

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended July 1, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 0-27460

ULTRALIFE CORPORATION

ULTRALIFE

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

16-1387013

(I.R.S. Employer Identification No.)

2000 Technology Parkway

Newark, New York

(Address of principal executive offices)

14513

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's common stock was 15,945,777, net of 4,019,711 treasury shares, as of July 31, 2018.

ULTRALIFE CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)
(Unaudited)

| | July 1, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 20,285 | \$ 18,241 |
| Restricted Cash | 464 | 89 |
| Trade Accounts Receivable, Net of Allowance for Doubtful Accounts of \$283 and \$292, Respectively | 15,468 | 14,657 |
| Inventories, Net | 24,861 | 26,326 |
| Prepaid Expenses and Other Current Assets | 2,445 | 2,603 |
| Total Current Assets | 63,523 | 61,916 |
| Property, Equipment and Improvements, Net | 8,056 | 7,570 |
| Goodwill | 20,322 | 20,458 |
| Other Intangible Assets, Net | 6,805 | 7,085 |
| Deferred Income Taxes | 32 | 32 |
| Other Non-Current Assets | 107 | 125 |
| Total Assets | <u>\$ 98,845</u> | <u>\$ 97,186</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 6,656 | \$ 8,787 |
| Accrued Compensation and Related Benefits | 1,711 | 2,413 |
| Accrued Expenses and Other Current Liabilities | 2,347 | 2,871 |
| Income Taxes Payable | 140 | 168 |
| Total Current Liabilities | 10,854 | 14,239 |
| Deferred Income Taxes | 3,891 | 3,867 |
| Other Non-Current Liabilities | 32 | 31 |
| Total Liabilities | 14,777 | 18,137 |
| Commitments and Contingencies (Note 11) | | |
| Shareholders' Equity: | | |
| Preferred Stock – Par Value \$.10 Per Share; Authorized 1,000,000 Shares; None Issued | - | - |
| Common Stock – Par Value \$.10 Per Share; Authorized 40,000,000 Shares; Issued – 19,961,404 Shares at July 1, 2018 and 19,670,928 Shares at December 31, 2017; Outstanding – 15,941,693 Shares at July 1, 2018 and 15,651,217 Shares at December 31, 2017 | 1,996 | 1,966 |
| Capital in Excess of Par Value | 181,818 | 180,211 |
| Accumulated Deficit | (79,117) | (82,894) |
| Accumulated Other Comprehensive Loss | (2,036) | (1,611) |
| Treasury Stock - At Cost; 4,019,711 Shares | (18,469) | (18,469) |
| Total Ultralife Corporation Equity | 84,192 | 79,203 |
| Non-Controlling Interest | (124) | (154) |
| Total Shareholders' Equity | 84,068 | 79,049 |
| Total Liabilities and Shareholders' Equity | <u>\$ 98,845</u> | <u>\$ 97,186</u> |

The accompanying notes are an integral part of these consolidated financial statements.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Thousands except per share amounts)
(unaudited)

| | Three month periods ended | | Six month periods ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Revenues | \$ 22,864 | \$ 19,939 | \$ 45,933 | \$ 41,974 |
| Cost of products sold | 16,314 | 13,718 | 32,101 | 28,863 |
| Gross profit | 6,550 | 6,221 | 13,832 | 13,111 |
| Operating expenses: | | | | |
| Research and development | 1,218 | 1,185 | 2,318 | 2,323 |
| Selling, general and administrative | 3,700 | 3,714 | 7,526 | 7,625 |
| Total operating expenses | 4,918 | 4,899 | 9,844 | 9,948 |
| Operating income | 1,632 | 1,322 | 3,988 | 3,163 |
| Other expense (income): | | | | |
| Interest and financing expense | 21 | 41 | 54 | 109 |
| Miscellaneous | (107) | 8 | (6) | 33 |
| Income before income tax provision | 1,718 | 1,273 | 3,940 | 3,021 |
| Income tax provision | 78 | 179 | 133 | 266 |
| Net income | 1,640 | 1,094 | 3,807 | 2,755 |
| Net income attributable to non-controlling interest | 13 | - | 30 | 6 |
| Net income attributable to Ultralife Corporation | 1,627 | 1,094 | 3,777 | 2,749 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (1,177) | 494 | (425) | 753 |
| Comprehensive income attributable to Ultralife Corporation | \$ 450 | \$ 1,588 | \$ 3,352 | \$ 3,502 |
| Net income per share attributable to Ultralife common shareholders – basic | \$.10 | \$.07 | \$.24 | \$.18 |
| Net income per share attributable to Ultralife common shareholders – diluted | \$.10 | \$.07 | \$.23 | \$.17 |
| Weighted average shares outstanding – basic | 15,922 | 15,510 | 15,813 | 15,461 |
| Potential common shares | 598 | 340 | 541 | 291 |
| Weighted average shares outstanding - diluted | 16,520 | 15,850 | 16,354 | 15,752 |

The accompanying notes are an integral part of these consolidated financial statements.

ULTRALIFE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

| | Six Month Periods Ended | |
|---|--------------------------------|-------------------------|
| | July 1, 2018 | July 2, 2017 |
| OPERATING ACTIVITIES: | | |
| Net Income | \$ 3,807 | \$ 2,755 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Depreciation | 980 | 1,010 |
| Amortization of Intangible Assets | 203 | 209 |
| Amortization of Financing Fees | 18 | 33 |
| Stock-Based Compensation | 344 | 396 |
| Deferred Income Taxes | 36 | 79 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (872) | (274) |
| Inventories | 1,338 | (904) |
| Prepaid Expenses and Other Assets | 141 | 246 |
| Accounts Payable and Other Liabilities | (4,177) | 478 |
| Net Cash Provided By Operating Activities | <u>1,818</u> | <u>4,028</u> |
| INVESTING ACTIVITIES: | | |
| Purchases of Property, Equipment and Improvements | (999) | (836) |
| Net Cash Used In Investing Activities | <u>(999)</u> | <u>(836)</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from Stock Option Exercise | 1,293 | 989 |
| Proceeds from Government Grant | 397 | - |
| Net Cash Provided By Financing Activities | <u>1,690</u> | <u>989</u> |
| Effect of Exchange Rate Changes on Cash | (90) | 123 |
| INCREASE IN CASH | 2,419 | 4,304 |
| Cash, Beginning of Period | 18,330 | 10,629 |
| Cash, End of Period | <u>\$ 20,749</u> | <u>\$ 14,933</u> |

The accompanying notes are an integral part of these consolidated financial statements.

ULTRALIFE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands – except share and per share amounts)
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements of Ultralife Corporation (the “Company”) and its subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the Consolidated Financial Statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the Consolidated Financial Statements and related notes thereto contained in our Form 10-K for the year ended December 31, 2017.

The December 31, 2017 consolidated balance sheet data referenced herein was derived from audited financial statements, but does not include all disclosures required by GAAP.

Our monthly closing schedule is a 4/4/5 weekly-based cycle for each fiscal quarter, as opposed to a calendar month-based cycle for each fiscal quarter. While the actual dates for the quarter-ends will change slightly each year, we believe that there are not any material differences when making quarterly comparisons.

2. REVENUES

Effective January 1, 2018, the Company adopted Accounting Standards Update 2014-09 (Topic 606) “Revenue from Contracts with Customers”. Adoption of Topic 606 did not impact the timing of revenue recognition in our Consolidated Financial Statements for the current or prior interim or annual periods. Accordingly, no adjustments have been made to opening retained earnings or prior period amounts.

Revenue Recognition

Revenues are generated from the sale of products. Performance obligations are met and revenue is recognized upon transfer of control to the customer, which is generally upon shipment. When contract terms require transfer of control upon delivery at a customer’s location, revenue is recognized on the date of delivery. Revenue is measured as the amount of consideration we expect to receive in exchange for shipped product. Sales, value add and other taxes billed and collected from customers are excluded from revenue. Customers, including distributors, do not have a general right of return. For products shipped under vendor managed inventory arrangements, revenue is recognized and billed when the product is consumed by the customer, at which point control has transferred and there are no further obligations by the Company.

Revenues recognized from prior period performance obligations for the three and six months ended July 1, 2018 were not material.

As of July 1, 2018, the Company had no unsatisfied performance obligations for contracts with an original expected duration of greater than one year. Pursuant to Topic 606, we have applied the practical expedient with respect to disclosure of the deferral and future expected timing of revenue recognition for transaction price allocated to remaining performance obligations.

Deferred revenue, unbilled revenue and deferred contract costs recorded on our Consolidated Balance Sheets as of July 1, 2018 and December 31, 2017 were not material.

Accounts Receivable

We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. Payment terms are generally 30 days. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. We evaluate the adequacy of our allowance for doubtful accounts quarterly. Accounts outstanding for longer than contractual payment terms are considered past due and are reviewed for collectability. We maintain reserves for potential credit losses based upon our historical experience and the aging of specific receivables. Receivable balances are written off when collection is deemed unlikely.

Sales Commissions

Sales commissions are expensed as incurred for contracts with an expected duration of one year or less. There were no sales commissions capitalized as of July 1, 2018.

Shipping and Handling Costs

Costs incurred by us related to shipping and handling are included in cost of products sold. Amounts charged to customers pertaining to these costs are reflected as revenue.

Product Warranties

We generally offer warranties against product defects. Costs incurred to service warranty claims are recorded as costs of products sold. We provide for potential warranty costs based on historical experience. Provision for warranty costs is recorded in other current liabilities and other long-term liabilities as applicable on our Consolidated Balance Sheets. The Company does not offer separate service-type warranties on its products.

See Note 12 for disaggregated revenue information.

3. CASH

The Company had cash and restricted cash totaling \$20,749 and \$18,330 as of July 1, 2018 and December 31, 2017, respectively.

| | July 1, 2018 | December 31, 2017 |
|-----------------|-------------------------|------------------------------|
| Cash | \$ 20,285 | \$ 18,241 |
| Restricted Cash | 464 | 89 |
| Total | \$ 20,749 | \$ 18,330 |

Restricted cash at July 1, 2018 consists of a government grant awarded in the People's Republic of China to fund specified technological research and development expenditures. The grant proceeds will be realized to income as a direct offset to expense as the expenditures are incurred. No expenditures have been incurred or proceeds realized with respect to the grant as of July 1, 2018. Restricted cash also includes deposits withheld by the Dutch tax authorities and third party VAT representatives in connection with a previously utilized logistics arrangement in the Netherlands. Restricted cash is included as a component of the cash balance for purposes of the statement of cash flows.

4. INVENTORIES

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

| | July 1, 2018 | December 31, 2017 |
|-----------------|------------------|----------------------|
| Raw Materials | \$ 13,739 | \$ 14,606 |
| Work In Process | 2,337 | 2,013 |
| Finished Goods | 8,785 | 9,707 |
| Total | <u>\$ 24,861</u> | <u>\$ 26,326</u> |

5. PROPERTY, EQUIPMENT AND IMPROVEMENTS

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

| | July 1, 2018 | December 31, 2017 |
|---|-----------------|----------------------|
| Land | \$ 123 | \$ 123 |
| Buildings and Leasehold Improvements | 7,858 | 7,858 |
| Machinery and Equipment | 51,121 | 50,852 |
| Furniture and Fixtures | 1,997 | 2,005 |
| Computer Hardware and Software | 5,461 | 5,338 |
| Construction In Process | 1,550 | 535 |
| | <u>68,110</u> | <u>66,711</u> |
| Less: Accumulated Depreciation | (60,054) | (59,141) |
| Property, Equipment and Improvements, Net | <u>\$ 8,056</u> | <u>\$ 7,570</u> |

Depreciation expense for property, equipment and improvements was as follows:

| | Three-month periods ended | | Six-month periods ended | |
|----------------------|---------------------------|-----------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Depreciation expense | \$ 496 | \$ 507 | \$ 980 | \$ 1,010 |

6. GOODWILL, INTANGIBLE ASSETS AND LONG TERM ASSETS

a. Goodwill

The following table summarizes the goodwill activity by segment for the six-month periods ended July 1, 2018 and July 2, 2017:

| | Battery & Energy Products | Communi- cations Systems | Total |
|--|---------------------------------|--------------------------------|------------------|
| Balance - December 31, 2016 | \$ 8,472 | \$ 11,493 | \$ 19,965 |
| Effect of Foreign Currency Translation | 258 | - | 258 |
| Balance - July 2, 2017 | 8,730 | 11,493 | 20,223 |
| Effect of Foreign Currency Translation | 235 | - | 235 |
| Balance - December 31, 2017 | 8,965 | 11,493 | 20,458 |
| Effect of Foreign Currency Translation | (136) | - | (136) |
| Balance - July 1, 2018 | <u>\$ 8,829</u> | <u>\$ 11,493</u> | <u>\$ 20,322</u> |

b. Other Intangible Assets

The composition of other intangible assets was:

| | at July 1, 2018 | | |
|-------------------------------|------------------------|-------------------------------------|-----------------|
| | Cost | Accumulated Amortization | Net |
| Trademarks | \$ 3,410 | \$ - | \$ 3,410 |
| Customer Relationships | 6,555 | 4,305 | 2,250 |
| Patents and Technology | 5,520 | 4,662 | 858 |
| Distributor Relationships | 377 | 377 | - |
| Trade Name | 383 | 96 | 287 |
| Total Other Intangible Assets | <u>\$ 16,245</u> | <u>\$ 9,440</u> | <u>\$ 6,805</u> |

| | at December 31, 2017 | | |
|-------------------------------|-----------------------------|-------------------------------------|-----------------|
| | Cost | Accumulated Amortization | Net |
| Trademarks | \$ 3,411 | \$ - | \$ 3,411 |
| Customer Relationships | 6,618 | 4,208 | 2,410 |
| Patents and Technology | 5,545 | 4,595 | 950 |
| Distributor Relationships | 377 | 377 | - |
| Trade Name | 393 | 79 | 314 |
| Total Other Intangible Assets | <u>\$ 16,344</u> | <u>\$ 9,259</u> | <u>\$ 7,085</u> |

Amortization expense for intangible assets was as follows:

| | Three-month periods ended | | Six-month periods ended | |
|-------------------------------------|----------------------------------|-------------------------|--------------------------------|-------------------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Amortization included in: | | | | |
| Research and development | \$ 37 | \$ 41 | \$ 75 | \$ 81 |
| Selling, general and administrative | 64 | 63 | 128 | 128 |
| Total amortization expense | <u>\$ 101</u> | <u>\$ 104</u> | <u>\$ 203</u> | <u>\$ 209</u> |

The decrease in the cost value of total other intangible assets from December 31, 2017 to July 1, 2018 of \$99 is the result of the effect of foreign currency translations.

7. REVOLVING CREDIT AGREEMENT

Credit Facilities

On May 31, 2017, Ultralife Corporation entered into a Credit and Security Agreement (the “Credit Agreement”) and related security agreements with KeyBank National Association (“KeyBank” or the “Bank”) to establish a \$30,000 senior secured, cash flow-based, revolving credit facility that includes a \$1,500 letter of credit subfacility (the “Credit Facility”). The Credit Agreement provides that the Credit Facility may be increased with the Bank’s concurrence to \$50,000 prior to the last six months of the term and is scheduled to expire on May 30, 2020. The Credit Facility replaces the Company’s asset-based revolving credit facility with PNC Bank National Association which expired in accordance with its terms on May 24, 2017 (the “Prior Credit Agreement”).

The Credit Facility provides the Company with an aggregate of up to \$30,000 of loan and letter of credit availability determined based on a borrowing base formula. The Company may use advances under the Credit Facility for general working capital purposes, to reimburse drawings under letters of credit and to fund capital expenditures and acquisitions, all subject to the terms of the Credit Agreement. The Company had no amounts drawn under the Prior Credit Agreement at the time of its expiration and has not borrowed under the Credit Facility.

Interest will accrue on outstanding indebtedness under the Credit Agreement at the Overnight LIBOR Rate plus the applicable margin, or at the Base Rate plus the applicable margin, as selected by the Company. During the period beginning May 31, 2017 and ending April 1, 2018, the applicable margin for Overnight LIBOR Loans is 185 basis points, the applicable margin for Base Rate Loans is negative 50 basis points and applicable margin for the Unused Fee is 20 basis points. Beginning April 2, 2018 and thereafter, the applicable margins will be determined based on the chart below.

| Consolidated Senior Leverage Ratio | Applicable Basis Points for Overnight LIBOR Loans | Applicable Basis Points for Base Rate Loans | Applicable Basis Points for Unused Fee |
|--|---|---|--|
| Less than 1.50 to 1.00 | 185 | (50) | 20 |
| Greater than or equal to 1.50 to 1.00 but less than 2.50 to 1.00 | 200 | (25) | 15 |
| Greater than or equal to 2.50 to 1.00 | 215 | 0 | 10 |

The Company must pay a fee on its unused availability equal to the applicable margin for the Unused Fee and customary letter of credit fees.

In addition to the affirmative and negative covenants, the Company must maintain a fixed charge coverage ratio of 1.15 to 1.0, tested each fiscal quarter for the trailing four fiscal quarters, and a minimum tangible net worth of \$40,000, tested as of the end of each calendar year. The Company was in full compliance with its covenants as of July 1, 2018.

Any outstanding borrowings must be repaid upon expiration of the term of the Credit Facility. Payments must be made during the term to the extent outstanding borrowings exceed the maximum amount then permitted to be drawn as borrowings under the Credit Facility and from the proceeds of certain transactions. Upon the occurrence of an event of default, the outstanding obligations of the Company under the Credit Facility may be accelerated in addition to the other remedies available to the Bank under the terms of the Credit Agreement. The Credit Facility is secured by substantially all the assets of the Company.

As of July 1, 2018, we had no outstanding balance under the Credit Facility and no outstanding letters of credit related to the Credit Facility.

8. SHAREHOLDERS' EQUITY

We recorded non-cash stock compensation expense in each period as follows:

| | Three-month periods ended | | Six-month periods ended | |
|-------------------------|---------------------------|-----------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Stock Options | \$ 186 | \$ 352 | \$ 309 | \$ 388 |
| Restricted Stock Grants | 19 | 4 | 35 | 8 |
| Total | \$ 205 | \$ 356 | \$ 344 | \$ 396 |

We have stock options outstanding from various stock-based employee compensation plans for which we record compensation cost relating to share-based payment transactions in our financial statements. As of July 1, 2018, there was \$844 of total unrecognized compensation cost related to outstanding stock options, which is expected to be recognized over a weighted average period of 1.4 years.

The following table summarizes stock option activity for the six-month period ended July 1, 2018:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value |
|---|---------------------|--|---|---------------------------------|
| Outstanding at January 1, 2018 | 1,860,211 | \$ 6.10 | | |
| Granted | 216,500 | 9.68 | | |
| Exercised | (290,476) | 4.56 | | |
| Forfeited or Expired | (116,199) | 11.53 | | |
| Outstanding at July 1, 2018 | <u>1,670,036</u> | \$ 6.45 | 3.86 | \$ 5,886 |
| Vested and Expected to Vest at July 1, 2018 | <u>1,563,589</u> | \$ 6.43 | 3.72 | \$ 5,584 |
| Exercisable at July 1, 2018 | <u>981,556</u> | \$ 4.86 | 3.02 | \$ 4,648 |

The following assumptions were used to value stock options granted during the six months ended July 1, 2018:

| | |
|--|------|
| Risk-Free Interest Rate | 2.6% |
| Volatility Factor | 47% |
| Weighted Average Expected Life (Years) | 5 |
| Dividends | 0.0% |

The weighted average grant date fair value of options granted during the six months ended July 1, 2018 was \$4.22.

On July 25, 2018, the Company's Board of Directors, at the recommendation of the Compensation and Management Committee and pursuant to the Company's Amended and Restated 2004 Long-Term Incentive Plan, modified the option previously granted to the Company's President and Chief Executive Officer to purchase an aggregate 200,000 shares of the Company's common stock at \$10.00, such that the option will vest immediately upon the Company's common stock first reaching a closing price \$10.00 for 15 trading days in a 30 trading-day period. The option expires December 30, 2020. The transaction will be accounted for as an equity award modification pursuant to Accounting Standards Codification Topic 718, Compensation – Stock Compensation. The Company will recognize for the third quarter 2018 compensation cost of approximately \$182, representing the incremental fair value of the modified award computed as of the modification date as the difference between the fair value of the modified award and the fair value of the original award immediately before it was modified. The incremental fair value was determined using a Monte Carlo simulation option-pricing model consistent with the valuation methodology used to value and recognize the original award.

FASB's guidance for share-based payments requires cash flows from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised stock options in excess of the deferred tax asset attributable to stock compensation costs for such stock options. We did not record any excess tax benefits in the first six months of 2018 or 2017.

Cash received from stock option exercises under our stock-based compensation plans for the three-month periods ended July 1, 2018 and July 2, 2017 was \$354 and \$248, respectively. Cash received from stock option exercises under our stock-based compensation plans for the six-month periods ended July 1, 2018 and July 2, 2017 was \$1,293 and \$989, respectively.

In January 2018, 17,500 shares of restricted stock were awarded to certain of our employees. These shares vest in equal annual installments over three years. The weighted average grant date fair value of these awards was \$7.16 per share. Unrecognized compensation cost related to these restricted shares was \$91 at July 1, 2018.

9. INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) elimination of the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) changing rules related to usage and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; (4) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries for tax years beginning after December 31, 2017; and (5) implementing a territorial tax system and imposing a transition toll tax on deemed repatriated earnings of foreign subsidiaries.

The Act provided for a one-time deemed mandatory repatriation for post-1986 undistributed foreign subsidiary earnings and profits ("E&P") through the year ended December 31, 2017. The Company had a deficit in foreign E&P and is not expected to be subject to the deemed mandatory repatriation.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. At July 1, 2018, the amounts recorded for the Tax Act remain provisional for the transition tax, the remeasurement of deferred taxes, and our reassessment of permanently reinvested earnings, uncertain tax positions and valuation allowances. These estimates may be impacted by further analysis and future clarification and guidance regarding available tax accounting methods and elections, earnings and profits computations, state tax conformity to federal tax changes and the impact of the Global Intangible Low-Taxed Income ("GILTI") provisions. At July 2018, we were not able to reasonably estimate, and therefore have not recorded, deferred taxes for the GILTI provisions. We have not yet determined our policy election with respect to whether to record deferred taxes for basis differences expected to reverse as a result of the GILTI provisions in future periods or use the period cost method.

For the three-month periods ended July 1, 2018 and July 2, 2017, we recognized \$78 and \$179, respectively, in income tax expense. For the six-month periods ended July 1, 2018 and July 2, 2017, we recognized \$133 and \$266, respectively, in income tax expense. These are detailed as follows:

| | Three-month periods ended | | Six-month periods ended | |
|--------------------------------------|---------------------------|-----------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Current Income Tax Provision: | | | | |
| Foreign | \$ 57 | \$ 130 | \$ 89 | \$ 151 |
| Federal | 0 | 6 | 0 | 28 |
| State | 4 | 3 | 8 | 8 |
| Deferred Income Tax Provision | 17 | 40 | 36 | 79 |
| Total | \$ 78 | \$ 179 | \$ 133 | \$ 266 |

The deferred income tax benefit for 2018 represents the increase in the taxable temporary difference related to goodwill and certain other indefinite-lived intangible assets of the U.S. operations that cannot be predicted to reverse for book purposes during our loss carryforward periods, partially offset by the amortization of certain intangible assets of Accutronics (U.K.). The deferred income tax provision for 2017 reflects the higher previously-enacted U.S. corporate tax rate. The current income tax provisions for 2018 and 2017 are primarily due to the income generated by our foreign operations during the respective periods.

Our effective consolidated tax rates for the six-month periods ended July 1, 2018 and July 2, 2017 were:

| | Six-Month Periods Ended | |
|-----------------------------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 |
| Income Before Income Taxes | \$ 3,940 | \$ 3,021 |
| Income Tax Provision | 133 | 266 |
| Effective Income Tax Rate | 3.4% | 8.8% |

In 2018 and 2017, in the U.S. and for certain past operations in the U.K., we recognize a valuation allowance for our net operating loss carryforwards and other deferred tax assets that cannot be offset by reversing temporary differences. The recognition of the valuation allowance is based on an assessment of all available evidence, both positive and negative, weighted based on objective verifiability. The assessment of the realizability of the U.S. deferred tax assets was based on a number of factors including our history of operating losses, our historical operating volatility, our historical inability to accurately forecast earnings for future periods and the continued uncertainty of the general business climate. The use of our U.K. net operating loss carryforwards may be limited due to the change in the past U.K. operation. Based on our assessment of all available evidence and its weighting based on objective verifiability, we concluded that the realizability of these deferred tax assets is not more likely than not at July 1, 2018. In both 2018 and 2017, we have not recognized a valuation allowance against our other foreign deferred tax assets as we believe that it is more likely than not that they will be realized. We will continue to evaluate the realizability of our deferred tax assets in future periods.

As of December 31, 2017, we have domestic and foreign net operating losses (“NOL”) totaling approximately \$69,594 and \$12,760, respectively, and domestic tax credits of approximately \$1,837, available to reduce future taxable income. Included in our NOL carryforwards are foreign loss carryforwards of approximately \$12,760, nearly all of which can be carried forward indefinitely. The domestic NOL carryforward of \$69,594 expires beginning in 2019 through 2034.

As of July 1, 2018, the Company maintains its assertion that all foreign earnings will be indefinitely reinvested in those operations.

There were no unrecognized tax benefits related to uncertain tax positions at July 1, 2018 and December 31, 2017.

As a result of our operations, we file income tax returns in various jurisdictions including U.S. federal, U.S. state and foreign jurisdictions. We are routinely subject to examination by taxing authorities in these various jurisdictions. Our U.S. tax matters for the years 2002 through 2017 remain subject to examination by the Internal Revenue Service (“IRS”) and various state and local tax jurisdictions due to our NOL carryforwards. Our tax matters for the years 2009 through 2017 remain subject to examination by the respective foreign tax jurisdiction authorities.

10. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing earnings attributable to the Company’s common shareholders by the weighted-average shares outstanding during the period. Diluted EPS includes the dilutive effect of securities, if any, and is calculated using the treasury stock method. For the three-month period ended July 1, 2018, 1,268,286 stock options and 17,500 restricted stock awards were included in the calculation of Diluted EPS as such securities are dilutive. Inclusion of these securities resulted in 598,061 additional shares in the calculation of fully diluted earnings per share. For the comparable three-month period ended July 2, 2017, 1,055,097 stock options and 13,400 restricted stock awards were included in the calculation of Diluted EPS resulting in 339,705 additional shares in the calculation of fully diluted earnings per share. For the six-month periods ended July 1, 2018 and July 2, 2017, 1,254,286 and 1,055,097 stock options and 17,500 and 13,400 restricted stock awards, respectively, were included in the calculation of Diluted EPS as such securities are dilutive. Inclusion of these securities resulted in 540,836 and 291,062 additional shares, respectively, in the calculation of fully diluted earnings per share.

There were 401,750 and 1,060,916 outstanding stock options for the three-month periods ended July 1, 2018 and July 2, 2017, respectively, which were not included in EPS as the effect would be anti-dilutive. There were 415,750 and 1,060,916 outstanding stock options for the six-month periods ended July 1, 2018 and July 2, 2017, respectively, which were not included in EPS as the effect would be anti-dilutive.

11. COMMITMENTS AND CONTINGENCIES

a. Purchase Commitments

As of July 1, 2018, we have made commitments to purchase approximately \$2,381 of production machinery and equipment.

b. Product Warranties

We estimate future costs associated with expected product failure rates, material usage and service costs in the development of our warranty obligations. Warranty reserves are based on historical experience of warranty claims and generally will be estimated as a percentage of sales over the warranty period. In the event the actual results of these items differ from the estimates, an adjustment to the warranty obligation would be recorded. Changes in our product warranty liability during the first six months of 2018 and 2017 were as follows:

| | Six-Month Periods Ended | |
|--|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 |
| Accrued Warranty Obligations – Beginning | \$ 149 | \$ 172 |
| Accruals for Warranties Issued | 7 | 29 |
| Settlements Made | (5) | (38) |
| Accrued Warranty Obligations – Ending | <u>\$ 151</u> | <u>\$ 163</u> |

c. Contingencies and Legal Matters

We are subject to legal proceedings and claims that arise from time to time in the normal course of business. We believe that the final disposition of such matters will not have a material adverse effect on our financial position, results of operations or cash flows.

Dreamliner Litigation

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines was damaged by fire while parked at London Heathrow Airport. Following an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, a final report was issued by the Air Accidents Investigative Branch – UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane’s emergency locator transmitter (“ELT”) manufactured and installed by another company. A component of the ELT is a battery pack which incorporates Ultralife’s industry-standard lithium manganese dioxide non-rechargeable D-cell, which Ultralife has produced since 2001, with wide-use in global defense and commercial applications.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire, which was filed by Ethiopian Airlines Enterprise in the Commercial Court, Queen’s Bench Division of the High Court of Justice, London. We immediately referred this matter to our insurers.

This lawsuit has now been resolved (February 2018), the claimant has terminated the action against the Company, and the Court has acknowledged and consented to this termination. The matter was terminated without financial consequences to the Company.

12. BUSINESS SEGMENT INFORMATION

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: lithium 9-volt, cylindrical and other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as corporate charges.

The components of segment performance were as follows:

Three-Month Period Ended July 1, 2018:

| | Battery & Energy Products | Communi- cations Systems | Corporate | Total |
|--|--|---|------------------|--------------|
| Revenues | \$ 17,831 | \$ 5,033 | \$ - | \$ 22,864 |
| Segment Contribution | 4,926 | 1,624 | (4,918) | 1,632 |
| Interest, Financing and Miscellaneous Income, Net | | | 86 | 86 |
| Tax Provision | | | (78) | (78) |
| Non-Controlling Interest | | | (13) | (13) |
| Net Income Attributable to Ultralife | | | | \$ 1,627 |

Three-Month Period Ended July 2, 2017:

| | Battery & Energy Products | Communi- cations Systems | Corporate | Total |
|---|--|---|------------------|--------------|
| Revenues | \$ 16,880 | \$ 3,059 | \$ - | \$ 19,939 |
| Segment Contribution | 4,741 | 1,480 | (4,899) | 1,322 |
| Interest, Financing and Miscellaneous Expense, Net | | | (49) | (49) |
| Tax Provision | | | (179) | (179) |
| Non-Controlling Interest | | | - | - |
| Net Income Attributable to Ultralife | | | | \$ 1,094 |

Six-Month Period Ended July 1, 2018:

| | Battery & Energy Products | Communi- cations Systems | Corporate | Total |
|---|--|---|------------------|--------------|
| Revenues | \$ 35,055 | \$ 10,878 | \$ - | \$ 45,933 |
| Segment Contribution | 9,962 | 3,870 | (9,844) | 3,988 |
| Interest, Financing and Miscellaneous Expense, Net | | | (48) | (48) |
| Tax Provision | | | (133) | (133) |
| Non-Controlling Interest | | | (30) | (30) |
| Net Income Attributable to Ultralife | | | | \$ 3,777 |

Six-Month Period Ended July 2, 2017:

| | Battery & Energy Products | Communi- cations Systems | Corporate | Total |
|---|--|---|------------------|--------------|
| Revenues | \$ 34,359 | \$ 7,615 | \$ - | \$ 41,974 |
| Segment Contribution | 9,671 | 3,440 | (9,948) | 3,163 |
| Interest, Financing and Miscellaneous Expense, Net | | | (142) | (142) |
| Tax Provision | | | (266) | (266) |
| Non-Controlling Interest | | | (6) | (6) |
| Net Income Attributable to Ultralife | | | \$ | \$ 2,749 |

The following tables disaggregate our business segment revenues by major source and geography.

Commercial and Government/Defense Revenue Information:

Three-Month Period Ended July 1, 2018:

| | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$ 17,831 | \$ 10,254 | \$ 7,577 |
| Communications Systems | 5,033 | - | 5,033 |
| Total | \$ 22,864 | \$ 10,254 | \$ 12,610 |
| | | 45% | 55% |

Three-Month Period Ended July 2, 2017:

| | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$ 16,880 | \$ 10,818 | \$ 6,062 |
| Communications Systems | 3,059 | - | 3,059 |
| Total | \$ 19,939 | \$ 10,818 | \$ 9,121 |
| | | 54% | 46% |

Six-Month Period Ended July 1, 2018:

| | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$ 35,055 | \$ 19,880 | \$ 15,175 |
| Communications Systems | 10,878 | - | 10,878 |
| Total | \$ 45,933 | \$ 19,880 | \$ 26,053 |
| | | 43% | 57% |

Six-Month Period Ended July 2, 2017:

| | Total Revenue | Commercial | Government/ Defense |
|---------------------------|--------------------------|-------------------|--------------------------------|
| Battery & Energy Products | \$ 34,359 | \$ 20,170 | \$ 14,189 |
| Communications Systems | 7,615 | - | 7,615 |
| Total | \$ 41,974 | \$ 20,170 | \$ 21,804 |
| | | 48% | 52% |

U.S. and Non-U.S. Revenue Information¹:

Three-Month Period Ended July 1, 2018:

| | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$ 17,831 | \$ 10,647 | \$ 7,184 |
| Communications Systems | 5,033 | 5,033 | - |
| Total | \$ 22,864 | \$ 15,680 | \$ 7,184 |
| | | 69% | 31% |

Three-Month Period Ended July 2, 2017:

| | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$ 16,880 | \$ 7,248 | \$ 9,632 |
| Communications Systems | 3,059 | 2,789 | 270 |
| Total | \$ 19,939 | \$ 10,037 | \$ 9,902 |
| | | 50% | 50% |

Six-Month Period Ended July 1, 2018:

| | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$ 35,055 | \$ 20,062 | \$ 14,993 |
| Communications Systems | 10,878 | 10,606 | 272 |
| Total | \$ 45,933 | \$ 30,668 | \$ 15,265 |
| | | 67% | 33% |

Six-Month Period Ended July 2, 2017:

| | Total Revenue | United States | Non-United States |
|---------------------------|--------------------------|--------------------------|------------------------------|
| Battery & Energy Products | \$ 34,359 | \$ 16,665 | \$ 17,694 |
| Communications Systems | 7,615 | 7,257 | 358 |
| Total | \$ 41,974 | \$ 23,922 | \$ 18,052 |
| | | 57% | 43% |

¹ Sales classified to U.S. include shipments to U.S.-based prime contractors which in some cases may serve non-U.S. projects

13. RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09 (Topic 606) “Revenue from Contracts with Customers” related to revenue from contracts with customers. Under this standard, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP and permits the use of either the retrospective or cumulative effect transition method. Topic 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company has adopted Topic 606 effective January 1, 2018. See Note 2 for further discussion.

In November 2016, the FASB issued Accounting Standards Update 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”. The standard is effective for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years, and should be applied using a retrospective transition method for each period presented. The standard requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statements of cash flows. The Company has adopted this standard effective January 1, 2018. As a result, restricted cash has been included in the total cash amounts on the Company’s Consolidated Statement of Cash Flows for all periods presented and the required disclosures have been included in the Notes to Consolidated Financial Statements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, “Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments”. The standard makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The standard requires adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable. The Company has adopted this standard effective January 1, 2018. Adoption of this standard did not impact our Consolidated Financial Statements for the current or prior periods presented.

In May 2017, the FASB issued Accounting Standards Update 2017-09, “Compensation – Stock Compensation (Topic 718) – Scope of Modification Accounting”, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The standard is to be applied on a prospective basis to an award modified on or after the adoption date. The Company has adopted this standard effective January 1, 2018. Adoption of this standard did not impact our Consolidated Financial Statements.

There have been no developments to recently issued accounting standards, including the expected dates of adoption and anticipated effects on the Company’s Consolidated Financial Statements, from those disclosed in the Company’s 2017 Annual Report on Form 10-K, except for the following:

In March 2018, the FASB issued Accounting Standards Update 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118”. The standard adds various Securities and Exchange Commission (“SEC”) paragraphs pursuant to the issuance of the December 2017 SEC Staff Accounting Bulletin No. 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act” (“SAB 118”), which was effective immediately. The SEC issued SAB 118 to address concerns about reporting entities’ ability to timely comply with the accounting requirements to recognize all of the effects of the Tax Cuts and Jobs Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Tax Cuts and Jobs Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. We have accounted for the tax effects of the Tax Cuts and Jobs Act under the guidance of SAB 118. We have determined reasonable estimates for those effects and have recorded provisional amounts in our Consolidated Financial Statements as of July 1, 2018 and December 31, 2017.

Item 2. 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 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 report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, our reliance on certain key customers; potential costs because of the warranties we supply with our products and services; possible future declines in demand for the products that use our batteries or communications systems; the unique risks associated with our China operations; our efforts to develop new commercial applications for our products; possible breaches in security and other disruptions; reduced U.S. and foreign military spending including the uncertainty associated with government budget approvals; potential disruptions in our supply of raw materials and components; variability in our quarterly and annual results and the price of our common stock; our inability to comply with changes to the regulations for the shipment of our products; safety risks, including the risk of fire; possible impairments of our goodwill and other intangible assets; negative publicity of Lithium-ion batteries; our resources being overwhelmed by our growth prospects; our ability to retain top management and key personnel; our exposure to foreign currency fluctuations; our customers' demand falling short of volume expectations in our supply agreements; the risk that we are unable to protect our proprietary and intellectual property; rules and procedures regarding contracting with the U.S. and foreign governments; exposure to possible violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or other anti-corruption laws; our ability to utilize our net operating loss carryforwards; our ability to comply with government regulations regarding the use of "conflict minerals"; possible audits of our contracts by the U.S. and foreign governments and their respective defense agencies; known and unknown environmental matters; technological innovations in the non-rechargeable and rechargeable battery industries; and other risks and uncertainties, certain of which are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those forward-looking statements described herein. When used in this report, the words "anticipate", "believe", "estimate" or "expect" or words of similar import are intended to identify forward-looking statements. For further discussion of certain of the matters described above and other risks and uncertainties, see Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we disclaim any obligation to update any risk factors or to publicly announce the results of any revisions to any of the forward-looking statements contained in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2017 to reflect new information or risks, future events or other developments.

The following discussion and analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q and the Risk Factors and our Consolidated Financial Statements and Notes thereto contained in our Form 10-K for the year ended December 31, 2017.

The financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations is presented in thousands of dollars, except for share and per share amounts.

General

We offer products and services ranging from power solutions to communications and electronics systems to customers across the globe in the government, defense and commercial sectors. With an emphasis on strong engineering and a collaborative approach to problem solving, we design and manufacture power and communications systems including: rechargeable and non-rechargeable batteries, charging systems, communications and electronics systems and accessories, and custom engineered systems. We continually evaluate ways to grow, including the design, development and sale of new products, expansion of our sales force to penetrate new markets and geographies, as well as seeking opportunities to expand through acquisitions.

We sell our products worldwide through a variety of trade channels, including original equipment manufacturers (“OEMs”), industrial and defense supply distributors, and directly to U.S. and international defense departments. We enjoy strong name recognition in our markets under our Ultralife® Batteries, Lithium Power®, McDowell Research®, AMTI™, ABLE™, ACCUTRONICS™, ACCUPRO™, ENTELLION™ brands. We have sales, operations and product development facilities in North America, Europe and Asia.

We report our results in two operating segments: Battery & Energy Products and Communications Systems. The Battery & Energy Products segment includes: Lithium 9-volt, cylindrical, thin cell and other non-rechargeable batteries, in addition to rechargeable batteries, uninterruptable power supplies, charging systems and accessories. The Communications Systems segment includes: RF amplifiers, power supplies, cable and connector assemblies, amplified speakers, equipment mounts, case equipment, man-portable systems, integrated communication systems for fixed or vehicle applications and communications and electronics systems design. We believe that reporting performance at the gross profit level is the best indicator of segment performance. As such, we report segment performance at the gross profit level and operating expenses as Corporate charges.

Overview

Consolidated revenues of \$22,864 for the three-month period ended July 1, 2018, increased by \$2,925 or 14.7%, from \$19,939 during the three-month period ended July 2, 2017, due to higher government/defense and medical shipments.

Gross profit for the three-month period ended July 1, 2018 was \$6,550 or 28.6% of revenues, compared to \$6,221 or 31.2% of revenues, for the same quarter a year ago. The decline in gross margin resulted from product mix.

Operating expenses slightly increased to \$4,918 during the three-month period ended July 1, 2018, compared to \$4,899 during the three-month period ended July 2, 2017. Both periods reflect continued tight control over discretionary spending.

Operating income for the three-month period ended July 1, 2018 was \$1,632 or 7.1% of revenues, compared to \$1,322 or 6.6% for the year-earlier period. The increase in operating income resulted from revenue growth and operating expense leverage.

Net income attributable to Ultralife was \$1,627, or \$0.10 per share – basic and diluted, for the three-month period ended July 1, 2018, compared to \$1,094, or \$0.07 per share – basic and diluted, for the three-month period ended July 2, 2017.

Adjusted EBITDA, defined as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense, plus/minus expenses/income that we do not consider reflective of our ongoing operations, amounted to \$2,537 in the second quarter of 2018 compared to \$2,296 for the second quarter of 2017. See the section “Adjusted EBITDA” beginning on page 26 for a reconciliation of Adjusted EBITDA to net income attributable to Ultralife.

A strong first half, expanding revenue opportunities, and adherence to our business model parameters position us well to deliver another year of profitable growth in 2018.

Results of Operations

Three-Month Periods Ended July 1, 2018 and July 2, 2017

Revenues. Consolidated revenues for the three-month period ended July 1, 2018 amounted to \$22,864, an increase of \$2,925, or 14.7%, from the \$19,939 reported for the three-month period ended July 2, 2017.

Battery & Energy Products revenues increased \$951, or 5.6%, from \$16,880 for the three-month period ended July 2, 2017 to \$17,831 for the three-month period ended July 1, 2018. Government and defense sales increased 25.0% due primarily to sales of our primary 5390 batteries to the U.S. Department of Defense and higher shipments to a large U.S. global defense prime contractor. Commercial revenues for the second quarter of 2018 comprised 57.5% of total revenues for the segment and declined 5.2% as increases in medical shipments of 7.8% and 9-Volt batteries of 4.0% were offset by lower industrial commercial sales.

Communications Systems revenues increased \$1,974, or 64.5%, from \$3,059 during the three-month period ended July 2, 2017 to \$5,033 for the three-month period ended July 1, 2018. This increase is attributable to shipments of our Vehicle Installed Power Enhanced Riflemen Appliqué (“VIPER”) and Vehicle Amplifier Adapters for the U.S. Army’s Security Force Assistance Brigades to a large global defense prime contractor.

Cost of Products Sold / Gross Profit. Cost of products sold totaled \$16,314 for the quarter ended July 1, 2018, an increase of \$2,596, or 18.9%, from the \$13,718 reported for the same three-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 68.8% for the three-month period ended July 2, 2017 to 71.4% for the three-month period ended July 1, 2018. Correspondingly, consolidated gross margin was 28.6% for the three-month period ended July 1, 2018, compared with 31.2% for the three-month period ended July 2, 2017, primarily reflecting sales mix.

For our Battery & Energy Products segment, gross profit for the second quarter of 2018 was \$4,926 or 27.6% of revenues, an increase of \$185 or 3.9% from gross profit of \$4,741, or 28.1% of revenues, for the second quarter of 2017. Battery & Energy Products’ gross margin decreased for the three-month period ended July 1, 2018 by 50 basis points, reflecting product mix.

For our Communications Systems segment, gross profit for the second quarter of 2018 was \$1,624 or 32.3% of revenues, an increase of \$144 or 9.7%, from gross profit of \$1,480, or 48.4% of revenues, for the second quarter of 2017. The decrease in gross margin between the periods is due to product mix.

Operating Expenses. Total operating expenses for the three-month period ended July 1, 2018 totaled \$4,918, an increase of \$19 or 0.4% from the \$4,899 reported during the three-month period ended July 2, 2017. Both periods reflected continued tight control over discretionary spending.

Overall, operating expenses as a percentage of revenues were 21.5% for the quarter ended July 1, 2018 compared to 24.6% for the quarter ended July 2, 2017. Amortization expense associated with intangible assets related to our acquisitions was \$101 for the second quarter of 2018 (\$64 in selling, general and administrative expenses and \$37 in research and development costs), compared with \$104 for the second quarter of 2017 (\$63 in selling, general, and administrative expenses and \$41 in research and development costs). Research and development costs were \$1,218 for the three-month period ended July 1, 2018, an increase of \$33 or 2.8%, from \$1,185 for the three-months ended July 2, 2017. The increase primarily reflects the timing of development and testing costs associated with new products. Selling, general, and administrative expenses decreased \$14 or 0.4%, to \$3,700 for the second quarter of 2018 from \$3,714 for the second quarter of 2017. The slight decrease is attributable to continued tight control over discretionary administrative spending.

Other Expense (Income). Other income totaled \$86 for the three-month period ended July 1, 2018 compared to other expense of \$49 for the three-month period ended July 2, 2017. Interest and financing expense decreased \$20, from \$41 for the second quarter of 2017 to \$21 for the comparable period in 2018. The decrease is due to the more favorable terms of our Revolving Credit Agreement which was executed on May 31, 2017, as well as higher interest income due to our increased cash balance. Miscellaneous income amounted to \$107 for the second quarter of 2018 compared with miscellaneous expense of \$8 for the second quarter of 2017, primarily due to transactions impacted by foreign currency fluctuations in the U.S. dollar relative to the Pound Sterling, and the strengthening of the U.S dollar to the Pound Sterling by 6% from the end of first quarter to the end of the second quarter in 2018.

Income Taxes. The tax provision for the 2018 second quarter was \$78 compared to \$179 for the second quarter of 2017. See Note 9 in the Notes to Consolidated Financial Statements for additional information regarding our income taxes.

Net Income Attributable to Ultralife. Net income attributable to Ultralife was \$1,627, or \$0.10 per share – basic and diluted, for the three-month period ended July 1, 2018, compared to \$1,094, or \$0.07 per share – basic and diluted, for the three-month period ended July 2, 2017. Average weighted common shares outstanding used to compute diluted earnings per share increased from 15,849,578 in the second quarter of 2017 to 16,519,593 in the second quarter of 2018. The increase in 2018 is attributable to stock option exercises since the second quarter of 2017 and an increase in the weighted average stock price to compute dilute shares from \$6.28 for the second quarter of 2017 to \$9.64 for the second quarter of 2018.

Six-month periods ended July 1, 2018 and July 2, 2017

Revenues. Consolidated revenues for the six-month period ended July 1, 2018 amounted to \$45,933, an increase of \$3,959 or 9.4%, from the \$41,974 reported for the six-month period ended July 2, 2017.

Battery & Energy Products revenues increased \$696, or 2.0%, from \$34,359 for the six-month period ended July 2, 2017 to \$35,055 for the six-month period ended July 1, 2018. Government and defense sales of this business increased 6.9% from the 2017 six-month period and now comprise 43.3% of total segment sales versus 41.3% last year. The increase primarily reflects sales of our primary 5390 batteries to the U.S. Department of Defense and higher battery and charger shipments to a large U.S. global defense prime contractor. Commercial revenues of this business decreased 1.4% from the 2017 six-month period and now comprise 56.7% of total segment sales versus 58.7% last year. The year-over-year decrease resulted from 13.0% year-over-year growth in the shipment of medical batteries and chargers, which was offset by lower shipments of 9-Volt batteries and industrial commercial products.

Communications Systems revenues increased \$3,263, or 42.8%, from \$7,615 during the six-month period ended July 2, 2017 to \$10,878 for the six-month period ended July 1, 2018. This increase is attributable to the fulfillment of a Vehicle Amplifier Adapters award received in December 2017 for the U.S. Army's Security Force Assistance Brigades award from a large global defense prime contractor, and shipments of our Vehicle Installed Power Enhanced Rifleman Appliqué ("VIPER").

Cost of Products Sold / Gross Profit. Cost of products sold totaled \$32,101 for the six-month period ended July 1, 2018, an increase of \$3,238 or 11.2%, from the \$28,863 reported for the same six-month period a year ago. Consolidated cost of products sold as a percentage of total revenue increased from 68.8% for the six-month period ended July 2, 2017 to 69.9% for the six-month period ended July 1, 2018. Correspondingly, consolidated gross margin was 30.1% for the six-month period ended July 1, 2018, compared with 31.2% for the six-month period ended July 2, 2017, due product mix.

For our Battery & Energy Products segment, the cost of products sold increased \$405 or 1.6%, from \$24,688 during the six-month period ended July 2, 2017 to \$25,093 during the six-month period ended July 1, 2018. Battery & Energy Products' gross profit for the 2018 six-month period was \$9,962 or 28.4% of revenues, an increase of \$291 or 3.0% from gross profit of \$9,671, or 28.1% of revenues, for the 2017 six-month period. Battery & Energy Products' gross margin increased for the six-month period ended July 1, 2018 by 30 basis points, reflecting the mix of products sold.

For our Communications Systems segment, the cost of products sold increased by \$2,833 or 67.9% from \$4,175 during the six-month period ended July 2, 2017 to \$7,008 during the six-month period ended July 1, 2018. Communications Systems' gross profit for the first six months of 2018 was \$3,870 or 35.6% of revenues, an increase of \$430 or 12.5% from gross profit of \$3,440 or 45.2% of revenues, for the second quarter of 2017. The decrease in gross margin during 2018 is due to product mix reflecting the higher sales for competitively big U.S. Department of Defense contracts in the current six-month period.

Operating Expenses. Total operating expenses for the six-month period ended July 1, 2018 totaled \$9,844, a decrease of \$104 or 1.0% from the \$9,948 recorded during the six-month period ended June 2, 2017. Both periods reflected continued tight control over discretionary spending.

Overall, operating expenses as a percentage of revenues were 21.4% for the six-month period ended July 1, 2018 compared to 23.7% for the comparable 2017 period. Amortization expense associated with intangible assets related to our acquisitions was \$203 for the first six months of 2018 (\$128 in selling, general and administrative expenses and \$75 in research and development costs), compared with \$209 for the first six months of 2017 (\$128 in selling, general, and administrative expenses and \$81 in research and development costs). Research and development costs were \$2,318 for the six-month period ended July 1, 2018, essentially flat with the \$2,323 for the six-months ended July 2, 2017. Selling, general, and administrative expenses decreased \$99 or 1.3%, from \$7,625 during the first six months of 2017 to \$7,526 during the first six months of 2018 in line with our tight control over discretionary spending.

Other Expense. Other expense totaled \$48 for the six-month period ended July 1, 2018 compared to \$142 for the six-month period ended July 2, 2017. Interest and financing expense decreased \$55 to \$54 for the 2018 period from \$109 for the comparable period in 2017, as a result of the more favorable terms of our Revolving Credit Agreement which was executed on May 31, 2017, as well as higher interest income due to our increased cash balance. Miscellaneous income amounted to \$6 for the first six months of 2018 compared with expense of \$33 for the first six months of 2017, primarily due to fluctuations in the U.S. dollar relative to the Pound Sterling.

Income Taxes. We recognized a tax provision of \$133 for the first two quarters of 2018 compared with a tax provision of \$266 for the first two quarters of 2017. The decrease of \$133 or 50.0% was due to the geographic mix of earnings for the periods and the favorable impact resulting from the lower U.S. Federal tax rates and elimination of the alternative minimum taxes in conjunction with the Tax Cuts & Jobs Act. The effective consolidated tax rates for the six-month periods ended July 1, 2018 and July 2, 2017 were 3.4% and 8.8%, respectively. See Note 9 in the Notes to Consolidated Financial Statements for additional information regarding our income taxes.

Net Income Attributable to Ultralife. Net income attributable to Ultralife and Net income attributable to Ultralife common shareholders per diluted share was \$3,777 and \$0.23, respectively, for the six months ended July 1, 2018, compared to \$2,749 and \$0.17, respectively, for the six months ended July 2, 2017. Average common shares outstanding used to compute diluted earnings per share increased from 15,751,578 in the 2017 period to 16,353,705 in the 2018 period, mainly due to the exercise of stock options under our Long-Term Incentive Plans and the increased stock price.

Adjusted EBITDA

In evaluating our business, we consider and use Adjusted EBITDA, a non-GAAP financial measure, as a supplemental measure of our operating performance. We define Adjusted EBITDA as net income (loss) attributable to Ultralife before net interest expense, provision (benefit) for income taxes, depreciation and amortization, and stock-based compensation expense, plus/minus expenses/income that we do not consider reflective of our ongoing continuing operations. We also use Adjusted EBITDA as a supplemental measure to review and assess our operating performance and to enhance comparability between periods. We also believe the use of Adjusted EBITDA facilitates investors' use of operating performance comparisons from period to period by backing out potential differences caused by variations in such items as capital structures (affecting relative interest expense and stock-based compensation expense), the book amortization of intangible assets (affecting relative amortization expense), the age and book value of facilities and equipment (affecting relative depreciation expense) and other significant non-operating expenses or income. We also present Adjusted EBITDA from operations because we believe it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. We reconcile Adjusted EBITDA to Net income (loss) attributable to Ultralife; the most comparable financial measure under U.S. generally accepted accounting principles ("U.S. GAAP").

We use Adjusted EBITDA in our decision-making processes relating to the operation of our business together with U.S. GAAP financial measures such as income (loss) from operations. We believe that Adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our U.S. GAAP results, while isolating the effects of depreciation and amortization, which may vary from period to period without any correlation to underlying operating performance, and of stock-based compensation, which is a non-cash expense that varies widely among companies. We believe that by limiting Adjusted EBITDA, we assist investors in gaining a better understanding of our business on a going forward basis. We provide information relating to our Adjusted EBITDA so that securities analysts, investors and other interested parties have the same data that we employ in assessing our overall operations. We believe that trends in our Adjusted EBITDA are a valuable indicator of our operating performance on a consolidated basis and of our ability to produce operating cash flows to fund working capital needs, to service debt obligations and to fund capital expenditures.

The term Adjusted EBITDA is not defined under U.S. GAAP, and is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Our Adjusted EBITDA has limitations as an analytical tool, and when assessing our operating performance, Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) attributable to Ultralife or other consolidated statement of operations data prepared in accordance with U.S. GAAP. Some of these limitations include, but are not limited to, the following:

- Adjusted EBITDA does not reflect (1) our cash expenditures or future requirements for capital expenditures or contractual commitments; (2) changes in, or cash requirements for, our working capital needs; (3) the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; (4) income taxes or the cash requirements for any tax payments; and (5) all of the costs associated with operating our business;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA from continuing operations does not reflect any cash requirements for such replacements;
- while stock-based compensation is a component of cost of products sold and operating expenses, the impact on our consolidated financial statements compared to other companies can vary significantly due to such factors as assumed life of the stock-based awards and assumed volatility of our common stock; and

- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally. Adjusted EBITDA is calculated as follows for the periods presented:

| | Three-Month Periods Ended | | Six-Month Periods Ended | |
|--|---------------------------|-----------------|-------------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Net Income Attributable to Ultralife | \$ 1,627 | \$ 1,094 | \$ 3,777 | \$ 2,749 |
| Add: | | | | |
| Interest and Financing Expense, Net | 21 | 41 | 54 | 109 |
| Income Tax Provision | 78 | 179 | 133 | 266 |
| Depreciation expense | 496 | 507 | 980 | 1,010 |
| Amortization of Intangible Assets and Financing Fees | 110 | 119 | 221 | 242 |
| Stock-Based Compensation Expense | 205 | 356 | 344 | 396 |
| Adjusted EBITDA | <u>\$ 2,537</u> | <u>\$ 2,296</u> | <u>\$ 5,509</u> | <u>\$ 4,772</u> |

Liquidity and Capital Resources

As of July 1, 2018, cash totaled \$20,749, an increase of \$2,419 from the beginning of the year. During the six-month period ended July 1, 2018, we generated \$1,818 of cash from our operating activities. Cash generated from operations in 2018 consisted of net income of \$3,807, non-cash expenses (depreciation, amortization and stock-based compensation) totaling \$1,545, an increase of \$872 in accounts receivable largely due to the timing of shipments, a decrease of \$1,338 in inventory primarily due to the fulfillment of orders, and a decrease in accounts payable and other working capital items of \$4,000 primarily due to the payment of procured inventory, deposits for capital projects, and the timing of compensation and benefit-related expenditures.

Cash of \$4,028 generated from operations for the six-month period ended July 2, 2017 consisted of net income of \$2,755, non-cash expenses (depreciation, amortization and stock-based compensation) totaling \$1,648, an increase of \$274 in accounts receivable largely due to the timing of shipments, a \$904 increase in inventory to service 2017 backlog and an increase in accounts payable and other working capital items of \$803 primarily attributable to procured inventory.

Cash used in investing activities for the six-month periods ended July 1, 2018 and July 2, 2017 amounted to \$999 and \$836, respectively, representing capital expenditures in the respective periods.

Cash provided by financing activities for the six-month period ended July 1, 2018 totaled \$1,690, consisting of cash proceeds of \$1,293 from stock option exercises and \$397 for a government grant awarded in the People's Republic of China to fund specified future technological research and development expenditures. Cash provided by financing activities for the six-month period ended July 2, 2017 consisted of \$989 in stock option exercise proceeds.

In July 2017, the Company made a strategic decision to invest up to \$4,300 in our Newark, New York facility to modernize our manufacturing capability for production of premium 3-volt primary batteries for various applications in the rapidly growing, wireless Internet of Things ("IoT") market. This investment, in line with our strategy to diversify revenues outside of the core U.S. government/defense markets and focus on transformational commercial opportunities, will enable us to produce a premium product with performance differentiation and incorporate the manufacturing technology expertise required to deliver a clear competitive advantage in terms of product performance, volume, safety, value proposition and strategic supply chain access to the end market and OEM's. In addition to the IoT market, the product will also expand customer options in the legacy smoke detector market by providing our customers the choice between our industry leading next generation 9-volt battery, or a new premium 3-volt product. Low volume equipment production to support product qualification builds in partnership with customers is expected to start during the second half of 2018, with higher volume US production expected beginning in early 2019.

Debt Commitments

We have financing through our Credit Facility with KeyBank, which provides a \$30,000 secured, cash flow-based, revolving credit facility that includes a \$1,500 letter of credit subfacility. There have been no borrowings under the Credit Facility. See Note 7 in the Notes to the Consolidated Financial Statements for additional information regarding our Credit Facility.

The Company currently believes that the cash flow generated from operations and, when necessary, available borrowing from our Credit Facility, will be sufficient to meet its current and long-term funding requirements for the foreseeable future.

Critical Accounting Policies

Management exercises judgment in making important decisions pertaining to choosing and applying accounting policies and methodologies in many areas. Not only are these decisions necessary to comply with U.S. GAAP, but they also reflect management's view of the most appropriate manner in which to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 ("Summary of Operations and Significant Accounting Policies") to our Consolidated Financial Statements in our 2017 Annual Report on Form 10-K should be reviewed for a greater understanding of how our financial performance is recorded and reported.

During the six months of 2018, there were no significant changes in the manner in which our significant accounting policies were applied or in which related assumptions and estimates were developed. Refer to Note 2 for updated accounting policies to reflect the Company's adoption of Topic 606 "Revenue from Contracts with Customers" as of January 1, 2018.

Item 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Our President and Chief Executive Officer (Principal Executive Officer) and our Chief Financial Officer and Treasurer (Principal Financial Officer) have evaluated our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, our President and Chief Executive Officer and Chief Financial Officer and Treasurer concluded that our disclosure controls and procedures were effective as of such date.

Changes In Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Securities Exchange Act Rule 13a-15(f)) that occurred during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Dreamliner Litigation

In July 2013, an unoccupied Boeing 787 Dreamliner aircraft operated by Ethiopian Airlines was damaged by fire while parked at London Heathrow Airport. Following an investigation of this incident conducted by U.K. and U.S. regulatory authorities as well as by the manufacturer of the aircraft, a final report was issued by the Air Accidents Investigative Branch – UK Civil Aviation regulatory authority, with findings indicating that the fire was primarily caused by circumstances related to the plane’s emergency locator transmitter (“ELT”) manufactured and installed by another company. A component of the ELT is a battery pack which incorporates Ultralife’s industry-standard lithium manganese dioxide non-rechargeable D-cell, which Ultralife has produced since 2001, with wide-use in global defense and commercial applications.

On May 4, 2015, we were notified of a lawsuit in which we were named, along with other suppliers to the aircraft manufacturer, concerning that 2013 fire, which was filed by Ethiopian Airlines Enterprise in the Commercial Court, Queen’s Bench Division of the High Court of Justice, London. We immediately referred this matter to our insurers.

This lawsuit has now been resolved (February 2018), the claimant has terminated the action against the Company, and the Court has acknowledged and consented to this termination. The matter was terminated without financial consequences to the Company.

Item 6. EXHIBITS

| Exhibit Index | Description of Document | Incorporated By Reference from: |
|---------------|---|---------------------------------|
| 31.1 | Rule 13a-14(a) / 15d-14(a) CEO Certifications | Filed herewith |
| 31.2 | Rule 13a-14(a) / 15d-14(a) CFO Certifications | Filed herewith |
| 32 | Section 1350 Certifications | Filed herewith |
| 101.INS | XBRL Instance Document | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | |
| 101.LAB | XBRL Taxonomy Label Linkbase Document | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | |
| 101.DEF | XBRL Taxonomy Definition Document | |

SIGNATURES

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

ULTRALIFE CORPORATION

(Registrant)

Date: August 2, 2018

By: /s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 2, 2018

By: /s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer
(Principal Financial Officer and
Principal Accounting Officer)

Index to Exhibits

| | |
|---------|--|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Definition Document |

I, Michael D. Popielec, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultralife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

By: /s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer

I, Philip A. Fain, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ultralife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

By: /s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer

Section 1350 Certification

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), Michael D. Popielec and Philip A. Fain, the President and Chief Executive Officer and Chief Financial Officer and Treasurer, respectively, of Ultralife Corporation, certify that (i) the Quarterly Report on Form 10-Q for the quarter ended July 1, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Ultralife Corporation.

A signed original of this written statement required by Section 906 has been provided to Ultralife Corporation and will be retained by Ultralife Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 2, 2018

By: /s/ Michael D. Popielec
Michael D. Popielec
President and Chief Executive Officer

Date: August 2, 2018

By: /s/ Philip A. Fain
Philip A. Fain
Chief Financial Officer and Treasurer