any of its obligations to any account debtor or the assertion of any claims, offsets, defenses or counterclaims by any account debtor, or any disputes with account debtors, or any settlement, adjustment or compromise thereof, (ii) all material adverse information relating to the financial condition of any account debtor and (iii) any event or circumstance which, to Parent's knowledge would cause Lender to consider any then existing Accounts as no longer constituting Eligible Accounts. No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor without Lender's consent, except in the ordinary course of Parent's business in accordance with Parent's past practices and policies. So long as no Event of Default exists or has occurred and is continuing, Parent shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any account debtor. At any time that an Event of Default exists or has occurred and is continuing, Lender shall, at its option, have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with account debtors or grant any credits, discounts or allowances.

(b) Without limiting the obligation of Parent to deliver any other information to Lender, Parent shall promptly report to Lender any return of Inventory by any one account debtor if the Inventory so returned in such case has a value in excess of \$100,000.00. At any time that Inventory is returned, reclaimed or repossessed, the Account (or portion thereof) which arose from the sale of such returned, reclaimed or repossessed Inventory shall not be deemed an Eligible Account. In the event any account debtor returns Inventory when an Event of Default exists or has occurred and is continuing, Parent shall, upon Lender's request, (i) hold the returned

Inventory in trust for Lender, (ii) segregate all returned Inventory from all of its other property, (iii) dispose of the returned Inventory solely according to Lender's instructions, and (iv) not issue any credits, discounts or allowances with respect thereto without Lender's prior written consent.

(c) With respect to each Account: (i) the amounts shown on any invoice delivered to Lender or schedule thereof delivered to Lender shall be true and complete, (ii) no payments shall be made thereon except payments immediately delivered to Lender pursuant to the terms of this Agreement, (iii) no credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any account debtor except as reported to Lender in accordance with this Agreement and except for credits, discounts, allowances or extensions made or given in the ordinary course of Parent's business in accordance with practices and policies previously disclosed to Lender, (iv) there shall be no setoffs, deductions, contra, defenses, counterclaims or disputes existing or asserted with respect thereto except as reported to Lender in accordance with the terms of this Agreement, (v) none of the transactions giving rise thereto will violate any applicable State or Federal laws or regulations, all documentation relating thereto will be legally sufficient under such laws and regulations and all such documentation will be legally enforceable in accordance with its terms.

(d) Lender shall have the right at any time or times, in Lender's name or in the name of a nominee of Lender, to verify the validity, amount or any other matter relating to any Account or other Collateral, by mail, telephone, facsimile transmission or otherwise.

(e) Parent shall deliver or cause to be delivered to Lender, with appropriate endorsement and assignment, with full recourse to Parent, all chattel paper and instruments which Parent now owns or may at any time acquire immediately upon Parent's receipt thereof, except as Lender may otherwise agree.

(f) Lender may, at any time or times that an Event of Default exists or has occurred and is continuing, (i) notify any or all account debtors that the Accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all accounts debtors to make payment of Accounts directly to Lender, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for its failure to collect or enforce the payment thereof and (iv) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Parent shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

7.3 Inventory Covenants. With respect to the Inventory: (a) Parent shall at all times maintain inventory records reasonably satisfactory to Lender, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Parent's cost

therefor and daily withdrawals therefrom and additions thereto; (b) at Lender's request but no more than once a year if no Event of Default exists or has occurred and is continuing or, if Revolving Loans are outstanding, upon Lender's reasonable request from time to time Parent shall conduct a physical count of the Inventory and promptly following such physical inventory shall supply Lender with a report in the form and with such specificity as may be reasonably satisfactory to Lender concerning such physical count; (c) upon Lender's request but no more than once a year if no Event of Default exists or has occurred and is continuing, or, if Revolving Loans are outstanding, upon Lender's reasonable request from time to time Parent shall, at its expense, deliver or cause to be delivered to Lender appraisals as to the Inventory in form, scope and methodology satisfactory to the Lender and from an appraiser satisfactory to the Lender and addressed to Lender or upon which Lender is expressly permitted to rely; (d) Parent shall not remove any Inventory from the locations set forth or permitted herein, without the prior written consent of Lender, except for sales of Inventory in the ordinary course of Parent's business and except to move Inventory directly from one location set forth or permitted herein to another such location; (e) Parent shall produce, use, store and maintain the Inventory with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with applicable laws (including the requirements of the Federal Fair Labor Standards Act of 1938, as amended and all rules, regulations and orders related thereto); (f) Parent assumes all responsibility and liability arising from or relating to the production, use, sale or other disposition of the Inventory; (g) Parent shall not sell Inventory to any customer on approval, or any other basis which entitles the customer to return or may Parent Borrower to repurchase such Inventory other than pursuant to Parent's standard warranty provisions; (h) Borrower shall keep the Inventory in good and marketable condition; and (i) Parent shall not, without prior written notice to Lender, acquire or accept any Inventory on consignment or approval.

7.4 Equipment Covenants. With respect to the Equipment: (a) upon Lender's request but no more than once a year if no Event of Default exists or has occurred and is continuing, each Borrower shall, at their expense, at any time or times as Lender may request, deliver or cause to be delivered to Lender written reports or appraisals as to the Equipment in form, scope and methodology acceptable to Lender and by an appraiser acceptable to Lender; (b) Borrowers shall keep the Equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (c) Borrowers shall use the Equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (d) the Equipment is and shall be used in Borrowers' business and not for personal, family, household or farming use; (e) except as otherwise permitted herein, Borrowers shall not remove any Equipment from the locations set forth or permitted herein, except to the extent necessary to have any Equipment repaired or maintained in the ordinary course of the business of Borrowers or to move Equipment directly from one location set forth or permitted herein to another such location and except for the movement of motor vehicles used by or for the benefit of Borrowers in the ordinary course of business; (f) the Equipment is now and shall remain personal property and Borrowers shall not permit any of the Equipment to be or become a part of or affixed to real property; and (g) Borrowers assume all responsibility and liability arising from the use of the Equipment.

7.5 Power of Attorney. Each Borrower hereby irrevocably designates and appoints Lender (and all persons designated by Lender) as such Borrower's true and lawful attorney-in-fact, and authorizes Lender, in Borrower's or Lender's name, to: (a) at any time an Event of

Default exists or has occurred and is continuing (i) demand payment on Accounts or other proceeds of Inventory or other Collateral, (ii) enforce payment of Accounts by legal proceedings or otherwise, (iii) exercise all of such Borrower's rights and remedies to collect any Account or other Collateral, (iv) sell or assign any Account upon such terms, for such amount and at such time or times as the Lender deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Account, (vii) prepare, file and sign such Borrower's name on any proof of claim in bankruptcy or other similar document against an account debtor, (viii) notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Lender, and open and dispose of all mail addressed to Borrower, and (ix) do all acts and things which are necessary, in Lender's determination, to fulfill such Borrower's obligations under this Agreement and the other Financing Agreements and (b) at any time to (i) take control in any manner of any item of payment or proceeds thereof, (ii) have access to any lockbox or postal box into which Borrower's mail is deposited, (iii) endorse such Borrower's name upon any items of payment or proceeds thereof and deposit the same in the Lender's account for application to the Obligations, (iv) endorse such Borrower's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Account or any goods pertaining thereto or any other Collateral, (v) sign such Borrower's name on any verification of Accounts and notices thereof to account debtors and (vi) execute in Borrower's name and file any UCC financing statements or amendments thereto. Each Borrower hereby releases Lender and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Lender's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

7.6 Right to Cure. Lender may, at its option, upon notice to Borrowers,

(a) cure any default by any Borrower under any agreement with a third party or pay or bond on appeal any judgment entered against any Borrower, (b) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (c) pay any amount, incur any expense or perform any act which, in Lender's judgment, is necessary or appropriate to preserve, protect, insure or maintain the Collateral and the rights of Lender with respect thereto. Lender may add any amounts so expended to the Obligations and charge Borrowers' account therefor, such amounts to be repayable by Borrowers on demand. Lender shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Borrowers. Any payment made or other action taken by Lender under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

7.7 Access to Premises. From time to time as requested by Lender, at the cost and expense of Borrowers, and without unreasonably interrupting the business operations of Borrowers (a) Lender or its designee shall have complete access to all of Borrowers' premises during normal business hours and after notice to Borrowers, as the case may be, or at any time and without notice to Borrowers, as the case may be, if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Borrowers' books and records, including the Records, and

(b) Borrowers shall promptly furnish to Lender such copies of such books and records or extracts therefrom as Lender may request, and (c) use during normal business hours such of Borrowers' personnel, equipment, supplies and

premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Accounts and realization of other Collateral.

8. REPRESENTATIONS AND WARRANTIES

Borrowers hereby represent and warrant to Lender the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which are a continuing condition of the making of Loans and providing Letter of Credit Accommodations by Lender to Borrowers:

8.1 Corporate Existence, Power and Authority; Subsidiaries. Parent is a corporation duly organized and in good standing under the laws of its state of incorporation and Ultralife (UK) is a limited liability company duly organized and validly existing under the laws of England. Each Borrower is duly qualified as a foreign corporation and is in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on either Borrower's financial condition, results of operation or business or the rights of Lender in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within each Borrower's corporate powers, have been duly authorized and are not in contravention of law or the terms of either Borrower's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which either Borrower is a party or by which either Borrower or their respective property are bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of each Borrower enforceable in accordance with their respective terms. Borrowers do not have any subsidiaries except as set forth on the Information Certificate.

8.2 Financial Statements; No Material Adverse Change. All financial statements relating to Borrowers which have been or may hereafter be delivered by either Borrower to Lender have been prepared in accordance with GAAP and fairly present the financial condition and the results of operation of Borrowers as at the dates and for the periods set forth therein. Except as disclosed in any interim financial statements furnished by Borrowers to Lender prior to the date of this Agreement, there has been no material adverse change in the assets, liabilities, properties and condition, financial or otherwise, of either Borrower, since the date of the most recent audited financial statements furnished by Borrowers to Lender prior to the date of this Agreement.

8.3 Chief Executive Office; Collateral Locations. The chief executive offices of Borrowers and Borrowers Records concerning Accounts are located only at the addresses set forth below and their only other places of business and the only other locations of Collateral, if any, are the addresses set forth in the Information Certificate, subject to the right of Borrowers to establish new locations in accordance with Section 9.2 below. The Information Certificate correctly identifies any of such locations which are not owned by Borrowers and sets forth the owners and/or operators thereof and to the best of Borrowers' knowledge, the holders of any mortgages on such locations.

8.4 Priority of Liens; Title to Properties. The security interests and liens granted to Lender under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the liens indicated on Schedule 8.4 hereto and the other liens permitted under Section 9.8 hereof. Each of the Borrowers has good and marketable title to all of its properties and assets subject to no liens, mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Lender and such others as are specifically listed on Schedule 8.4 hereto or permitted under Section 9.8 hereof.

8.5 Tax Returns. Each Borrower has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Lender). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Each Borrower has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrowers and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

8.6 Litigation. Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of Borrowers' knowledge threatened, against or affecting either Borrower, or their assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Borrowers' knowledge threatened, against either Borrower or their assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against either Borrower would result in any material adverse change in the assets, business or prospects of any Borrower or would impair the ability of either Borrower to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce any Obligations or realize upon any Collateral.

8.7 Compliance with Other Agreements and Applicable Laws. Neither Borrower is in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any material portion of its assets are bound and each Borrower is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority.

8.8 Bank Accounts. All of the deposit accounts, investment accounts or other accounts in the name of or used by Borrowers maintained at any bank or other financial institution are set forth on Schedule 8.8 hereto, subject to the right of Borrowers to establish new accounts in accordance with Section 9.13 below.

8.9 Accuracy and Completeness of Information. All information furnished by or on behalf of Borrowers in writing to Lender in connection with this Agreement or any of the other Financing Agreements or any transaction contemplated hereby or thereby, including all information on the Information Certificate is true and correct in all material respects on the date

as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse effect on the business, assets or prospects of any Borrower, which has not been fully and accurately disclosed to Lender in writing.

8.10 Employee Benefits.

(a) Borrowers have not engaged in any transaction in connection with which any Borrower or any of its ERISA Affiliates could be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code, including any accumulated funding deficiency described in Section 8.10(c) hereof and any deficiency with respect to vested accrued benefits described in Section 8.10(d) hereof.

(b) No liability to the Pension Benefit Guaranty Corporation has been or is expected by Borrowers to be incurred with respect to any employee benefit plan of any Borrower or any of its ERISA Affiliates. There has been no reportable event (within the meaning of Section 4043(b) of ERISA) or any other event or condition with respect to any employee pension benefit plan of any Borrower or any of its ERISA Affiliates which presents a risk of termination of any such plan by the Pension Benefit Guaranty Corporation.

(c) Full payment has been made of all amounts which any Borrower or any of its ERISA Affiliates is required under Section 302 of ERISA and Section 412 of the Code to have paid under the terms of each employee benefit plan as contributions to such plan as of the last day of the most recent fiscal year of such plan ended prior to the date hereof, and no accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, exists with respect to any employee benefit plan, including any penalty or tax described in Section 8.10(a) hereof and any deficiency with respect to vested accrued benefits described in Section 8.10(d) hereof.

(d) The current value of all vested accrued benefits under all employee benefit plans maintained by Borrowers that are subject to Title IV of ERISA does not exceed the current value of the assets of such plans allocable to such vested accrued benefits, including any penalty or tax described in Section 8.10(a) hereof and any accumulated funding deficiency described in Section 8.10(c) hereof. The terms "current value" and "accrued benefit" have the meanings specified in ERISA.

(e) Neither Borrower nor any of its ERISA Affiliates is or has ever been obligated to contribute to any "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA) that is subject to Title IV of ERISA.

8.11 Environmental Compliance.

(a) Except as set forth on Schedule 8.11 hereto, neither Borrower has generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off its premises (whether or not owned by it) in any manner which at any time violates any applicable Environmental Law or any license, permit, certificate, approval or similar authorization thereunder and the operations of each Borrower complies in all material respects

with all Environmental Laws and all licenses, permits, certificates, approvals and similar authorizations thereunder.

(b) Except as set forth on Schedule 8.11 hereto, there has been no investigation, proceeding, complaint, order, directive, claim, citation or notice by any governmental authority or any other person nor is any pending or to the best of Borrowers' 's knowledge threatened, with respect to any non-compliance with or violation of the requirements of any Environmental Law by either Borrower or the release, spill or discharge, threatened or actual, of any Hazardous Material or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or any other environmental, health or safety matter, which affects Borrowers or their business, operations or assets or any properties at which either Borrower has transported, stored or disposed of any Hazardous Materials.

(c) Neither Borrower has any material liability (contingent or otherwise) in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials.

(d) Each Borrower has all licenses, permits, certificates, approvals or similar authorizations required to be obtained or filed in connection with the operations of Borrowers under any Environmental Law and all of such licenses, permits, certificates, approvals or similar authorizations are valid and in full force and effect.

8.12 Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation hereunder, subject to changes that Borrower may advise Lender of after the date hereof that are in compliance with the covenants and other terms of this Agreement, and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Borrowers shall now or hereafter give, or cause to be given, to Lender.

9. AFFIRMATIVE AND NEGATIVE COVENANTS

9.1 Maintenance of Existence. Each Borrower shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted. Borrowers shall give Lender thirty (30) days prior written notice of any proposed change in its corporate name, which notice shall set forth the new name and Borrowers shall deliver to Lender a copy of the amendment to the Certificate of Incorporation of such Borrower providing for the name change certified by the Secretary of State of the jurisdiction of incorporation of such Borrower as soon as it is available.

9.2 New Collateral Locations. Parent may open any new location within the continental United States and Ultralife (UK) within the United Kingdom provided Borrowers (a) give Lender thirty (30) days prior written notice of the intended opening of any such new location (other than sales offices at which only office Equipment of de minimis value and no Inventory will be maintained) and (b) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including UCC financing statements.

9.3 Compliance with Laws, Regulations, Etc.

(a) Borrowers shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders applicable to it and duly observe all requirements of any Federal, State or local governmental authority, including the Employee Retirement Security Act of 1974, as amended, the Occupational Safety and Health Act of 1970, as amended, the Fair Labor Standards Act of 1938, as amended, and all statutes, rules, regulations, orders, permits and stipulations relating to environmental pollution and employee health and safety, including all of the Environmental Laws.

(b) Borrowers shall establish and maintain, at their expense, a system to assure and monitor its continued compliance with all Environmental Laws in all of its operations, which system shall include annual reviews of such compliance by employees or agents of Borrowers who are familiar with the requirements of the Environmental Laws. [As of the date of this Agreement, Parent's environmental systems were described to Lender's counsel and no additional requirements were recommended.] Copies of all environmental surveys, audits, assessments, feasibility studies and results of remedial investigations shall be promptly furnished, or caused to be furnished, by Borrowers to Lender. Borrowers shall take prompt and appropriate action to respond to any non-compliance with any of the Environmental Laws and shall regularly report to Lender on such response.

(c) Borrowers shall give both oral and written notice to Lender immediately upon either Borrowers' receipt of any notice of, or Borrower's otherwise obtaining knowledge of, (i) the occurrence of any event involving the release, spill or discharge, threatened or actual, of any Hazardous Material or

(ii) any investigation, proceeding, complaint, order, directive, claims, citation or notice with respect to: (A) any non-compliance with or violation of any Environmental Law by either Borrower or (B) the release, spill or discharge, threatened or actual, of any Hazardous Material or (C) the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Materials or (D) any other environmental, health or safety matter, which affects Borrowers or their business, operations or assets or any properties at which a Borrower transported, stored or disposed of any Hazardous Materials.

(d) Without limiting the generality of the foregoing, whenever Lender reasonably determines that there is non-compliance, or any condition which requires any action by or on behalf of a Borrower in order to avoid any material non-compliance, with any Environmental Law, Borrowers shall, at Lender's request and Borrower's expense: (i) cause an independent environmental engineer acceptable to Lender to conduct such tests of the site where such Borrowers' non-compliance or alleged non-compliance with such Environmental Laws has

occurred as to such non-compliance and prepare and deliver to Lender a report as to such non-compliance setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof and (ii) provide to Lender a supplemental report of such engineer whenever the scope of such non-compliance, or Borrowers' response thereto or the estimated costs thereof, shall change in any material respect.

(e) Borrowers shall indemnify and hold harmless Lender, its directors, officers, employees, agents, invitees, representatives, successors and assigns, from and against any and all losses, claims, damages, liabilities, costs, and expenses (including attorneys' fees and legal expenses) directly or indirectly arising out of or attributable to the use, generation, manufacture, reproduction, storage, release, threatened release, spill, discharge, disposal or presence of a Hazardous Material, including the costs of any required or necessary repair, cleanup or other remedial work with respect to any property of Borrowers and the preparation and implementation of any closure, remedial or other required plans. All representations, warranties, covenants and indemnifications in this Section 9.3 shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.4 Payment of Taxes and Claims. Borrowers shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrowers and with respect to which adequate reserves have been set aside on their books. Borrowers shall be liable for any tax or penalties imposed on Lender as a result of the financing arrangements provided for herein and Borrowers agree to indemnify and hold Lender harmless with respect to the foregoing, and to repay to Lender on demand the amount thereof, and until paid by Borrowers such amount shall be added and deemed part of the Loans, provided, that, nothing contained herein shall be construed to require Borrowers to pay any income or franchise taxes attributable to the income of Lender from any amounts charged or paid hereunder to Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

9.5 Insurance. Borrowers shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Lender as to form, amount and insurer. Borrowers shall furnish certificates, policies or endorsements to Lender as Lender shall require as proof of such insurance, and, if Borrowers fail to do so, Lender is authorized, but not required, to obtain such insurance at the expense of Borrowers. All policies shall provide for at least thirty (30) days prior written notice to Lender of any cancellation or reduction of coverage and that Lender may act as attorney for Borrowers in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Borrowers shall cause Lender to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and Borrowers shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Lender. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Lender as its interests may appear and further specify that Lender shall be paid regardless of any act or omission by either Borrower or any of their

affiliates. So long as Parent maintains a Cash Position equal to or in excess of \$3,000,000, no Revolving Loans are outstanding and no Event of Default exists or has occurred and is continuing. Lender agrees that up to \$5,000,000 of insurance proceeds may be applied by Borrowers to the repair or replacement of Collateral with Collateral of the same or greater value, utility and quality as demonstrated to the reasonable satisfaction of Lender. If the foregoing conditions are not satisfied, Lender, at its option, may apply any insurance proceeds received by Lender at any time to the cost of repairs or replacement of Collateral and/or to payment of the Obligations, whether or not then due, in any order and in such manner as Lender may determine or hold such proceeds as cash collateral for the Obligations.

9.6 Financial Statements and Other Information.

(a) Borrowers shall keep proper books and records in which true and complete entries shall be made of all dealings or transactions of or in relation to the Collateral and the business of Parent and its subsidiaries (including Ultralife (UK)) in accordance with GAAP and Borrower shall furnish or cause to be furnished to Lender: (i) within thirty (30) days after the end of each fiscal month, monthly unaudited consolidated financial statements, and, unaudited consolidating financial statements (including in each case balance sheets, statements of income and loss, statements of cash flow, and statements of shareholders' equity), all in reasonable detail, fairly presenting the financial position and the results of the operations of Parent and its subsidiaries as of the end of and through such fiscal month and (ii) within ninety (90) days after the end of each fiscal year, audited consolidated financial statements and, audited consolidating financial statements of Parent and its subsidiaries (including in each case balance sheets, statements of income and loss, statements of cash flow and statements of shareholders' equity), and the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and the results of the operations of Parent and its subsidiaries as of the end of and for such fiscal year, together with the unqualified opinion of independent certified public accountants, which accountants shall be an independent accounting firm selected by Parent and reasonably acceptable to Lender, that such financial statements have been prepared in accordance with GAAP, and present fairly the results of operations and financial condition of Parent and its subsidiaries as of the end of and for the fiscal year then ended.

(b) Borrowers shall promptly notify Lender in writing of the details of (i) any loss, damage, investigation, action, suit, proceeding or claim relating to the Collateral or any other property which is security for the Obligations or which would result in any material adverse change in any Borrower's business, properties, assets, goodwill or condition, financial or otherwise and (ii) the occurrence of any Event of Default or event which, with the passage of time or giving of notice or both, would constitute an Event of Default.

(c) Parent shall promptly notify Lender in writing in the event that at any time after the delivery of a Borrowing Base Certificate by Parent to Lender but prior to the delivery of the next Borrowing Base Certificate to be delivered by Parent to Lender in accordance with the terms hereof: (i) at such time as Revolving Loans are outstanding, the amount of Revolving Loans available to Parent pursuant to the terms and conditions contained herein (calculated without regard to the then outstanding Revolving Loans) is less than ninety (90%) percent of the amount of Revolving Loans available to Parent pursuant to the terms and conditions contained herein (calculated without regard to the then outstanding Revolving Loans) as set forth in the

most recent Borrowing Base Certificate previously delivered by Borrower to Lender pursuant to Section 7.1 hereof, (ii) the Revolving Loans made by Lender to Parent at such time exceed the amount of the Revolving Loans then available to Borrower under the terms hereof as a result of any decrease in the amount of Revolving Loans then available, and the amount of such excess, (iii) Excess Availability plus the balance of the undrawn amount of the Term Loans under

Section 2.3 is less than \$1,000,000.00 as a result of any decrease in the amounts of Revolving Loans available to Parent pursuant to the terms and conditions contained herein, or (iv) Parent's Cash Position is equal to or less than \$3,000,000.00.

(d) Parent shall promptly after the sending or filing thereof furnish or cause to be furnished to Lender copies of all reports which Parent sends to its stockholders generally and copies of all reports and registration statements which Parent files with the Securities and Exchange Commission, any national securities exchange or the National Association of Securities Dealers, Inc.

(e) Parent shall furnish or cause to be furnished to Lender such budgets, forecasts, projections and other information respecting the Collateral and the business of Borrowers, as Lender may, from time to time, reasonably request. Subject to the provisions of Section 12.5 hereof, Lender is hereby authorized to deliver a copy of any financial statement or any other information relating to the business of Borrowers to any court or other government agency or to any participant or assignee or prospective participant or assignee. Borrowers hereby irrevocably authorize and direct all accountants or auditors to deliver to Lender, at Borrowers's expense, copies of the financial statements of Borrowers and any reports or management letters prepared by such accountants or auditors on behalf of Borrowers and to disclose to Lender such information as they may have regarding the business of Borrowers. Any documents, schedules, invoices or other papers delivered to Lender may be destroyed or otherwise disposed of by Lender one (1) year after the same are delivered to Lender, except as otherwise designated by Parent to Lender in writing.

9.7 Sale of Assets, Consolidation, Merger, Dissolution, Etc. Neither Borrower shall, without the prior written consent of Lender, directly or indirectly, (a) merge into or with or consolidate with any other Person or permit any other Person to merge into or with or consolidate with it, or (b) sell, assign, lease, transfer, abandon or otherwise dispose of any stock or indebtedness it owns of another Person to any other Person or any of its assets to any other Person (except for (i) sales of Inventory in the ordinary course of business and (ii) the disposition of worn-out or obsolete Equipment or Equipment no longer used in the business of Borrowers so long as (A) if an Event of Default exists or has occurred and is continuing, any proceeds net of the reasonable out-of-pocket costs incurred by Borrowers in such disposition are paid to Lender and (B) such sales do not involve Equipment having an aggregate fair market value in excess of \$100,000.00 for all such Equipment disposed of in any fiscal year of Borrowers), or (c) form or acquire any subsidiaries, except pursuant to a transaction permitted under Section 9.10(e) hereof provided that such subsidiary shall enter into a guarantee and security agreement in favor of and satisfactory to Lender and shall grant to Lender a first priority security interest in all of its assets as security for the guarantee, or (d) wind up, liquidate or dissolve or (e) agree to do any of the foregoing.

9.8 Encumbrances. Neither Borrower shall create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Lender;

(b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Borrowers and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of a Borrower's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Borrowers, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Borrowers as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) purchase money security interests in Equipment (including capital leases) and purchase money mortgages on real estate not to exceed \$50,000.00 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Borrowers other than the Equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the Equipment or real estate so acquired, as the case may be; and (f) the security interests and liens set forth on Schedule 8.4 hereto including the security interest granted to the Chase Manhattan Bank ("Chase") in certain cash and investment property to secure the credit facilities described on Schedule 9.9.

9.9 Indebtedness. Neither Borrower shall incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except: (a) the Obligations; (b) trade obligations and normal accruals in the ordinary course of business not yet due and payable, or with respect to which a Borrower is contesting in good faith the amount or validity thereof by appropriate proceedings diligently pursued and available to such Borrower, and with respect to which adequate reserves have been set aside on its books; (c) purchase money indebtedness (including capital leases) to the extent not incurred or secured by liens (including capital leases) in violation of any other provision of this Agreement; (d) subordinated indebtedness (including indebtedness convertible into equity securities of Borrowers) incurred in connection with a transaction permitted under Section 9.10 (e)(i) hereof so long as prior to the issuance thereof the terms of such indebtedness including the subordination provisions thereof are satisfactory to Lender; and (e) the indebtedness including the credit facilities and other indebtedness to Chase as set forth on Schedule 9.9 hereto; provided, that, in respect of indebtedness incurred under clauses (c) or (d) above or set forth on Schedule 9.9, (i) Borrowers may only make regularly scheduled payments of principal and interest in respect of such indebtedness in accordance with the terms of the agreement or instrument evidencing or giving rise to such indebtedness as in effect on the date hereof, (ii) Borrowers shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such indebtedness or any agreement, document or instrument related thereto as in effect on the date hereof, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iii) Borrowers shall furnish to Lender all notices or

demands in connection with such indebtedness either received by a Borrower or on its behalf, promptly after the receipt thereof, or sent by a Borrower or on its behalf, concurrently with the sending thereof, as the case may be.

9.10 Loans, Investments, Guarantees, Etc. Borrowers shall not, directly or indirectly, make any loans or advance money or property to any person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or indebtedness or all or a substantial part of the assets or property of any person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends of any Person or agree to do any of the foregoing, except: (a) the endorsement of instruments for collection or deposit in the ordinary course of business; (b) investments in Eligible Investments; provided, that, as to the foregoing, unless waived in writing by Lender, Borrowers shall take such actions as are deemed necessary by Lender to perfect the security interest of Lender in such investments; (c) investments in (i) 210 shares of Intermagnetics General Corporation and (ii) in subsidiaries and affiliates made prior to the date hereof, and as to Ultralife (UK) only, so long as Borrower's Cash Position remains at \$3,000,000, an additional \$200,000 per month and as to all other subsidiaries and affiliates in aggregate amount not to exceed at any time \$50,000; and (d) the loans, advances and guarantees set forth on Schedule 9.10 hereto; provided, that, as to such loans, advances and guarantees, (i) Borrowers shall not, directly or indirectly, (A) amend, modify, alter or change the terms of such loans, advances or guarantees or any agreement, document or instrument related thereto, or (B) as to such guarantees, redeem, retire, defease, purchase or otherwise acquire the obligations arising pursuant to such guarantees, or set aside or otherwise deposit or invest any sums for such purpose, and (ii) Borrowers shall furnish to Lender all notices or demands in connection with such loans, advances or guarantees or other indebtedness subject to such guarantees either received by Borrowers or on their behalf, promptly after the receipt thereof, or sent by a Borrower or on their behalf, concurrently with the sending thereof, as the case may be; and (e) loans and advances to and investments in subsidiaries and joint ventures so long as Borrowers notify Lender thereof at least ten (10) days prior to the consummation thereof and (i) the investment is on a "cash neutral" basis to the Borrowers, as defined below, or (ii) if the transaction is not cash neutral to the Borrowers and no Revolving Loans are outstanding the aggregate amount of loans, advances and investments outstanding does not exceed \$2,000,000 more than the amount thereof outstanding on the date hereof, provided that after giving effect to any such transaction, the Cash Position of the Borrowers shall equal or exceed \$3,000,000 and, provided, further, that from the time that Revolving Loans are outstanding hereunder, the foregoing \$2,000,000 limit on the amount that can be invested, advanced or loaned hereunder shall be reduced to \$200,000 per year. For purposes hereof, a transaction will be deemed to be cash neutral to Borrowers, if, after giving effect to the transaction including the receipt by Borrowers of the net proceeds of the issuance by Borrowers of equity securities (including convertible securities) or subordinated debt securities arranged in connection with the transaction, the Cash Position of the Borrowers will not decrease and will be equal to \$3,000,000 or more.

9.11 Dividends and Redemptions. Neither Borrower shall, directly or indirectly, declare or pay any dividends on account of any shares of class of capital stock of Borrowers now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other

than common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing.

9.12 Transactions with Affiliates. Neither Borrower shall, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with any Borrower, except in the ordinary course of and pursuant to the reasonable requirements of Borrower's business and upon fair and reasonable terms no less favorable to the Borrowers than Borrower would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with Borrowers except reasonable compensation to officers, employees and directors for services rendered to Borrowers in the ordinary course of business.

9.13 Additional Bank Accounts. Neither Borrower shall, directly or indirectly, open, establish or maintain any deposit account, investment account or any other account with any bank or other financial institution, other than the Blocked Accounts and the accounts set forth in Schedule 8.8 hereto, except:

(a) as to any new or additional Blocked Accounts and other such new or additional accounts which contain any Collateral or proceeds thereof, with the prior written consent of Lender and subject to such conditions thereto as Lender may establish and (b) as to any accounts used by Borrowers to make payments of payroll, taxes or other obligations to third parties, after prior written notice to Lender.

9.14 Intentionally Omitted

9.15 Adjusted Net Worth. Borrowers shall maintain Adjusted Net Worth of not less than the amounts shown below during the periods corresponding thereto:

Period -----	Amount -----
Date hereof through March 31, 2001	\$48,900,000
April 1, 2001 and thereafter	\$44,900,000

9.16 Costs and Expenses. Borrowers shall pay to Lender on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) reasonable costs and expenses and fees for insurance premiums, environmental audits, surveys, assessments, engineering reports and inspections, appraisal fees and search fees; (c) costs and expenses of remitting loan proceeds, collecting checks and other items of payment, and establishing and maintaining the Blocked Accounts, together with Lender's customary charges and fees with respect thereto; (d) charges, fees or expenses charged by any bank or issuer in connection with the Letter of Credit Accommodations; (e) costs and expenses of preserving and

protecting the Collateral; (f) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); (g) all reasonable out-of-pocket expenses and costs heretofore and from time to time hereafter incurred by Lender during the course of periodic field examinations of the Collateral and Borrowers' 's operations, plus a per diem charge at the rate of \$650.00 per person per day for Lender's examiners in the field and office; and (h) the fees and disbursements of counsel (including legal assistants) to Lender in connection with any of the foregoing. Lender agrees that with respect to field examinations of the Borrowers and Obligors, so long as an Event of Default or event or condition which with the passage of time or notice or both would constitute an Event of Default does not exist and Parent's Excess Availability plus the undrawn amount of the Term Loans under Section 2.3 hereof exceeds \$1,000,000, the aggregate annual per diem charges to Borrowers will not exceed \$13,000 for field examinations of the Parent (the field examinations of Ultralife (UK) would also be capped at such amount) plus out-of-pocket expenses and costs.

9.17 Compliance with ERISA.

(a) Borrowers shall not with respect to any "employee benefit plans" maintained by Borrowers or any of their ERISA Affiliates: (i) terminate any of such employee benefit plans so as to incur any liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA, (ii) allow or suffer to exist any prohibited transaction involving any of such employee benefit plans or any trust created thereunder which would subject a Borrower or such ERISA Affiliate to a tax or penalty or other liability on prohibited transactions imposed under Section 4975 of the Code or ERISA, (iii) fail to pay to any such employee benefit plan any contribution which it is obligated to pay under Section 302 of ERISA, Section 412 of the Code or the terms of such plan, (iv) allow or suffer to exist any accumulated funding deficiency, whether or not waived, with respect to any such employee benefit plan, (v) allow or suffer to exist any occurrence of a reportable event or any other event or condition which presents a material risk of termination by the Pension Benefit Guaranty Corporation of any such employee benefit plan that is a single employer plan, which termination could result in any liability to the Pension Benefit Guaranty Corporation or (vi) incur any withdrawal liability with respect to any multiemployer pension plan.

(b) As used in this Section 9.17, the terms "employee benefit plans", "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Section 4975 of the Code and ERISA.

9.18 Further Assurances. At the request of Lender at any time and from time to time, Borrowers shall, at their expense, duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Lender may at any time

and from time to time request a certificate from an officer of Borrowers representing that all conditions precedent to the making of Loans and providing Letter of Credit Accommodations contained herein are satisfied. In the event of such request by Lender, Lender may, at its option, cease to make any further Loans or provide any further Letter of Credit Accommodations until Lender has received such certificate and, in addition, Lender has determined that such conditions are satisfied. Where permitted by law, Borrowers hereby authorize Lender to execute and file one or more UCC financing statements signed only by Lender.

10. EVENTS OF DEFAULT AND REMEDIES

10.1 Events of Default. The occurrence or existence of any one or more of the following events are referred to herein individually as an "Event of Default", and collectively as "Events of Default":

- (a) (i) Any Borrower or any Obligor fails to pay when due any of the Obligations or (ii) any Borrower or any Obligor fails to perform any of the covenants contained in Section 9.1 (other than as to the maintenance of such Borrower's or such Obligor's existence for which no cure period shall be allowed), 9.3, 9.4, 9.5 (other than as to the maintenance of the required insurance) and 9.6 of this Agreement and such failure shall continue for fifteen (15) days; provided, that, such fifteen (15) day period shall not apply in the case of: (A) any failure to observe any such covenant which is not capable of being cured at all or within such fifteen (15) day period or which has been the subject of a prior failure within a six (6) month period or (B) an intentional breach of Borrower or any Obligor of any such covenant, or (iii) any Borrower or any Obligor fails to perform any of the terms, covenants, conditions or provisions contained in this Agreement or any of the other Financing Agreements other than those described in Sections 10.1(a)(i) and 10.1(a)(ii) above;
- (b) any representation, warranty or statement of fact made by any Borrower or any Obligor to Lender in this Agreement, the other Financing Agreements or any other agreement, schedule, confirmatory assignment or otherwise shall when made or deemed made be false or misleading in any material respect;
- (c) any Obligor revokes, terminates or fails to perform any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such party in favor of Lender;
- (d) any judgment for the payment of money is rendered against any Borrower or any Obligor in excess of \$125,000.00 in any one case or in excess of \$250,000.00 in the aggregate and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against any Borrower or any Obligor or any of their assets;
- (e) any Obligor (being a natural person or a general partner of an Obligor which is a partnership) dies or any Borrower or any Obligor, which is a partnership, limited liability company, limited liability partnership or a corporation, dissolves or suspends or discontinues doing business;

(f) any Borrower or any Obligor becomes insolvent (however defined or evidenced), makes an assignment for the benefit of creditors, makes or sends notice of a bulk transfer or calls a meeting of its creditors or principal creditors;

(g) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against any Borrower or any Obligor or all or any part of its properties and such petition or application is not dismissed within thirty

(30) days after the date of its filing or any Borrower or any Obligor shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;

(h) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by any Borrower or any Obligor or for all or any part of its property; or

(i) any default by any Borrower or any Obligor under any agreement, document or instrument relating to any indebtedness for borrowed money owing to any person other than Lender, or any capitalized lease obligations, contingent indebtedness in connection with any guarantee, letter of credit, indemnity or similar type of instrument in favor of any person other than Lender, in any case in an amount in excess of \$50,000.00, which default continues for more than the applicable cure period, if any, with respect thereto, or any default by any Borrower or any Obligor under any material contract, lease, license or other obligation to any person other than Lender, which default continues for more than the applicable cure period, if any, with respect thereto;

(j) any Change in the Control of Parent shall occur or any change in the ownership of Ultralife (UK) shall occur;

(k) the indictment of any Borrower or any Obligor under any criminal statute, or commencement of criminal or civil proceedings against any Borrower or any Obligor, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of any of the property of any Borrower or such Obligor;

(l) there shall be a material adverse change in the business, assets or prospects of any Borrower or any Obligor after the date hereof; or

(m) there shall be an event of default under any of the other Financing Agreements.

10.2 Remedies.

(a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the Uniform Commercial Code and other applicable law, all of which rights and

remedies may be exercised without notice to or consent by any Borrower or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the Uniform Commercial Code or other applicable law, are cumulative, not exclusive and enforceable, in Lender's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity for an injunction to restrain a breach or threatened breach by any Borrower of this Agreement or any of the other Financing Agreements. Lender may, at any time or times, proceed directly against any Borrower or any Obligor to collect the Obligations without prior recourse to the Collateral.

(b) Without limit to the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation, (i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (provided, that, upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h), all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require each Borrower, at Borrowers' expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender, (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with the Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Borrowers, which right or equity of redemption is hereby expressly waived and released by each Borrower and/or (vii) terminate this Agreement. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, five (5) days prior notice by Lender to Borrowers designating the time and place of any public sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and each Borrower waives any other notice. In the event Lender institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, each Borrower waives the posting of any bond which might otherwise be required.

(c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Borrowers shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for herein and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

(d) Without limiting the foregoing, upon the occurrence of an Event of Default or an event which with notice or passage of time or both would constitute an Event of Default, Lender may, at its option, without notice, (i) cease making Loans or arranging for Letter of Credit Accommodations or reduce the lending formulas or amounts of Revolving Loans, Term Loans and Letter of Credit Accommodations available to Borrowers and/or (ii) terminate any provision of this Agreement providing for any future Loans or Letter of Credit Accommodations to be made by Lender to Borrowers.

(e) Each Borrower acknowledges and agrees that each and every Event of Default described above shall be of equal weight and significance, and equally and fully shall allow Lender to exercise its rights and remedies hereunder. Each Borrower acknowledges and agrees that each such Event of Default has been a material inducement for Lender to enter into this Agreement and that Lender would be irreparably harmed if Lender, in any way, were unable to exercise its rights and remedies on the basis that certain Events of Default (for example, Events of Default not relating to payment) were of less weight or significance than certain other Events of Default (for example, Events of Default relating to payment).

11. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

11.1 Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the Commonwealth of Massachusetts (without giving effect to principles of conflicts of law).

(b) Each Borrower and Lender irrevocably consent and submit to the non-exclusive jurisdiction of the Superior Court of Suffolk County of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts and waive any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of the parties hereto in respect of this Agreement or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agree that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against any Borrower or their property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Borrower or its property).

(c) Each Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof (or, as to Ultralife (UK), as provided in (f) below) and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Lender's option, by service upon Borrowers in any other manner provided under the rules of any such courts. Within thirty (30)

days after such service, Borrowers shall appear in answer to such process, failing which Borrowers shall be deemed in default and judgment may be entered by Lender against Borrowers for the amount of the claim and other relief requested.

(d) EACH BORROWER AND LENDER EACH HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH BORROWER AND LENDER EACH HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT EACH BORROWER OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Lender shall not have any liability to Borrowers (whether in tort, contract, equity or otherwise) for losses suffered by Borrowers in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender, that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement.

(f) Ultralife (UK) hereby irrevocably appoints and designates Ultralife Batteries, Inc. with an address at 2000 Technology Parkway, Newark, NY 14513 as its agent for the acceptance of service of process hereunder. Ultralife (UK) agrees that service made to such agent in the manner provided under (c) above shall be binding on Ultralife (UK) in all respects.

11.2 Waiver of Notices. Each Borrower hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on any Borrower which Lender may elect to give shall entitle any Borrower to any other or further notice or demand in the same, similar or other circumstances.

11.3 Amendments and Waivers. Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of any Borrower. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless

such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

11.4 Waiver of Counterclaims. Each Borrower waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

11.5 Indemnification. Each Borrower shall indemnify and hold Lender, and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Borrowers shall pay the maximum portion which it is permitted to pay under applicable law to Lender in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations and the termination or non-renewal of this Agreement.

12. TERM OF AGREEMENT; MISCELLANEOUS

12.1 Term.

(a) This Agreement and the other Financing Agreements shall become effective as of the date set forth on the first page hereof and shall continue in full force and effect for a term ending on the date three (3) years from the date hereof (the "Renewal Date"), and from year to year thereafter, unless sooner terminated pursuant to the terms hereof. Lender or Borrowers may terminate this Agreement and the other Financing Agreements effective on the Renewal Date or on the anniversary of the Renewal Date in any year by giving to the other party at least sixty (60) days prior written notice; provided, that, this Agreement and all other Financing Agreements must be terminated simultaneously. Upon the effective date of termination or non-renewal of the Financing Agreements, Borrowers shall pay to Lender, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding Letter of Credit Accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender, as Lender may, in its discretion,

designate in writing to Borrowers for such purpose. Interest shall be due until and including the next business day, if the amounts so paid by Borrowers to the bank account designated by Lender are received in such bank account later than 12:00 noon, Eastern time.

(b) No termination of this Agreement or the other Financing Agreements shall relieve or discharge Borrowers of their respective duties, obligations and covenants under this Agreement or the other Financing Agreements until all Obligations have been fully and finally discharged and paid, and Lender's continuing security interest in the Collateral and the rights and remedies of Lender hereunder, under the other Financing Agreements and applicable law, shall remain in effect until all such Obligations have been fully and finally discharged and paid.

(c) If for any reason this Agreement is terminated prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof and as a result of Lender's deferral of payment of fees that would be payable at the inception and during the term of this Agreement, Borrowers agree to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

Amount Period

(i) 3% of Maximum Credit From the date hereof to and including the first anniversary of the date hereof;

(ii) 1% of Maximum Credit From the first anniversary of the date hereof to and including the second anniversary of the date hereof; and

(iii) .5% of Maximum Credit From the second anniversary of the date hereof to and including the third anniversary of the date hereof.

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Borrowers agree that it is reasonable under the circumstances currently existing. In addition, Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h) hereof, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrowers or permit the use of cash collateral under the United States Bankruptcy Code. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations.

12.2 Notices. All notices, requests and demands hereunder shall be in writing and (a) made to Lender at its address set forth below and to Borrowers at their respective chief executive offices set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission,

immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending and upon confirmation of delivery; and if by certified mail, return receipt requested, five (5) days after mailing.

12.3 Partial Invalidity. If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

12.4 Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon and inure to the benefit of and be enforceable by Lender, Borrowers, and their respective successors and assigns, except that neither Borrower may assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Lender. Lender may, after notice to Borrowers, assign its rights and delegate its obligations under this Agreement and the other Financing Agreements and further may assign, or sell participations in, all or any part of the Loans, the Letter of Credit Accommodations or any other interest herein to another financial institution or other person, in which event, the assignee or participant shall have, to the extent of such assignment or participation, the same rights and benefits as it would have if it were the Lender hereunder, except as otherwise provided by the terms of such assignment or participation.

12.5 Confidentiality.

(a) Lender shall use all reasonable efforts to keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices, any non-public information supplied to it by Borrowers pursuant to this Agreement which is clearly and conspicuously marked as confidential at the time such information is furnished by Borrowers to Lender, provided, that, nothing contained herein shall limit the disclosure of any such information: (i) to the extent required by statute, rule, regulation, subpoena or court order, (ii) to bank examiners and other regulators, auditors and/or accountants, (iii) in connection with any litigation to which Lender is a party, (iv) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) shall have first agreed in writing to treat such information as confidential in accordance with this Section 12.5, or (v) to counsel for Lender or any participant or assignee (or prospective participant or assignee).

(b) In no event shall this Section 12.5 or any other provision of this Agreement or applicable law be deemed: (i) to apply to or restrict disclosure of information that has been or is made public by Borrowers or any third party without breach of this Section 12.5 or otherwise become generally available to the public other than as a result of a disclosure in violation hereof, (ii) to apply to or restrict disclosure of information that was or becomes available to Lender on a non-confidential basis from a person other than Borrowers, (iii) require Lender to return any materials furnished by Borrowers to Lender or (iv) prevent Lender from responding to routine informational requests in accordance with the Code of Ethics for the Exchange of Credit

Information promulgated by The Robert Morris Associates or other applicable industry standards relating to the exchange of credit information. The obligations of Lender under this Section 12.5 shall supersede and replace the obligations of Lender under any confidentiality letter signed prior to the date hereof.

12.6 Judgment Currency. To the extent permitted by applicable law, the obligations of Borrowers in respect of any amount due under this Agreement shall, notwithstanding any payment in any other currency (the "Other Currency") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in United States Dollars being the currency in which it is due (the "Agreed Currency") that Lender may, in accordance with normal banking procedures, purchase with the sum paid in the Other Currency (after any premium and costs of exchange) on the business day immediately after the day on which Lender receives the payment. If the amount in the Agreed Currency that may be so purchased for any reason falls short of the amount originally due, Borrowers, as the case may be, shall pay all additional amounts, in the Agreed Currency, as may be necessary to compensate for the shortfall. Any obligations of Borrowers, as the case may be, not discharged by that payment shall, to the extent permitted by law, be due as a separate and independent obligations and, until discharged as provided in this section, continue in full force and effect.

12.7 Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Lender and Parent have caused these presents to be duly executed as of the day and year first above written.

LENDER

CONGRESS FINANCIAL CORPORATION
(NEW ENGLAND)

By: _____
Name: _____
Title: _____

Address:

One Post Office Square
Suite 3600
Boston, MA 02109

BORROWERS

ULTRALIFE BATTERIES, INC.

By: _____
Name: _____
Title: _____

Chief Executive Office:

2000 Technology Parkway
Newark, NY 14513

IN WITNESS of which this Deed has been duly executed and delivered as a Deed the day and year first above written.

Executed and Delivered as a Deed for and on behalf of
ULTRALIFE BATTERIES (UK) LIMITED,
acting by two of its directors or one director and its secretary

.....Director
.....Secretary

Chief Executive Office:

18 Nuffield Way
Abingdon, Oxfordshire, England

EXHIBIT A

INFORMATION CERTIFICATE

(SEE ATTACHED)

**EXHIBIT B
TO
LOAN AND SECURITY AGREEMENT**

BORROWING BASE CERTIFICATE

CONGRESS FINANCIAL CORPORATION (NEW ENGLAND)
("Lender")

ULTRALIFE BATTERIES, INC.
("Borrower")

Purpose of this Form

Many asset based borrowers are required to keep the dollar amount of their borrowings within a dollar total based on percentage advances against accounts receivable and inventory. This Certificate assures compliance with the terms.

Completion Instructions

The Borrowing Base Certificate should be completed by the Borrower.

- A. Enter date of information.
- B. All Certificates should be numbered in sequential order.

RECONCILIATION OF COLLATERAL BALANCE

Accounts Availability

- C. Enter date of most recent Certificate previously delivered to Lender.
 - 1. Enter dollar balance certified to Lender per previous Certificate and the date of the previous Certificate. (Dollar figure from line 5 of previous Certificate).
 - 2. Enter dollar amount of collections applied by the Borrower against accounts receivable since the date of the last Certificate.
 - 3. Enter dollar amount of other credits and adjustments applied by the Borrower against accounts receivable.

4. Enter dollar amount of any new sales by the Borrower since the date of the last Certificate.

5. Enter total of all Accounts being certified to Lender per the date of the Certificate. This is the sum of lines 1 through 4 above and is calculated as follows:

(a) Dollar balance certified to Lender per previous Certificate

minus (-)

(b) Dollar amount of collections and credits received since date of last Certificate

plus (+)

(c) Dollar amount of any new sales since the date of the last Certificate.

6. Enter dollar amount of Accounts not meeting the criteria of Eligible Accounts. Eligible Accounts are defined in the Loan and Security Agreement between Lender and the Borrower.

7. Subtract item 6 from item 5 and enter this figure.

8. Enter accounts receivable advance rate.

9. Multiply the dollar amount in item 7 by the percentage in item 8 (which is the percentage of the lending formula applicable to Eligible Accounts provided for in the Loan and Security Agreement) and enter this new dollar amount.

10. Enter Availability Reserves.

11. Subtract the Availability Reserves in item 10 from item 9 and enter Accounts Availability.

Inventory Availability

D. Enter date of most recent Inventory Report delivered to Lender

12. Enter total Value of Inventory as of the most recent Inventory Report delivered to Lender. "Value" is lower of cost or market and should be determined in the same manner as in prior certificates.

13. Enter the total Value of Inventory from the most recent Inventory Report delivered to Lender which did not meet the criteria for Eligible Inventory. Eligible Inventory is defined in the Loan and Security Agreement between Lender and the Borrower.

14. Subtract item 13 from item 12 and enter this figure.

15. Enter the inventory advance rate.

16. Multiply the dollar amount in item 14 by the percentage in item 15 (which is the percentage of the lending formula applicable to Eligible Inventory provided for in the Loan and Security Agreement) and enter this new dollar amount.

17. Enter applicable Availability Reserves, excluding reserves for Letter of Credit Accommodations relating to Inventory purchases and freight, taxes, duty and other amounts which Lender estimates must be paid in connection with delivery of Inventory to Borrower's premises.

18. Subtract the Availability Reserves in item 17 Excluding reserves for Letter of Credit Accommodations, from item 16.

19. Enter the amount of the sublimit on loans based on Inventory from the Loan and Security Agreement between Lender and Borrower.

20. Enter lesser of formula availability as set forth in item 16 or the sublimit on loans based on Inventory provided for in the Loan and Security Agreement as set forth in item 17.

Total Availability

21. Enter the sum of item 10 plus item 18.

22.

(a) Enter outstanding undrawn amounts of Letter of Credit Accommodations issued for purposes of purchasing Eligible Inventory plus the amount equal to freight, taxes, duty and other amounts which Lender estimates must be paid in connection with delivery of Inventory to Borrower's premises.

(b) Enter the inventory advance rate.

(c) Multiply items 22(a) by item 22(b) and enter this amount.

23. Enter the sum of item 21 plus item 22(c)

24. Enter the amount of the Maximum Credit from the Loan and Security Agreement, less the then outstanding principal amount of the Term Loans, if any.

25. Enter the lesser of item 23 or item 24.

RECONCILIATION OF LOAN BALANCE

26. Enter dollar figure of outstanding Loans from last Certificate.

27. List cash collections received by Borrower and remitted or to be remitted to Lender since last Certificate.

28. Enter dollar amount of Loans made by Lender and other charges payable to Lender (including adjustments for returned checks and other remittances, fees, interests, costs and expenses) since last Certificate.

29. Enter dollar amount of outstanding Revolving Loans (item 26 less item 27 plus item 28).

30. Enter outstanding amounts of Letter of Credit Accommodations.

31. Enter total outstanding Revolving Loans and Letter of Credit Accommodations. (Add items 29 and 30).

32. Subtract item 31 from 25 and enter dollar amount.

33. Name of Borrower.

34. Signature of person authorized by Borrower on the corporate borrowing resolution.

Date: _(A)_ Number: _(B)_

BORROWING BASE CERTIFICATE

Pursuant to the Loan and Security Agreement between Congress Financial Corporation (New England) ("Lender") and the undersigned ("Borrower"), and any amendments thereto (the "Loan Agreement"), Borrower hereby certifies to Lender, as of the above date, as follows:

RECONCILIATION OF COLLATERAL BALANCE

Note: Letters and numbers in the chart correspond to the instructions provided on the prior four pages.

Accounts Availability

(1) Total Accounts as of _(C)_ \$ (1)

(2) Less: Collections \$ (2)

(3)	Less: Credits and Adjustments since date of prior Certificate	\$ (3)	

(4)	Add: New sales since date of prior Certificate	\$ (4)	

(5)	Current total of all Accounts		\$ (5)

(6)	Total amount of Accounts which are not Eligible Accounts (as per Schedule I annexed hereto)		\$ (6)

(7)	Net Amount of Eligible Accounts (item 5 less item 6)		\$ (7)

(8)	Accounts Receivable Advance Rate (%)		(8)%

(9)	Availability based on Net Amount of Eligible Accounts		\$ (8)

(10) Less: Availability Reserves \$ (10)

(11) Accounts Availability \$ (11)

Inventory Availability

(12) Total Value of Inventory as of _D_ \$ (12)

(13)	Total Value of Inventory which is not Eligible Inventory (as per Schedule II annexed hereto)	\$ (13)	

(14)	Value of Eligible Inventory (item 11 less item 12)		\$ (14)

(15)	Inventory Advance Rate (%)		(15)%

(16)	Availability based on Eligible Inventory	\$ (16)	

(17)	Less: Availability Reserves	\$ (17)	

(18)	Inventory Formula Availability		\$ (18)

(19) Inventory Sublimit \$ (19)

(20) Inventory Availability (lesser of item 18 or item 19 \$ (20)

Total Availability

(21)	Total Availability based on Accounts and Inventory		\$ (21)

(22)	Plus: Availability for Letter of Credit Accommodations for the purchase of Eligible Inventory		
(a)	Amount of Letter of Credit Accommodations based on the purchase of Eligible Inventory	\$ (22a)	

(b) Inventory Advance Rate (%) (22b)%

(c) Availability for Letter of Credit Accommodations based on the purchase of Eligible Inventory \$ (22c)

(23) Availability (item 21 plus item 22(c)) \$ (23)

(24)	Maximum Credit (less the then outstanding amount of the Term Loan, if any)	\$ (24)	

(25)	Total Availability (lesser of item 23 or item 24)		\$ (25)

 RECONCILIATION OF LOAN BALANCE			
(26)	Principal amount of outstanding Loans as of the date of prior Certificate	\$ (26)	

(27)	Less: Net cash collections since date of prior Certificate	\$ (27)	

(28)	Add: Principal amount of Revolving Loans made since date of prior Certificate	\$ (28)	

(29)	Current principal amount of outstanding Revolving Loans	\$ (29)	

(30)	Current undrawn amount of outstanding Letter of Credit Accommodations	\$ (30)	

(31)	Total Revolving Loans (item 27 plus item 28)		\$ (31)

(32)	Unused availability (item 23 less item 29)		\$ (32)

As of the date of this Certificate, no Event of Default exists or has occurred and is continuing. Borrower acknowledges that the Loans by Lender to Borrower are based upon Lender's reliance on the information contained herein and all representations and warranties with respect to Accounts and Inventory in the Loan Agreement are applicable to the Accounts and Inventory included in this Certificate. The reliance by Lender on this Certificate should not be deemed to limit the right of Lender to establish or revise criteria of eligibility or Availability Reserves or otherwise limit, impair, or affect in any manner the rights of Lender under the Loan Agreement. In the event of any conflict between the determination of Lender of the amount of the Loans available to Borrower in accordance with the terms of the Loan Agreement and the determination by Borrower of such amounts, the determination of Lender shall govern. All capitalized terms used in this Certificate shall have the meaning assigned to them in the Loan Agreement.

_____(33)_____

By: _____(34)_____ Title:

SCHEDULE I
to
BORROWING BASE CERTIFICATE

(i) Accounts unpaid more than ____ days after invoice \$_____ date

(ii) Cross-Age Accounts \$_____

(iii) Concentration Accounts \$_____

(iv) Affiliate Accounts \$_____

(v) Returns, Discounts, Claims, Credits Allowances, \$_____ Taxes

(vi) Other \$_____

(vii) Other \$_____

(viii) Other \$_____

(ix) Other \$_____

(x) Other \$_____

Total Accounts which are not Eligible Accounts \$_____

SCHEDULE II
to
BORROWING BASE CERTIFICATE

(xi) Work in Process \$_____

(xii) Slow Moving \$_____

(xiii) Packaging and Supplies \$_____

(xiv) Other \$_____

(xv) Other \$_____

(xvi) Other \$_____

(xvii) Other \$_____

(xviii) Other \$_____

(xix) Other \$_____

Total Value of Inventory which is not Eligible \$_____ Inventory

**EXHIBIT C
TO
LOAN AND SECURITY AGREEMENT**

TERM PROMISSORY NOTE

\$ _____ Boston, Massachusetts _____, 2000

FOR VALUE RECEIVED, ULTRALIFE BATTERIES, INC./ULTRALIFE BATTERIES (UK); LTD., a Delaware corporation (the "Debtor"), hereby unconditionally promises to pay to the order of CONGRESS FINANCIAL CORPORATION (New England), a Massachusetts corporation (the "Payee"), at the offices of Payee at One Post Office Square, Suite 3600, Boston, Massachusetts 02109

_____, or at such other place as the Payee or any holder hereof may from time to time designate, the principal sum of _____ DOLLARS (\$ _____) in lawful money of the United States of America and in immediately available funds, in sixty (60) consecutive monthly installments (or earlier as hereinafter provided) on the first day of each month commencing _____, 200_ of which the first fifty-nine (59) installments shall each be in the amount of _____ DOLLARS (\$ _____), and the last installment shall be in the amount of the entire unpaid balance of this Note.

Debtor hereby further promises to pay interest to the order of Payee on the unpaid principal balance hereof at the Interest Rate. Such interest shall be paid in like money at said office or place from the date hereof, commencing _____, 2000 and on the first day of each month thereafter until the indebtedness evidenced by this Note is paid in full. Interest payable upon and after an Event of Default or termination or non-renewal of the Loan Agreement shall be payable upon demand.

For purposes hereof,

(a) the term "Interest Rate" shall mean, as to Prime Rate Loans, a rate of three quarters of one (.75%) percent per annum in excess of the Prime Rate, and as to Eurodollar Rate Loans, a rate of two and three quarters (2.75%) percent per annum in excess of the Adjusted Eurodollar Rate; provided, that, at Payee's option, the Interest Rate shall mean a rate of three and three quarters (3.75%) percent per annum in excess of the Prime Rate as to Prime Rate Loans and a rate of five and three quarters (5.75%) percent per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans upon and after an Event of Default or termination or non-renewal of the Loan Agreement and the Interest Rate shall be subject to further adjustment as provided in Section 3.1(e) of the Loan Agreement,

(b) the term "Prime Rate" shall mean the rate from time to time publicly announced by First Union National Bank, or its successors, at its office in Philadelphia, Pennsylvania, as its prime rate, whether or not such announced rate is the best rate available at such bank,

(c) the term "Event of Default" shall mean an Event of Default as such term is defined in the Loan Agreement, and

(d) the term "Loan Agreement" shall mean the Loan and Security Agreement, dated of even date herewith, between Debtor and Payee, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

Unless otherwise defined herein, all capitalized terms used herein shall have the meaning assigned thereto in the Loan Agreement.

The Interest Rate applicable to Prime Rate Loans payable hereunder shall increase or decrease by an amount equal to each increase or decrease, respectively, in the Prime Rate, effective on the first day of the month after any change in the Prime Rate is announced. The increase or decrease shall be based on the Prime Rate in effect on the last day of the month in which any such change occurs. Interest shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. In no event shall the interest charged hereunder exceed the maximum permitted under the laws of the Commonwealth of Massachusetts or other applicable law.

This Note is issued pursuant to the terms and provisions of the Loan Agreement to evidence the Term Loan by Payee to Debtor. This Note is secured by the Collateral described in the Loan Agreement and all notes, guarantees, security agreements and other agreements, documents and instrument now or at any time hereafter executed and/or delivered by Debtor or any other party in connection therewith (all of the foregoing, together with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, renewed, extended, restated or replaced, being collectively referred to herein as the "Financing Agreements"), and is entitled to all of the benefits and rights thereof and of the other Financing Agreements. At the time any payment is due hereunder, at its option, Payee may charge the amount thereof to any account of Debtor maintained by Payee.

If any payment of principal or interest is not made when due hereunder, or if any other Event of Default shall occur for any reason, or if the Loan Agreement shall be terminated or not renewed for any reason whatsoever, then and in any such event, in addition to all rights and remedies of Payee under the Financing Agreements, applicable law or otherwise, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively and concurrently, Payee may, at its option, declare any or all of Debtor's obligations, liabilities and indebtedness owing to Payee under the Loan Agreement and the other Financing Agreements (the "Obligations"), including, without limitation, all amounts owing under this Note, to be due and payable, whereupon the then unpaid balance hereof, together with all interest accrued thereon, shall forthwith become due and payable, together with interest accruing thereafter at the then applicable Interest Rate stated above until the indebtedness evidenced by this Note is paid in full, plus the costs and expenses of collection hereof, including, but not limited to, attorneys' fees and legal expenses.

Debtor (i) waives diligence, demand, presentment, protest and notice of any kind, (ii) agrees that it will not be necessary for Payee to first institute suit in order to enforce payment of this Note and (iii) consents to any one or more extensions or postponements of time of payment,

release, surrender or substitution of collateral security, or forbearance or other indulgence, without notice or consent. The pleading of any statute of limitations as a defense to any demand against Debtor is expressly hereby waived by Debtor. Upon any Event of Default or termination or non-renewal of the Loan Agreement, Payee shall have the right, but not the obligation to setoff against this Note all money owed by Payee to Debtor.

Payee shall not be required to resort to any Collateral for payment, but may proceed against Debtor and any guarantors or endorsers hereof in such order and manner as Payee may choose. None of the rights of Payee shall be waived or diminished by any failure or delay in the exercise thereof.

The validity, interpretation and enforcement of this Note and the other Financing Agreements and any dispute arising in connection herewith or therewith shall be governed by the internal laws of the Commonwealth of Massachusetts (without giving effect to principles of conflicts of law).

Debtor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Suffolk County of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Note or any of the other Financing Agreements or in any way connection with or related or incidental to the dealings of Debtor and Payee in respect of this Note or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Debtor and Payee or the conduct of such persons in connection with this Note or otherwise shall be heard only in the courts described above (except that Payee shall have the right to bring any action or proceeding against Debtor or its property in the courts of any other jurisdiction which Payee deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Debtor or its property).

Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to it and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Payee's option, by service upon Debtor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Payee against Debtor for the amount of the claim and other relief requested.

EACH DEBTOR WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS NOTE OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS BETWEEN DEBTOR AND PAYEE IN RESPECT OF THIS NOTE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. DEBTOR AGREES AND

CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY.

The execution and delivery of this Note has been authorized by the Board of Directors and by any necessary vote or consent of the stockholders of Debtor. Debtor hereby authorizes Payee to complete this Note in any particulars according to the terms of the loan evidenced hereby.

This Note shall be binding upon the successors and assigns of Debtor and inure to the benefit of Payee and its successors, endorsees and assigns. Whenever used herein, the term "Debtor" shall be deemed to include its successors and assigns and the term "Payee" shall be deemed to include its successors, endorsees and assigns. If any term or provision of this Note shall be held invalid, illegal or unenforceable, the validity of all other terms and provisions hereof shall in no way be affected thereby.

ATTEST: ULTRALIFE BATTERIES, INC./

ULTRALIFE BATTERIES (UK), LTD

Secretary/Assistant Secretary
[Corporate Seal]

By: _____

Title: _____

STATE OF NEW YORK

_____, ss _____,

Then appeared before me the above-named _____ and stated that he is the _____ of _____ and stated that he is fully authorized to execute this _____ for and on behalf of the said _____.

Notary Public My Commission Expires: _____

Exhibit 10.34

TERM PROMISSORY NOTE

Boston, Massachusetts

\$3,000,000 June 15, 2000

FOR VALUE RECEIVED, ULTRALIFE BATTERIES, INC., a Delaware corporation (the "Debtor"), hereby unconditionally promises to pay the order of CONGRESS FINANCIAL CORPORATION (NEW ENGLAND), a Massachusetts corporation (the "Payee"), at the offices of Payee at One Post Office Square, Suite 3600, Boston, Massachusetts 02109, or at such other place as the Payee or any holder hereof may from time to time designate, the principal sum of THREE MILLION DOLLARS (\$3,000,000) in lawful money of the United States of America and in immediately available funds, in sixty (60) consecutive monthly installments (or earlier as hereinafter provided) on the first day of each month commencing August 1, 2000 of which the first fifty-nine (59) installments shall each be in the amount of FIFTY THOUSAND DOLLARS (\$50,000.00), and the last installment shall be in the amount of the entire unpaid balance of this Note.

Debtor hereby further promises to pay interest to the order of Payee on the unpaid principal balance hereof at the Interest Rate. Such interest shall be paid in like money at said office or place from the date hereof, commencing July 1, 2000 and on the first day of each month thereafter until the indebtedness evidenced by this Note is paid in full. Interest payable upon and after an Event of Default or termination or non-renewal of the Loan Agreement shall be payable upon demand.

For purposes hereof,

(a) the term "Interest Rate" shall mean, as to Prime Rate Loans, a rate of three quarters of one (.75%) percent per annum in excess of the Prime Rate, and as to the Eurodollar Rate Loans, a rate of two and three quarters (2.75%) percent per annum in excess of the Adjusted Eurodollar Rate; provided, that, at Payee's option, the Interest Rate shall mean a rate of three and three quarters (3.75%) percent per annum in excess of the Prime Rate as to Prime Rate Loans and a rate of five and three quarters (5.75%) percent per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans upon and after an Event of Default or termination or non-renewal of the Loan Agreement and the Interest Rate shall be subject to further adjustment as provided in Section 3.1(e) of the Loan Agreement.

(b) the term "Prime Rate" shall mean the rate from time to time publicly announced by First Union National Bank, or its successors, as its prime rate, whether or not such announced rate is the best rate available at such bank.

(c) the term "Event of Default" shall mean an Event of Default as such term is defined in the Loan Agreement, and

(d) the term "Loan Agreement" shall mean the Loan and Security Agreement, dated of even date herewith, between Debtor and Payee, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

Unless otherwise defined herein, all capitalized terms used herein shall have the meaning assigned thereto in the Loan Agreement.

The Interest Rate applicable to Prime Rate Loans payable hereunder shall increase or decrease by an amount equal to each increase or decrease, respectively, in the Prime Rate, effective on the first day of the month after any change in the Prime Rate is announced. The increase or decrease shall be based on the Prime Rate in effect on the last day of the month in which any such change occurs. Interest shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. In no event shall the interest charged hereunder exceed the maximum permitted under the laws of the Commonwealth of Massachusetts or other applicable law.

This Note is issued pursuant to the terms and provisions of the Loan Agreement to evidence the Term Loan by Payee to Debtor. This Note is secured by the Collateral described in the Loan Agreement and all notes, guarantees, security agreements and other agreements, documents and instrument now or at any time hereafter executed and/or delivered by Debtor or any other party in connection therewith (all of the foregoing, together with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, renewed, extended, restated or replaced, being collectively referred to herein as the "Financing Agreements"), and is entitled to all of the benefits and rights thereof and of the other Financing Agreements. At the time any payment is due hereunder, at its option, Payee may charge the amount thereof to any account of Debtor maintained by Payee.

If any payment of principal or interest is not made when due hereunder, or if any other Event of Default shall occur for any reason, or if the Loan Agreement shall be terminated or not renewed for any reason whatsoever, then and in any such event, in addition to all rights and remedies of Payee under the Financing Agreements, applicable law or otherwise, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively and concurrently, Payee may, at its option, declare any or all of Debtor's obligations, liabilities and indebtedness owing to Payee under the Loan Agreement and the other Financing Agreements (the "Obligations"), including, without limitation, all amounts owing under this Note, to be due and payable, whereupon the then unpaid balance hereof, together with all interest accrued thereon, shall forthwith become due and payable, together with interest accruing thereafter at the then applicable Interest Rate stated above until the indebtedness evidenced by this Note is paid in full, plus the costs and expenses of collection hereof, including, but not limited to, attorneys' fees and legal expenses.

Debtor (i) waives diligence, demand, presentment, protest and notice of any kind, (ii) agrees that it will not be necessary for Payee to first institute suit in order to enforce payment of this Note and (iii) consents to any one or more extensions or postponements of time of payment, release, surrender or substitution of collateral security, or forbearance or other indulgence, without notice or consent. The pleading of any statute of limitations as a defense to any demand against Debtor is expressly hereby waived by Debtor. Upon any Event of Default or termination or non-renewal of the Loan Agreement, Payee shall have the right, but not the obligation to setoff against this Note all money owed by Payee to Debtor.

Payee shall not be required to resort to any Collateral for payment, but may proceed against Debtor and any guarantors or endorsers hereof in such order and manner as Payee may choose. None of the rights of Payee shall be waived or diminished by any failure or delay in the exercise thereof.

The validity, interpretation and enforcement of this Note and the other Financing Agreements and any dispute arising in connection herewith or therewith shall be governed by the internal laws of the Commonwealth of Massachusetts (without giving effect to principles of conflicts of law).

Debtor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Suffolk County of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Note or any of the other Financing Agreements or in any way connection with or related or incidental to the dealings of Debtor and Payee in respect of this Note or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Debtor and Payee or the conduct of such persons in connection with this Note or otherwise shall be heard only in the courts described above (except that Payee shall have the right to bring any action or proceeding against Debtor or its property in the courts of any other jurisdiction which Payee deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Debtor or its property).

Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to it and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Payee's option, by service upon Debtor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Payee against Debtor for the amount of the claim and other relief requested.

EACH DEBTOR WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS NOTE OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS BETWEEN DEBTOR AND PAYEE IN RESPECT OF THIS NOTE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. DEBTOR AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY.

The execution and delivery of this Note has been authorized by the Board of Directors and by any necessary vote or consent of the stockholders of Debtor. Debtor hereby authorizes Payee to complete this Note in any particulars according to the terms of the loan evidenced hereby.

Exhibit 10.35

TERM PROMISSORY NOTE

Boston, Massachusetts

\$1,000,000 June 15, 2000

FOR VALUE RECEIVED, ULTRALIFE BATTERIES (UK), LTD. a limited liability company organized under the law of England (the "Debtor"), hereby unconditionally promises to pay to the order of CONGRESS FINANCIAL CORPORATION (NEW ENGLAND), a Massachusetts corporation (the "Payee"), at the offices of Payee at One Post Office Square, Suite 3600, Boston, Massachusetts 02109, or at such other place as the Payee or any holder hereof may from time to time designate, the principal sum of ONE MILLION DOLLARS (\$1,000,000.00) in lawful money of the United States of America and in immediately available funds, in sixty (60) consecutive monthly installments (or earlier as hereinafter provided) on the first day of each month commencing August 1, 2000 of which the first fifty-nine (59) installments shall each be in the amount of SIXTEEN THOUSAND SIX HUNDRED AND SIXTY SIX DOLLARS AND SIXTY SEVEN CENTS (\$16,666.67), and the last installment shall be in the amount of the entire unpaid balance of this Note.

Debtor hereby further promises to pay interest to the order of Payee on the unpaid principal balance hereof at the Interest Rate. Such interest shall be paid in like money at said office or place from the date hereof, commencing July 1, 2000 and on the first day of each month thereafter until the indebtedness evidenced by this Note is paid in full. Interest payable upon and after an Event of Default or termination or non-renewal of the Loan Agreement shall be payable upon demand.

For purposes hereof,

(a) the term "Interest Rate" shall mean, as to Prime Rate Loans, a rate of three quarters of one (.75%) percent per annum in excess of the Prime Rate, and as to the Eurodollar Rate Loans, a rate of two and three quarters (2.75%) percent per annum in excess of the Adjusted Eurodollar Rate; provided, that, at Payee's option, the Interest Rate shall mean a rate of three and three quarters (3.75%) percent per annum in excess of the Prime Rate as to Prime Rate Loans and a rate of five and three quarters (5.75%) percent per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans upon and after an Event of Default or termination or non-renewal of the Loan Agreement and the Interest Rate shall be subject to further adjustment as provided in Section 3.1(e) of the Loan Agreement.

(b) the term "Prime Rate" shall mean the rate from time to time publicly announced by First Union National Bank, or its successors, as its prime rate, whether or not such announced rate is the best rate available at such bank.

(c) the term "Event of Default" shall mean an Event of Default as such term is defined in the Loan Agreement, and

(d) the term "Loan Agreement" shall mean the Loan and Security Agreement, dated of even date herewith, between Debtor and Payee, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

Unless otherwise defined herein, all capitalized terms used herein shall have the meaning assigned thereto in the Loan Agreement.

The Interest Rate applicable to Prime Rate Loans payable hereunder shall increase or decrease by an amount equal to each increase or decrease, respectively, in the Prime Rate, effective on the first day of the month after any change in the Prime Rate is announced. The increase or decrease shall be based on the Prime Rate in effect on the last day of the month in which any such change occurs. Interest shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed. In no event shall the interest charged hereunder exceed the maximum permitted under the laws of the Commonwealth of Massachusetts or other applicable law.

This Note is issued pursuant to the terms and provisions of the Loan Agreement to evidence the Term Loan by Payee to Debtor. This Note is secured by the Collateral described in the Loan Agreement and all notes, guarantees, security agreements and other agreements, documents and instrument now or at any time hereafter executed and/or delivered by Debtor or any other party in connection therewith (all of the foregoing, together with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, renewed, extended, restated or replaced, being collectively referred to herein as the "Financing Agreements"), and is entitled to all of the benefits and rights thereof and of the other Financing Agreements. At the time any payment is due hereunder, at its option, Payee may charge the amount thereof to any account of Debtor maintained by Payee.

If any payment of principal or interest is not made when due hereunder, or if any other Event of Default shall occur for any reason, or if the Loan Agreement shall be terminated or not renewed for any reason whatsoever, then and in any such event, in addition to all rights and remedies of Payee under the Financing Agreements, applicable law or otherwise, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively and concurrently, Payee may, at its option, declare any or all of Debtor's obligations, liabilities and indebtedness owing to Payee under the Loan Agreement and the other Financing Agreements (the "Obligations"), including, without limitation, all amounts owing under this Note, to be due and payable, whereupon the then unpaid balance hereof, together with all interest accrued thereon, shall forthwith become due and payable, together with interest accruing thereafter at the then applicable Interest Rate stated above until the indebtedness evidenced by this Note is paid in full, plus the costs and expenses of collection hereof, including, but not limited to, attorneys' fees and legal expenses.

Debtor (i) waives diligence, demand, presentment, protest and notice of any kind, (ii) agrees that it will not be necessary for Payee to first institute suit in order to enforce payment of this Note and (iii) consents to any one or more extensions or postponements of time of payment, release, surrender or substitution of collateral security, or forbearance or other indulgence, without notice or consent. The pleading of any statute of limitations as a defense to any demand against Debtor is expressly hereby waived by Debtor. Upon any Event of Default or termination

or non-renewal of the Loan Agreement, Payee shall have the right, but not the obligation to setoff against this Note all money owed by Payee to Debtor.

Payee shall not be required to resort to any Collateral for payment, but may proceed against Debtor and any guarantors or endorsers hereof in such order and manner as Payee may choose. None of the rights of Payee shall be waived or diminished by any failure or delay in the exercise thereof.

The validity, interpretation and enforcement of this Note and the other Financing Agreements and any dispute arising in connection herewith or therewith shall be governed by the internal laws of the Commonwealth of Massachusetts (without giving effect to principles of conflicts of law).

Debtor irrevocably consents and submits to the non-exclusive jurisdiction of the Superior Court of Suffolk County of the Commonwealth of Massachusetts and the United States District Court for the District of Massachusetts and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Note or any of the other Financing Agreements or in any way connection with or related or incidental to the dealings of Debtor and Payee in respect of this Note or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between Debtor and Payee or the conduct of such persons in connection with this Note or otherwise shall be heard only in the courts described above (except that Payee shall have the right to bring any action or proceeding against Debtor or its property in the courts of any other jurisdiction which Payee deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Debtor or its property).

Debtor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to it and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Payee's option, by service upon Debtor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Debtor shall appear in answer to such process, failing which Debtor shall be deemed in default and judgment may be entered by Payee against Debtor for the amount of the claim and other relief requested.

EACH DEBTOR WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS NOTE OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS BETWEEN DEBTOR AND PAYEE IN RESPECT OF THIS NOTE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. DEBTOR AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY.

The execution and delivery of this Note has been authorized by the Board of Directors and by any necessary vote or consent of the stockholders of Debtor. Debtor hereby authorizes Payee to complete this Note in any particulars according to the terms of the loan evidenced hereby.

This Note shall be binding upon the successors and assigns of Debtor and inure to the benefit of Payee and its successors, endorsees and assigns. Whenever used herein, the term "Debtor" shall be deemed to include its successors and assigns and the term "Payee" shall be deemed to include its successors, endorsees and assigns. If any term or provision of this Note shall be held invalid, illegal or unenforceable, the validity of all other terms and provisions hereof shall in no way be affected thereby.

ULTRALIFE BATTERIES (UK), LTD.

By: /s/ Joseph N. Barrella

Joseph N. Barrella
Title: Director

By:
Title:

The execution and delivery of this Note has been authorized by the Board of Directors and by any necessary vote or consent of the stockholders of Debtor. Debtor hereby authorizes Payee to complete this Note in any particulars according to the terms of the loan evidenced hereby.

This Note shall be binding upon the successors and assigns of Debtor and inure to the benefit of Payee and its successors, endorsees and assigns. Whenever used herein, the term "Debtor" shall be deemed to include its successors and assigns and the term "Payee" shall be deemed to include its successors, endorsees and assigns. If any term or provision of this Note shall be held invalid, illegal or unenforceable, the validity of all other terms and provisions hereof shall in no way be affected thereby.

ULTRALIFE BATTERIES (UK), LTD.

By: /s/ Colin E. Newnham

Colin E. Newnham
Title: Director

By:
Title:

Exhibit 10.36

[LOGO] Ultralife Batteries Inc.

June 14, 1999

Mr. John D. Kavazanjan
2 Buckthorn Run
Victor, New York 14565

Dear John:

I am pleased to confirm to you the key points of an offer of employment to become the President and Chief Executive Officer (CEO) of ULTRALIFE Batteries, Inc. In this position, you will be responsible for and lead all corporate activities, including day-to-day operations and financial performance. As such, you will be reporting to and accountable to the Company's Board of Directors. This letter is intended to constitute an employment agreement and shall be governed by the laws of the State of New York.

The position carries a starting salary of \$300,000.00 per annum, with a performance and salary review at the end of the first year. In no event will your salary be less than \$300,000.00 per annum for the initial three- (3) year term. Moreover, you will be granted a \$50,000 cash payment in lieu of moving expenses, to facilitate any personal arrangements you need to make in order to set the earliest possible starting date.

In addition, you will be granted five-year stock options totaling 500,000 shares of Ultralife common shares which vest over a five-year period, the price of which is the closing price of Ultralife's common stock on the starting date of your becoming an Ultralife employee at which date 50,000 options will vest. At the end of each year of employment, 20% of the remaining shares (450,000 shares or 90,000 per year) will become exercisable. All options will immediately vest in the event a "change in control" of the corporation.

In addition, it is the intention of the Board of Directors to establish a bonus plan for senior managers of the company, including you as the CEO. It is anticipated that the plan will establish eligibility and personal performance criteria that will allow for annual bonus payments ranging from 10-100% of salary, as deemed justified by the compensation committee for achievement of planned individual and corporate performance.

Mr. John Kavazanjian -2- June 14, 1999

Should your employment be terminated by the Company, except for "cause" (which shall be defined as gross negligence, willful misconduct or conviction of a felony), during the first 3 years, you will be entitled to a one-year severance payment of salary. Furthermore, any remaining options scheduled to vest at the next annual date will vest upon such termination.

Finally, and with your concurrence, we would expect you to be nominated as a director of Ultralife at the next annual shareholders meeting.

You will, of course, be eligible to participate in the benefit package granted to senior management, which benefits are detailed in Schedule A. Additionally, you shall be asked to confirm that:

- You have presented for review documents confirming your identity and authorization to work in the United States, as well as the execution of a confidentiality agreement.

John, I trust that the above details the essence of this offer of employment and reflects your discussion with Carl Rosner. We would plan to have this letter of employment, once signed by both parties, be sufficient to allow you to give notice to your current employer. Should your present employer ask you to leave sooner than you now anticipate, you are, of course, welcome to start as soon as practical.

Sincerely,

/s/ Joseph C. Abeles

Joseph C. Abeles
Acting CEO

ACCEPTED BY: */s/ John D. Kavazanjian*

John D. Kavazanjian

START DATE: 7/27/99

JCA/csa

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, 333-01200, and 333-31930.

ARTHUR ANDERSEN LLP

Rochester, New York
September 27, 2000

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 2000
PERIOD START	JUL 01 1999
PERIOD END	JUN 30 2000
CASH	5,712
SECURITIES	12,927
RECEIVABLES	3,724
ALLOWANCES	268
INVENTORY	5,682
CURRENT ASSETS	28,953
PP&E	40,349
DEPRECIATION	7,564
TOTAL ASSETS	64,460
CURRENT LIABILITIES	6,416
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	1,141
OTHER SE	53,639
TOTAL LIABILITY AND EQUITY	64,460
SALES	24,514
TOTAL REVENUES	24,514
CGS	25,512
TOTAL COSTS	25,512
OTHER EXPENSES	12,691
LOSS PROVISION	42
INTEREST EXPENSE	54
INCOME PRETAX	(10,242)
INCOME TAX	0
INCOME CONTINUING	(10,242)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(10,242)
EPS BASIC	(0.94)
EPS DILUTED	(0.94)

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