

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1996

or

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

to

Commission file number 0-20852

ULTRALIFE BATTERIES, INC.

Exact name of registrant as specified in its charter)

Delaware

16-1387013

(State or other jurisdiction

(I.R.S. Employer Identification No.)  
incorporation or organization)

1350 Route 88 South, Newark, New York 14513

(Address of principal executive offices)  
(Zip Code)

(315) 332-7100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days.

Yes... X ... No.....

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

Common stock, \$.10 par value -7,913,961 shares outstanding as of April 18, 1996.

ULTRALIFE BATTERIES, INC.  
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PART I FINANCIAL INFORMATION  
Item 1. Financial Statements:

ULTRALIFE BATTERIES, INC.  
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 1996	June 30, 1995
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,029,448	\$ 1,734,146
Available-for-sale securities	20,911,774	25,664,146
Accounts receivable	6,370,626	4,171,524
Inventories	6,740,707	5,236,629
Other current assets	486,951	535,048
	-----	-----
Total current assets	35,539,506	37,341,493
Net property and equipment	10,248,196	4,699,879
Available-for-sale securities held to purchase equipment	16,171,884	19,338,136
Investment in joint venture	283,500	283,500
Technology license agreements, net	829,941	930,140
	-----	-----
Total assets	\$63,073,027	\$62,593,148
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,886,488	\$ 3,842,153
Other accrued liabilities	120,672	793,961
	-----	-----
Total current liabilities	3,007,160	4,636,114
Shareholders' equity		
Common stock - par value	786,440	765,612
Capital in excess of par value	64,562,518	63,222,031
Unrealized gain on securities	3,538,866	3,516,369
Foreign currency translation adjustments	20,806	82,491
Accumulated deficit	(8,842,763)	(9,629,469)
	-----	-----
Total shareholders' equity	60,065,867	57,957,034
	-----	-----
Total liabilities and shareholders	\$63,073,027	\$62,593,148
	=====	=====

ULTRALIFE BATTERIES, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

Three Months Ended March 31,			Nine Months Ended March 31,	
1996	1995		1996	1995
		Revenues:		
\$3,471,047	\$3,016,670	Battery sales	\$ 10,032,201	\$ 7,521,912
706,194	986,466	Technology contracts	2,201,042	2,470,674
4,177,241	4,003,136	Total revenue	12,233,243	9,992,586
		Cost of products sold:		
2,845,373	3,251,111	Battery costs	8,445,441	7,541,080
136,155	418,354	Technology contracts	548,308	1,599,344
2,981,528	3,669,465	Total cost of products sold	8,993,749	9,140,424
1,195,713	333,671	Gross Profit	3,239,494	852,162
710,654	628,524	Research & Development	2,050,615	1,412,201
1,423,359	1,382,818	Selling & Administrative	3,730,882	3,367,260
2,134,013	2,011,342	Total Operating Expenses	5,781,497	4,779,461
(938,300)	(1,677,671)	Operating (Loss)	(2,542,003)	(3,927,299)
504,939	588,328	Interest Income	1,630,690	1,111,694
(433,361)	(1,089,343)	Loss Before Extraordinary Items	(911,313)	(2,815,605)
312,298	0	Gain (Loss) On Sale of Securities	1,930,056	(77,699)
0	0	Provision for Loss on Fire	(229,977)	0
\$(121,063)	\$(1,089,343)	Net Income (Loss)	\$ 788,766	\$(2,893,304)
=====	=====		=====	=====
		Earnings (Loss) Per Share:		
\$ (0.05)	\$ (0.14)	Before Extraordinary Items	\$ (0.11)	\$ (0.44)
\$ 0.04	\$ --	Extraordinary Items	\$ 0.21	\$ (0.01)
\$ (0.01)	\$ (0.14)	Net Income - Primary	\$ 0.10	\$ (0.45)
N/A	N/A	Fully Diluted (Note 4)	\$ 0.09	N/A
=====	=====		=====	=====
7,922,780	7,626,443	Weighted Average Shares Outstanding	8,196,466	6,446,553
N/A	N/A	Primary	=====	=====
=====	=====	Fully Diluted	8,344,951	N/A
=====	=====		=====	=====

ULTRALIFE BATTERIES, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended March 31,	
	1996	1995
	----	----
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 788,766	\$ (2,893,304)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and other provisions	(70,809)	513,239
Foreign currency (loss)/gain	(63,252)	
Changes in operating assets and liabilities:		
Increase in trade accounts receivable	(2,797,841)	(880,180)
(Increase) decrease in contract revenue	(121,412)	37,942
Increase in inventories	(856,851)	(2,713,424)
Decrease in prepaid expenses and other current assets	43,881	76,865
(Decrease) increase in accounts payable and accrued liabilities	(927,493)	2,338,841
	-----	-----
Net cash used in operating activities	(4,005,011)	(3,520,021)
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(6,082,479)	(987,152)
Purchase of securities	(41,107,272)	(77,643,960)
Sales of securities	14,953,249	24,433,805
Maturities of securities	34,173,342	28,946,399
Investment in China program	0	(202,500)
	-----	-----
Net cash (used in) provided by investing activities	1,936,840	(25,453,408)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	1,361,224	33,130,673
Effect of exchange rate changes on cash	2,249	87,335
	-----	-----
Net cash provided by financing activities	1,363,473	33,218,008
	-----	-----
(Decrease) Increase in Cash and Cash Equiva	(704,698)	4,244,579
Cash and Cash Equivalents at Beginning of Period	1,734,146	990,132
	-----	-----
Cash and Cash Equivalents at End of Period	\$ 1,029,448	\$ 5,234,711
	=====	=====

ULTRALIFE BATTERIES, INC  
NOTES TO FINANCIAL STATEMENTS

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1. BASIS OF PRESENTATION

In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position at March 31, 1996 and the results of operations and cash flows for the three month periods ended March 31, 1996 and 1995. The results for the three months ended March 31, 1996 are not necessarily indicative of the results to be expected for the entire year. The Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company's financial statements for the year ended June 30, 1995, filed on Form 10-K on October 12, 1995.

2. STOCK OFFERING

The Company has filed to register up to 2,300,000 shares of its common stock with the Securities and Exchange Commission in accordance with the Securities Act of 1933. The initial filing was made on October 7, 1994. The filing was declared effective by the Securities and Exchange Commission on December 2, 1994.

3. GAIN ON THE SALE OF SECURITIES

During the three months ended December 31, 1995, the Company sold 100,000 common shares of Intermagnetics General Corporation (IMG). As a result, it realized a gain on the sale in the amount of \$1,617,758. During the three months ended March 31, 1996, 23,200 additional shares of IMG were sold with an associated gain on the sale in the amount of \$312,300. At March 31, 1996, the Company owned 332,369 shares of IMG.

4. WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING

Net income per share amounts are based on the weighted average number of common shares outstanding during the periods plus common stock equivalents as shown on the following table:

	Three Months Ended		Nine Months Ended	
	Mar 1996	Mar 1995	Mar 1996	Mar 1995
Primary				
-----				
Weighted average shares outstanding	7,922,780	7,626,443	7,816,697	6,446,553
Common stock equivalents	(A)	(A)	379,769	(A)
	-----	-----	-----	-----
Total	7,922,780	7,626,443	8,196,466	6,446,553
	-----	-----	-----	-----
Fully Diluted				
-----				
Weighted average shares outstanding	7,922,780	7,626,443	7,816,697	6,446,553
Common stock equivalents	(A)	(A)	528,254	(A)
	-----	-----	-----	-----
Total	7,922,780	7,626,443	8,344,951	6,446,553
	-----	-----	-----	-----

4. WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING  
(Continued from page 6)

Both primary and fully diluted shares include the dilutive effect (common stock equivalents) of outstanding stock options based on the treasury stock method using average market price for primary and closing market price (unless the average market price is higher) for fully diluted.

Note (A) Common stock equivalents were not included since their inclusion would have the effect of decreasing the net loss per share.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Results of Operations

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Three months ended March 31, 1996 and 1995

Total revenues were \$4,177,000 for the three months ended March 31, 1996 ("third quarter 1996"). This represents an increase of \$174,000 or 4% over the \$4,003,000 reported for the three months ended March 31, 1995 ("third quarter 1995"). Sales of batteries increased by 15% during the third quarter 1996 when compared to the same period of the previous year. This increase in battery revenues is primarily attributable to an increase in the number of batteries sold during the period. Technology contract revenues decreased by 28% due to less revenues earned primarily from the China project during third quarter 1996

Total cost of products sold for the third quarter 1996 decreased to \$2,982,000 from \$3,669,000 for the third quarter 1995, a decrease of \$688,000 or 19%. This decrease was due to reduced costs associated with technology contract revenues. In the third quarter 1995, revenues earned from the China project carried a greater cost than the technology contracts for the third quarter 1996. In addition, cost of sales for batteries continued to decrease. For the third quarter 1996, cost of battery sales were 82% of battery revenues as compared to 108% for the third quarter 1995. This reflects continuing manufacturing efficiencies.

As a result of the increasing sales during the third quarter 1996 and the decreasing cost of technology and battery sales, gross profit increased to \$1,196,000 from \$334,000 for the third quarter 1995. As a ratio to sales, the gross profit increased to 29% for the three months ended March 31, 1996 compared to 8% for the same period of the prior year.

Operating expenses increased by \$123,000 or 6% to \$2,134,000 during the third quarter 1996 compared to \$2,011,000 for the same period of the previous year. A component of total operating expense is research and development ("R&D"). This increased from \$629,000 for the third quarter 1995 by \$82,000 or 13% to \$711,000 for the third quarter 1996. The focus of the R&D program is on the commercialization of the Company's rechargeable battery which will be introduced into the marketplace in the next fiscal year. Automated manufacturing equipment has been ordered and is scheduled for delivery and installation by the end of the 1996 calendar year. The other component of operating expenses is selling and administrative costs. These increased to \$1,423,000 for the third

quarter 1996 from \$1,383,000 for the same period of the prior year. The primary reason for the increase is additional selling expenses to promote new and existing battery products. As new products are brought on-line, it is expected that selling expenses will continue to increase in dollars, but decrease as a ratio to sales.

The operating loss for the third period was \$938,000, a decrease of \$739,000 or 44% from the \$1,678,000 operating loss for the three months ended March 31, 1995. This was the net result of increased gross margin for the third quarter 1996 partially offset primarily by additional R&D expenditures.

During the three months ended March 31, 1996, the Company sold 22,300 shares of its investment in Intermagnetics General Corporation (IMG) which resulted in a profit of \$312,000. Interest income for the third quarter 1996 decreased by \$83,000 or 14% to \$505,000 from \$588,000 for the third quarter 1995. This decrease is due to primarily to less being funds available for investment during the third quarter 1996. The reduction was caused by the use of funds to support operations and invest in capital assets.

Net loss for the three months ended March 31, 1996 decreased to \$121,000 from a loss for the same period in the prior year of \$1,089,000. This is the result of decreased operating losses for the third quarter 1996 combined with the gain on the sale of Intermagnetics General Corporation common stock. For the third quarter 1996, primary loss per share was \$.01. For the same period of the prior year, primary loss per share was \$.14.

Nine months ended March 31, 1996 and 1995

Total revenues were \$12,233,000 for the nine months ended March 31, 1996 ("year to date 1996"). This represents an increase of \$2,241,000 or 22% over the \$9,993,000 reported for the nine months ended March 31, 1995 ("year to date 1995"). Sales of batteries increased by 33% during year to date 1996 when compared to the same period of the previous year. This increase in battery revenues is primarily attributable to an increase in the number of batteries sold in the United States during the period.

Cost of products sold for the nine months ended March 31, 1996 decreased by \$147,000 or 2% to \$8,994,000 from \$9,140,000 for the year to date 1995. As a ratio to sales, cost of products sold for batteries was 84% for the year to date 1996 compared to 100% for the same period of the prior year. Reduced costs associated with technology contract revenues was the direct result of the China project revenues being a lesser portion of the total. As a result, other contracts with lower associated costs replaced the lower margin China project.

As a result of the increasing sales during year to date 1996 and the decreasing cost of technology and battery sales, gross profit increased to \$3,239,000 from \$852,000 for year to date 1995. As a ratio to sales, the gross profit increased to 26% for the nine months ended March 31, 1996 compared to 9% for the same period of the prior year.

Operating expenses for the first nine months of fiscal 1996 were \$5,781,000, an increase of \$1,002,000 or 21% from the \$4,779,000 recorded for the same period of the prior year. Research and development expenses increased to \$2,051,000 during the first nine months of fiscal 1996 from \$1,412,000 for the year to date 1995 in order to support the rechargeable battery program and continuing efforts to develop other new products. Selling and administrative costs for year to date 1996 were \$3,731,000, an increase of \$364,000 or 11% from the \$3,367,000 for the first nine months of fiscal 1995. The primary reason for the increase is additional selling expenses to promote new and existing battery products.

For the nine months year to date 1996, the increased gross profit was partially offset by increasing operating expenses so that the loss from operations decreased to \$2,542,000 from \$3,927,000 for the same period in the prior year.

Year to date during fiscal 1996, the Company sold 122,300 shares of its investment in Intermagnetics General Corporation which resulted in a profit of \$1,930,000. Interest income for the first nine months of fiscal 1996 increased by \$519,000 or 47% to \$1,630,000 from \$1,112,000 for the same period of fiscal 1995. This increase is due to the investment of funds generated by the Company's stock offering in December, 1994. During the nine months ended March 31, 1996, the Company made a provision in the amount of \$230,000 for possibly unreimbursable costs associated with the fire at its UK subsidiary in September, 1995.

#### Liquidity and Capital Resources

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As of March 31, 1996, cash, cash equivalents and available-for-sale investments totaled \$38,113,000. The Company used \$4,005,000 of cash from operations during the first nine months of fiscal 1996. This is the net result of increased net income for the period and an increase in trade receivables, a reduction in the increase of inventories offset by payment of payables. Additionally, the Company expended approximately \$6,082,000 of cash to purchase machinery and equipment as it continues preparation of the commercialization of the rechargeable lithium-ion solid-polymer battery and upgrades of both the U.S. and U.K. manufacturing facilities.

The Company does not currently have any long-term debt. Also, it does not have any current financing arrangements or loan facilities in place or available to it.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None filed during the quarter ended March 31, 1996.

SIGNATURES

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

ULTRALIFE BATTERIES, INC.  
-----  
(Registrant)

Date: May 14, 1996  
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By:/s/ Joseph N. Barrella  
-----  
Joseph N. Barrella  
President and  
Chief Operating Officer

Date: May 14, 1996  
-----

By:/s/ Robert Cook  
-----  
Robert Cook  
Chief Financial Officer  
and Controller

0000875657

ULTRALIFE BATTERIES, INC.

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3-MOS

JUN-30-1996

APR-01-1996

MAR-31-1996

1,029,448

37,083,658

6,479,158

(108,532)

6,740,707

35,539,506

11,991,399

(1,743,203)

63,073,027

3,007,160

0

0

0

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63,073,027

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4,177,241

2,981,528

2,134,013

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0

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312,298

0

(121,063)

(0.01)

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