

We. Are. Power.



2005 Annual Report



ABOUT ULTRALIFE

Ultralife is a global provider of power solutions for diverse applications. The company develops, manufactures and markets a wide range of non-rechargeable batteries and rechargeable batteries, charging systems and accessories for use in military, commercial and consumer portable electronic products. Through its range of standard products and engineered solutions, Ultralife is at the forefront of providing the next generation of power systems.

Ultralife tailors its rechargeable and non-rechargeable battery designs to meet the requirements of its target markets - military equipment, medical devices, automotive Telematics, search and rescue equipment, safety and security products, and electronic components - where the company's technology adds value to the applications.

Ultralife's leading-edge technology features advantages over other available battery technologies including lighter weight, longer operating time, longer shelf life and wider operating temperature range. As a result, Ultralife differentiates itself by offering customers greater flexibility and long lasting, high-energy power sources with safety and environmental benefits. In addition to its industry-leading lithium technology, Ultralife brings process-engineering capabilities and manufacturing expertise to the delivery of a variety of cell and battery packaging configurations.

Ultralife sells its products directly to OEMs worldwide, and through a network of domestic and international agents, manufacturers' reps and value-added distributors. Customers include General Dynamics, Phillips Medical Systems, General Motors, Energizer, Kidde Safety, Lowe's, Radio Shack, and the national defense agencies of the United States, United Kingdom, Germany and Australia, among others.

Competitive Advantages

- Breadth of product range: Unmatched product offering of high-energy power solutions for targeted applications.
- Sustainable technology advantages: Ultralife is one of only three manufacturers of military and industrial-grade lithium HiRate[®] non-rechargeable cells, and the only manufacturer of the standard 9-volt lithium battery and the Thin Cell[®] battery.
- Total power solutions: Expertise in rapidly custom-designing complete battery systems and components to satisfy the most demanding power requirements.

The performance characteristics of Ultralife's batteries bring value to a variety of markets:

- *Military systems.* Ultralife works closely with prime contractors and Departments of Defense from around the world to offer a comprehensive line of safe, high-performance batteries capable of supporting a variety of military applications including: communications, thermal imaging, night vision, surveillance and chemical detection.
- *Automotive Telematics systems.* Telematics systems monitor sensors on a vehicle that detect air bag deployment, sending an emergency message to a central call center indicating the type of emergency and the exact location. Since these systems are powered by the automobile's main battery, back-up batteries are required to ensure operability in the event main power is lost.
- *Medical devices.* Portable and wearable devices must operate reliably over extended periods of time. Examples include wearable and disposable infusion pumps, heart monitors, automated external defibrillators and portable analyzers.
- *Safety and security devices* that must operate reliably over extended periods of time, often in extreme heat and cold, including 10-year smoke alarms and carbon monoxide detectors.
- *Search and rescue devices* that require high currents at extreme temperatures, including beacons and emergency location transmitters.

TO OUR SHAREHOLDERS

In many respects, 2005 proved to be a challenging year, much more challenging than we had envisioned at the beginning of the year. Nevertheless, by the end of the year we had successfully cleared the roadblocks to resume growth of our military business while making tremendous strides in further building our commercial business.

We began the year brimming with enthusiasm about prospects to widen our competitive edge in the military market having won the entire U.S. Defense Department Next Gen II Phase IV five-year award (maximum value, \$286 million) in the last days of 2004 - a landmark achievement for the company. In addition to the Next Gen II contract, we were awarded a five-year contract to supply our BA-5347 thermal weapon sight batteries (maximum value, \$15 million). The Next Gen award was the final leg of the Defense Department's strategy to migrate battery technology from lithium-sulfur dioxide to lithium-manganese dioxide. It also solidified our position as the leader in designing, building and supplying lithium-manganese dioxide batteries to some of the most demanding applications and end-users in the world.

On the heels of these successes came a series of frustrating setbacks as protests were filed by a competitive bidder against both the Next Gen II Phase IV and BA-5347 awards, effectively halting our qualification process until the protests were adjudicated. Even though both protests were eventually denied, the action delayed our qualification of these batteries until the end of the year and severely curtailed military orders while the Defense Department finalized plans to transition to the new BA-5390A with state-of-charge indication.

As a result, revenues declined sharply in 2005 to \$70.5 million compared to last year's \$98.2 million. Although the military business declined, our commercial business thrived. Revenues from our commercial business, excluding our 9-volt battery, increased by 40%. The primary reason was the number of design wins in markets where our complete solutions and design expertise add value that is unmatched in the industry. In addition

to automotive Telematics, notable applications included medical devices and portable electronics. Lower volumes caused a net loss for 2005 of \$4.3 million, or \$.30 per share, compared to net income of \$22.3 million, or \$1.48 per diluted share for 2004, including the \$21.1 million impact from the recognition of the income tax benefit. The full year net loss masks the actions we took (lowering overhead costs and further enhancing manufacturing efficiencies) during the second half of the year to restore operating breakeven at a quarterly revenue level of \$18 million, a base level of business excluding less predictable BA-5390 orders.

“By leveraging our lean overhead cost structure and improving our already strong operational capability, we are in an excellent position to generate increasing returns on incremental sales and to grow profitability.”

In our target commercial markets, we gained considerable ground in strengthening our position as a leading provider of high-energy, reliable power systems. In the course of the year, we had some notable business wins. Chief among our accomplishments was a multi-year automotive Telematics contract from General Motors Corporation and one of its joint venture partners (valued up to \$25 million) to supply back-up batteries for GM's OnStar Telematics system. With the addition of General Motors we are now supplying custom-designed batteries for three automotive manufacturers' Telematics systems.

In other commercial areas we continued to see increased design activity, as portable devices across all markets grow in popularity. We had a handful of major design wins in search and rescue and increased our market focus in promising new areas such

as RFID/tracking and homeland security. Our broad product portfolio, coupled with our comprehensive service offering, is a perfect match for complex projects customers are facing. Examples include diagnostic equipment, oxygen pumps, blood analyzers, geophysical measuring equipment and infrastructure diagnostic equipment for the oil and gas industry.

We also made progress in broadening our footprint in military markets, leveraging our experience in designing and producing high-energy batteries. For example, we made breakthrough penetrations in the German, New Zealand and Australian militaries. We also significantly enhanced our reputation for successful collaboration with U.S. military equipment manufacturers by commencing shipments of Land Warrior batteries to General Dynamics, extending our track record of successfully moving from development mode to full production volume orders. We also won a contract from Harris Corporation's RF Communications Division for the design and development of a high-capacity rechargeable lithium ion battery for use with their Falcon II multi-band handheld radio. Collectively, these achievements affirmed our position as the world leader in advanced batteries for military applications.

Completing the qualifications of our BA-5347 and the new BA-5390A, the first product qualified under the Next Gen II Phase IV award, marked a turning point for Ultralife and strongly positions us to benefit from the technology transition plans of the U.S. Defense Department. Subsequently, in early 2006, we received our first order for the BA-5390A, the only qualified battery with a state-of-charge indicator currently in production. The BA-5390A widens Ultralife's competitive advantage as it stands as the benchmark for state-of-charge indicator performance, providing soldiers with the most advanced battery technology available, and builds on the growing demand for the longer-lasting, high-energy and safe battery technology at which Ultralife excels.

During 2006, we plan to turn our attention to qualifying the four other battery types under the Next Gen II Phase IV award. Indications are strong for continued market share gains since the Defense Department has not only reaffirmed its strategy to migrate to lithium-

manganese dioxide technology but also declared that future batteries must include a state-of-charge indicator. We also intend to further mature our automotive Telematics business by designing batteries for new vehicle platforms and adding new customers as automotive manufacturers in both the U.S. and Europe continue to increase Telematics projects. We also will continue cultivating opportunities in our target commercial markets and identify additional markets and applications where our products and services offer competitive advantages.

Our goals are simple: To revitalize our BA-5390 business and grow our military market share with superior lithium-manganese dioxide technology, and continue to expand our commercial business. Financially, we have set a goal to achieve double-digit revenue growth during 2006. By leveraging our lean overhead cost structure and improving our already strong operational capability, we are in an excellent position to generate increasing returns on incremental sales and to grow profitability.

Despite the difficulties we encountered in 2005, all of the employees at Ultralife stayed focused on our shared long-term goal of strengthening our reputation for leadership in markets for high-energy power systems where we are recognized for our engineering excellence, superior technology and commitment to customer collaboration. I want to thank the management team, employees and shareholders for their steadfast loyalty throughout 2005. 2006 promises to be a much better year - a year of building on our past successes, further penetrating established markets and developing new opportunities for growth.



John D. Kavazanjian
President and Chief Executive Officer

CORPORATE & SHAREHOLDER INFORMATION

Directors

Ranjit C. Singh	Chairman of the Board, Ultralife Batteries, Inc. President and Chief Executive Officer, TechBooks, Inc.
Patricia C. Barron	Corporate Director
Anthony J. Cavanna	Chairman and Chief Executive Officer, Trex Company, Inc.
Paula H.J. Cholmondeley	Chief Executive Officer, The Sorrel Group
Daniel W. Christman	Lt. General (Ret.); Sr. Vice President for International Affairs, US Chamber of Commerce
John D. Kavazanjian	President and Chief Executive Officer, Ultralife Batteries, Inc.
Carl H. Rosner	Chairman, President and Chief Executive Officer, CardioMag Imaging, Inc.

Officers

John D. Kavazanjian	President and Chief Executive Officer
William A. Schmitz	Chief Operating Officer
Julius M. Cirin	Vice President, Corporate Marketing and Technology
Peter F. Comerford	Vice President, Administration and General Counsel
Robert W. Fishback	Vice President, Finance and Chief Financial Officer
Patrick R. Hanna Jr.	Vice President, Corporate Strategy and Business Integration
Phillip M. Meek	Vice President, Manufacturing
Nancy C. Naigle	Vice President, Sales and Marketing

Stock Listing

Ultralife common stock is listed on the NASDAQ Stock Market under the ticker symbol ULBI.

Stock Transfer Agent

American Stock Transfer
6201 Fifteenth Avenue
Brooklyn, NY 11219

Form 10-K

Upon written request, Ultralife will provide without charge a copy of Form 10-K for the fiscal year ended December 31, 2005.

Requests should be directed to:

Corporate Secretary
Ultralife Batteries, Inc.
2000 Technology Parkway
Newark, NY 14513

The 10-K is also available on Ultralife's Web site at www.ultralifebatteries.com. The most recent Certifications by the Company's Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to the Company's Form 10-K.

Trademarks

ULTRALIFE, Ultralife Polymer, Ultralife HiRate, Ultralife Thin Cell, LithiumPower, SmartCircuit, We Are Power, and The New Power Generation are registered trademarks of Ultralife Batteries, Inc.

Annual Meeting of Shareholders

Shareholders are invited to attend the Company's Annual Meeting on Thursday, June 8, 2006 at 10:30 a.m. Eastern Time. The meeting will be held in the auditorium of the Ultralife Batteries Headquarters.

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Newark, NY 14513



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